

EXECUTIVE WORKFORCE REFORM

INDUSTRY SEGMENT REVIEWS:
FINAL REPORT FOR PUBLIC RELEASE

VPSC

Victorian Public Sector Commission



The Victorian Government has vested the Victorian Public Sector Commission with functions designed to enhance the performance of the public sector – fostering the development of an efficient, integrated and responsive public sector which is highly ethical, accountable and professional in the ways it delivers services to the Victorian community.

The key functions of the Commission are to:

- strengthen the efficiency, effectiveness and capability of the public sector in order to meet existing and emerging needs and deliver high quality services; and
- maintain and advocate for public sector professionalism and integrity.

© State of Victoria (Victorian Public Sector Commission) 2018

Inquiries

3 Treasury Place
Melbourne 3002

Email: info@vpsc.vic.gov.au
Phone: (03) 9651 1321
www.vpsc.vic.gov.au

CONTENTS

Glossary	1
About this Report.....	3
Executive summary	4
1. Background.....	14
1.1 Executive workforce reform	14
1.2 Industry segment reviews	14
1.3 Summary of individual segment reviews	14
1.4 Methodology.....	19
2. Context	20
2.1 The Victorian public sector.....	20
2.2 Scope of the ISR program	21
2.3 A statistical profile of Victorian public entity executives.....	21
2.4 The Victorian Independent Remuneration Tribunal	22
2.5 Other jurisdictions	23
3. Findings	24
3.1 Governance arrangements	24
3.2 Attracting and retaining capable leaders to the sector	26
3.3 How executives should be defined	32
3.4 Remuneration levels	34
3.5 Classification and remuneration frameworks	39
3.6 The employment offer	41
3.7 Performance management	44
3.8 Bonuses	45
4. Recommendations	49
A1 Acquittal against the Terms of Reference.....	61
A2 Survey results	66
A3 Consultations	74
A4 Composition of industry segments.....	79

GLOSSARY

Abbreviation	
CEOs	Chief Executive Officers
Chairs	Board Chairpersons in the public sector
Declared Authority	With respect to executives, Declared Authorities are agencies, groups of executives, or individual executives brought under the public service executive contract arrangements in the PAA by means of an Order made under Section 104(2)(a) of the PAA.
DEDJTR	Department of Economic Development, Jobs, Transport and Resources
DELWP	Department of Environment, Land, Water and Planning
DET	Department of Education and Training
DJR	Department of Justice and Regulation
DHHS	Department of Health and Human Services
DPC	Department of Premier and Cabinet
DTF	Department of Treasury and Finance
EBA	Enterprise Bargaining Agreement
Executive	For the purposes of GSERP, an executive is defined as: <ul style="list-style-type: none"> • CEOs and equivalent roles; and • any person who has significant management responsibility, as determined by the CEO or equivalent role and receives a Total Remuneration Package of \$156,374 or more (at 30 June 2017).
EOs	Executive Officers in the Victorian Public Service. These are paid within three bands – from 3 to 1 (EO-3, EO-2 and EO-1).
FBT	Fringe Benefits Tax
FTE	Full Time Equivalent
GSERP	Government Sector Executive Remuneration Panel, which the VPSC administers. GSERP provides a framework for regulating public sector executive remuneration, including: <ul style="list-style-type: none"> • endorsement of CEO remuneration packages; and • endorsement for other executive packages where the proposed remuneration exceeds the 70/80% rule.
NSW	New South Wales
Original review	The <i>Review of Victoria's Executive Officer Employment and Remuneration Framework</i> , which the VPSC conducted and delivered to the Premier in 2016
PAA	The <i>Public Administration Act 2004</i>
Public entity	As defined in section 5 of the PAA, public entities are statutory authorities, state owned corporations and advisory bodies that exercise a public function. Established outside of the VPS, they operate with varying degrees of autonomy and are ultimately accountable to a Minister for their performance. All organisations that are in scope for industry segment reviews are public entities.

Abbreviation	
Public sector	Defined in the PAA as made up of: <ul style="list-style-type: none"> the Victorian Public Service; public entities; and special bodies (listed in section 6 of the PAA; the majority are VPS employers).
QLD	Queensland
TRP	Total Remuneration Package
VIRT	Victorian Independent Remuneration Tribunal On 24 April 2017, the Premier announced a remuneration tribunal with jurisdiction over Members of Parliament, public service executive officers, and other office holders. At the time of writing, the VIRT was not yet operational.
VPS	Victorian Public Service
VPSC	Victorian Public Sector Commission
WA	Western Australia
70/80% rule	GSERP's remuneration ceiling for executives other than the CEO. GSERP must endorse executive packages where: <ul style="list-style-type: none"> the remuneration proposed for an individual executive exceeds 80% of the TRP set by GSERP for the CEO; and/or the average TRP of all the CEO's direct reports will exceed 70% of the CEO's TRP.

Industry Segment Abbreviations	
PH	Public healthcare
TCI	Transport, construction and infrastructure
FI	Finance and insurance
WLM	Water and land management
SRAF	Sport, recreation, arts and facilities management
ES	Emergency services
TAFE	TAFE and other education
RO	Regulators and other agencies

ABOUT THIS REPORT

This is an edited final report of the Industry Segment Reviews for public release. The reviews were undertaken by the Victorian Public Sector Commission (VPSC) in 2017 and 2018 and submitted to the Premier for consideration.

To facilitate public release, the report has been edited to remove certain information, specifically where the information:

- identifies individuals or might identify the remuneration and bonuses of individuals
- falls within the definition of exempt documents in the *Freedom of Information Act 1982*, including:
 - information provided by other states
 - material obtained in confidence
 - internal working documents.

The findings in this report are based on the information available at the time of writing in 2018.

EXECUTIVE SUMMARY

The Victorian public sector requires executive employment and remuneration arrangements that attract, retain and develop high-calibre leaders. These arrangements need to be clear, effective, efficient and transparent. They need to equip organisations to operate in competitive executive employment markets, while maintaining appropriate constraints on executive remuneration.

This is the final report of the Industry Segment Review (ISR) program, and presents to the Premier the Victorian Public Sector Commission's (VPSC) overarching findings and recommendations on executive employment and remuneration arrangements in Victorian public entities. The ISR program represents the first comprehensive review of executive employment arrangements in Victorian public entities in over two decades. The central question of the program was whether, and to what extent, ongoing reforms in the Victorian Public Service (VPS) executive workforce should be applied to executives in the broader public sector.

Between January 2017 and March 2018, the VPSC undertook eight reviews of executive remuneration and employment conditions in Victorian public entities. The review methodology divided public entities into the following eight industry segments:

- public healthcare
- transport, construction and infrastructure
- finance and insurance
- water and land management
- sport, recreation, arts and facilities management
- emergency services
- TAFE and other education
- regulators and other agencies

This report summarises and updates the findings of all eight ISRs and provides a conclusive set of recommendations for the Premier to consider.

Governance and oversight

The ISR program's most important findings and recommendations relate to governance and central oversight. Current governance arrangements for executive employment and remuneration in public entities are distributed, inconsistent and confusing. There are currently three primary sets of governance arrangements for different categories of executive:

- the **Department of Premier and Cabinet** (DPC) supports the Premier to set overarching public sector executive employment and remuneration policy, and oversees the employment and remuneration of VPS executives, including some who are employed in public entities;
- the **Government Sector Executive Remuneration Panel** (GSERP), which is supported by the VPSC, oversees most public entity executive employment and remuneration; and
- the **Department of Health and Human Services** (DHHS) has responsibility for overseeing the employment and remuneration of executives in public health services and Ambulance Victoria (but not for other parts of the DHHS portfolio, such as regulators and cemetery trusts).

Over time, this distributed governance has led to a range of different remuneration frameworks, band structures, rules and policies. For employers, these arrangements are often inconsistent, confusing and outdated, and the review found that the Government and employers are exposed to financial, integrity and employment risks as a result.

To mitigate these risks, Government, public entity boards and CEOs require stronger monitoring and support in their decision-making regarding executive employment and remuneration. There is currently significant variation in both the source and the quality of support and advice provided to employers:

- Under section 13A of the *Public Administration Act 2004* (PAA), **departments** are required to provide guidance to public entities within their portfolios on matters of public administration and

governance, including executive employment and remuneration. However, each department approaches this task differently, and without a whole-of-sector perspective.

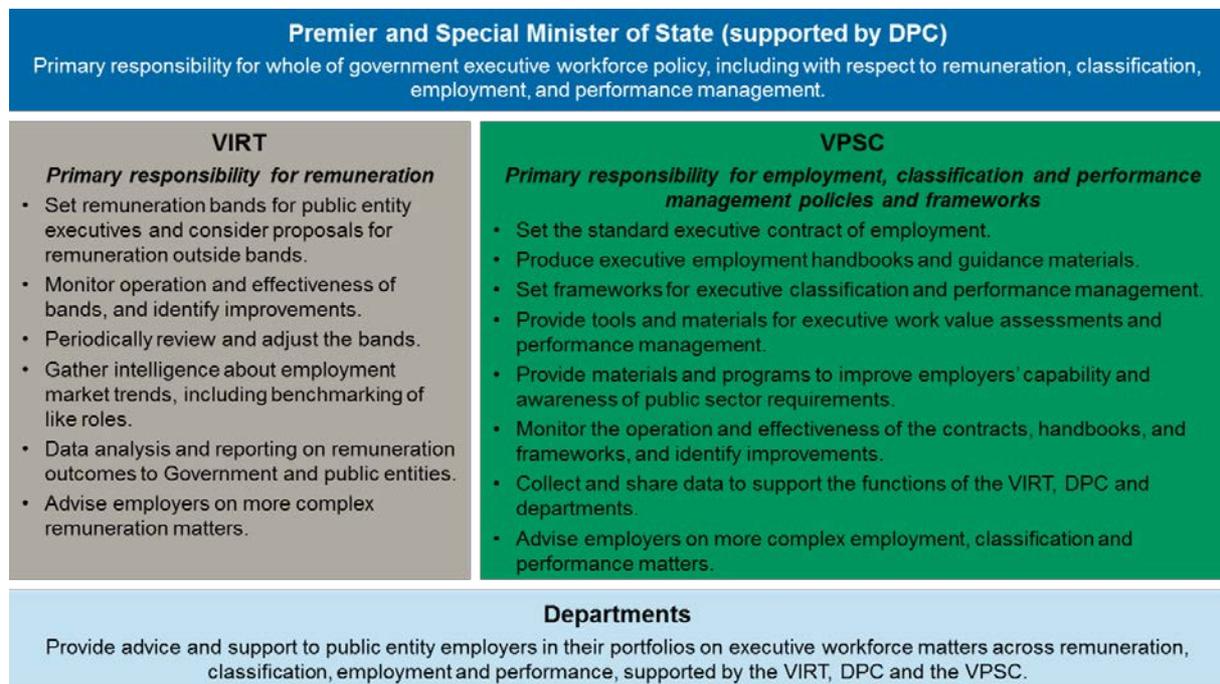
- The **GSERP Secretariat** within VPSC is a valuable source of advice for employers, but has a limited jurisdiction, and is not resourced for more comprehensive intelligence gathering, market analysis and benchmarking services
- Within **public entities** themselves, executive employment advisory capability is highly variable, with many organisations reliant on external private consultancies for advice and guidance. The review heard that these consultancies were of variable quality, applied a range of methodologies, and often failed to consider the broader public sector context.

At the time of writing, the Government is in the process of establishing the Victorian Independent Remuneration Tribunal (VIRT), which will set salaries and allowances for Members of Parliament, and set salaries for public service executive officers and other public sector office holders, including public entity executives. Once operational, the Government intends for the VIRT to absorb many of the executive remuneration powers and functions of DPC and GSERP, though DHHS will continue to perform its current role, and policy responsibility will remain with the Premier and the Special Minister of State.

The establishment of the VIRT should strengthen governance of executive remuneration across the Victorian public sector, ensuring that remuneration decision-making is centralised and independent, and executive remuneration growth is in line with government wages policy. However, the VIRT will require support to ensure that its remuneration oversight role is complemented by improved oversight and support for best practice classification, employment and performance management of executives.

These policy domains and functions are the shared responsibility of DPC, VPSC and portfolio departments, and all parties will need to work collaboratively to clarify central policy positions on key issues and provide improved capability-building and support to public entities. To support the effective and efficient administration of executive employment and remuneration, the review recommends that responsibilities and functions be divided as set out in **Figure 1**.

Figure 1: recommended division of executive workforce governance responsibilities and functions



If collaboratively delivered and adequately resourced, these activities would support Government and employers to make informed and robust decisions regarding public entity executive employment and remuneration arrangements. Employers could be more confident in their ability to offer appropriate

remuneration packages and comply with government policy requirements. Agencies that previously relied on costly bespoke work value assessments from independent consultants could instead draw on analytics provided by government agencies, providing improved reliability and cost savings across the sector.

Recommendation 1 – That executive remuneration arrangements for the Victorian Public Service and public entities be strengthened and centralised in a single independent body: the Victorian Independent Remuneration Tribunal.

Recommendation 2 – That, in order to assist Ministers, public entity Board Chairs and Chief Executive Officers to understand their obligations and navigate remuneration determination processes:

- a. the Victorian Independent Remuneration Tribunal provide central support in the form of intelligence gathering, market analysis, and benchmarking;**
- b. the Victorian Public Sector Commission assist through the provision of advice to support work value assessments and through whole of sector data collection and sharing; and**
- c. Departments provide support and guidance to assist public entities in their portfolio to engage effectively with the Victorian Independent Remuneration Tribunal and comply with remuneration determinations.**

Recommendation 3 – That the Victorian Public Sector Commission provide central support to public entity employers and executives, and promote compliance with whole of government executive workforce policies and procedures, by:

- a. developing and maintaining a dedicated public entity executive handbook that aligns as far as practicable with the existing Victorian Public Service Executive Employment Handbook, and introducing this new handbook by 1 July 2019; and**
- b. assisting Departments with the provision of additional advice and support to public entity boards and executives to improve capability and awareness of public sector standards and requirements.**

Attraction and retention

Public entities cannot always compete with the private sector on executive remuneration. However, the review found that the public sector can still attract capable leaders, by offering interesting work, greater security of tenure and an opportunity to contribute to the public good. There is a genuine need for remuneration above public sector benchmarks to fill some specialist roles, but this need is modest and confined to certain senior technical and professional roles (such as senior clinical, engineering and financial roles).

The review found that some Victorian public sector employers continue to pursue remuneration increases for their executives largely, if not completely, on grounds of their perceived commercial status and similarities to the private sector. Victorian public sector employers should not take a narrow approach by seeking to match private sector wages with public funds without fully considering the intrinsic benefits of the wider public sector employment offer and broader public sector standards and expectations. Due consideration should be given to the relative significance, scale and complexity of different organisations across the public sector. Consistent classification of executives, along with improved transparency and benchmarking (as proposed in this report), would increase employers' understanding of how their remuneration offer relates to the public sector as a whole.

The current employment and remuneration offer is not normally a barrier to filling senior executive roles. However, the review heard that employers are not always able to secure their preferred candidates where these are drawn from the private sector or from outside Victoria. Nevertheless,

analysis of recruitment data showed that Victorian public entities have secured non-public sector candidates for approximately 25% of CEO and direct report roles and out-of-state candidates for 20% of CEO roles and 10% of direct report roles.

The review found that a majority of CEOs and direct reports in public entities were recruited outside their current employer, but inside their current industry segment. Current inconsistent classification and remuneration frameworks may be hindering mobility between industry segments, as well as between public entities and the VPS. 70% of the current executive cohort, and 60% of CEOs, have been with their current employer for less than five years (typically one contract term). Average length of service has been stable over time, and variation between industry segments is generally modest, indicating that public entities are generally able to attract a replacement level of recruits each year.

When considered over entire careers, approximately three quarters of current CEOs and direct reports were found to have past experience in the Victorian public sector, and many had returned to it from other industries or jurisdictions. This suggests that there is an enduring attractiveness to Victoria's public sector that cannot be explained solely by remuneration. One third of Victoria's public entity CEOs and half of direct reports also have significant levels of past private sector experience, suggesting that remuneration differences may not be as important as they appear.

The review heard diverse views in consultations on the merits of public versus private sector expertise, local versus out-of-state, and the necessity of hiring executives with skills or experience in a relevant industry. While it is a relative strength to understand a sector well, acquiring the majority of executives from within a particular industry may be inadvertently limiting the talent pool, particularly given that the skills required in many executive roles (such as HR, finance, project management, and ICT) should be readily transferrable.

Victoria's long-standing use of a large number of relatively small agencies to deliver public services places a strain on the ability of government to attract the highest calibre leaders, as many executive roles are relatively small, particularly when compared with other jurisdictions. Smaller organisations are not always able to attract high calibre executives from other jurisdictions, where financial rewards are higher and the scope of a role is greater. Conversely, some organisations reported issues retaining executives (in particular CEOs) who were attracted to roles in other jurisdictions with equal or greater remuneration, but lower levels of responsibility.

Addressing this issue would require either an increase in the size of smaller public entities, or an increase in the use of shared service CEOs and other senior executives (a strategy already used by some small rural hospitals). Either option would increase the work value of roles, justifying higher remuneration and improving the capacity of the state to attract and retain high calibre executives. However, changes to public sector structures fall outside the scope of the Terms of Reference, and this review makes no recommendation on this subject.

Remuneration levels

Remuneration growth among public entity executives has been somewhat higher than public and private sector benchmark rates in recent years, growing by 17.1% since 2011-12, compared to state Wage Price Index growth of 13.8%, and state Consumer Price Index growth of 10.2%. Growth has also outstripped government executive wages policy, with the Premier's annual adjustments growing at only 13.7% in the same period.

However, public entity executive remuneration has grown at a rate only slightly below those of VPS executives (18.2%), after accounting for the impact of the one-off 4% bonus buyout in 2016-17. This suggests that the GSERP public entity controls and the more flexible VPS band-based structure are similarly effective in curtailing excessive remuneration growth.

The majority of Chairs and CEOs consulted for the review believe that remuneration is too low in their industry segment, but analysis of available remuneration data from other jurisdictions and sectors

does not support that view. Victoria's executive remuneration offer is on par with the New South Wales public sector and well ahead of smaller jurisdictions.

Boards and CEOs need greater support and access to benchmark data if they are to take responsibility and accountability for appropriately remunerating their executive workforces. Extensive additional data collection is not required, rather the VIRT and the VPSC must be adequately resourced to deliver the analytics and advice in a timely and targeted manner.

Appropriate classification and remuneration

In setting remuneration bands, the VIRT should give consideration to aligning remuneration levels between the VPS and public entities, and removing the outdated sector-specific remuneration bands and percentage rules. This would provide employers with an appropriate level of flexibility and accountability for remuneration decisions, within the limits of the VIRT's remuneration determinations.

Three quarters of public entity executives are remunerated within the limits of the current VPS executive remuneration range (\$178,500 to \$439,332). Of the remainder, 12 are remunerated above the VPS maximum, and 272 are remunerated below the VPS minimum.

Most of those roles remunerated above the VPS maximum are of strategic importance to the success of Victoria, or require certain highly specialised skill sets where the market for suitable candidates is highly competitive. Similarly, most of those paid below the VPS minimum are in all likelihood remunerated appropriately for their work value.

However, there are some cases where comparison between public entities reveals Total Remuneration Packages that are clearly inequitable by any measure of the relative risk, complexity or significance to Victoria, especially when roles are compared across segments. In these cases, there is an elevated risk that agencies will be unable to retain the highest calibre executives. By increasing central oversight, introducing regular review of remuneration frameworks, and improving alignment of remuneration between like executive roles in public entities and the VPS, it should be possible for Victoria to gradually reduce these kinds of remuneration disparities and mitigate these risks.

The review found that classification of executives varies significantly across the industry segments. GSERP has set band structures for CEOs in some segments and sub-segments (public healthcare, finance and insurance, water corporations, and TAFE institutes) but elsewhere, remuneration is determined on a case-by-case basis. There are no segment- or sector-wide band structures for subordinate executives.

Instead, subordinate executive remuneration is either limited to a percentage of that set for the CEO (for direct reports to CEOs) or is entirely unregulated (for lower level executives). These percentage rules are arbitrary, and have not significantly curtailed wage growth for this cohort compared to CEOs. The absence of common classification frameworks and remuneration bands has led to inconsistencies and inequities in remuneration outcomes both within and across segments.

The GSERP Secretariat has broad visibility of all remuneration packages in the public sector via its annual data collection, and endeavors to prevent large disparities between industry segments. However, employers do not have access to the same data and cannot readily benchmark their executive remuneration packages to those of other public sector organisations.

It would be preferable to base work value assessments in the public sector on a consistent classification framework used across public entities and the VPS, and aligned to a common set of remuneration bands. This would improve consistency, ensure relevant benchmarks are applied, and save on consultancy costs.

As requested by the Premier, the VPSC has developed a draft classification framework for VPS executives, piloted it in the Department of Justice and Regulation, and consulted on the design and implementation with a range of other public service employers. However, the framework will require

further refinement and close consultation with public entity employers to ensure it is fit for purpose for the broader public sector.

The Government's decision to establish the VIRT has implications for the timing and sequencing of classification reform. The Bill currently before Parliament requires the VIRT to determine remuneration bands for both VPS and public entity executives by 1 July 2019. As the detailed design of the classification framework will inform the development of the new remuneration bands, the VPSC must also consult closely with the VIRT over the course of the next year to ensure a smooth transition to the new arrangements.

Recommendation 4 – That the Special Minister of State request that the Victorian Independent Remuneration Tribunal consider:

- a. **aligning executive remuneration levels between the Victorian Public Service and public entities; and**
- b. **abolishing existing industry segment-specific public entity remuneration bands (where these exist), and replacing them with a common band structure for all public entity executives. An individual public entity should remain bound by the existing remuneration bands until such time as the Victorian Independent Remuneration Tribunal has determined new remuneration bands for that public entity.**

Recommendation 5 – That the Victorian Public Sector Commission lead work to refine the new Victorian Public Service Classification Framework, consulting closely with public entity employers and with the Victorian Independent Remuneration Tribunal (once established), to ensure that the framework is fit for purpose for the broader public sector and can inform the development of new remuneration bands for public entity executives.

Recommendation 6 – That percentage rules for subordinate executives be abolished, affirming CEO responsibility for determining subordinate remuneration within the limits of the Tribunal's remuneration determinations. An individual public entity should remain bound by the existing percentage rules until such time as the Victorian Independent Remuneration Tribunal has determined new remuneration bands for that public entity.

Definition of an executive

At the time of writing, a public entity executive is defined as any Chief Executive Officer (CEO) or equivalent role; and any person who has significant management responsibility (as determined by the CEO or equivalent role) and receives a Total Remuneration Package of \$156,374 or more. This definition is problematic in several areas and requires reform to ensure transparency and accountability, as well as to improve consistency and mobility between the VPS and public entity executive workforces.

The minimum remuneration threshold of \$156,374 was pegged to the former base of the VPS executive remuneration band structure. However, the VPS minimum was adjusted upward in 2016 in line with the recommendations of the *Review of Victoria's Executive Officer Employment and Remuneration Framework* (the Original Review), and currently stands at \$178,500. There is no longer any policy basis for the lower figure, and it should be aligned with the VPS minimum. In setting this higher threshold, this review does not intend to endorse pay increases for those currently defined as executives who fall below this threshold.

Under the current definition, public entity CEOs are given discretion to determine which employees they consider to have 'significant management responsibility'. This has led to large disparities in reported executive numbers between like organisations and reduces both transparency to the public, and the capacity of government to monitor and control executive remuneration practices in public entities. For example:

- Between 2015 and 2016, several Water Corporations adopted a new interpretation of 'significant management responsibility' that excluded 66 individuals, or 44% of the previous executive cohort, from the definition (and thus from all reporting obligations and central oversight).

The current definition also lacks clarity with respect to statutory office holders in public entities (such as Governor-in-Council appointments). This group are not public entity executives, although some perform duties equivalent to the CEO of a public entity. Many statutory office holders in public entities are employed under the public service executive officer employment arrangements set out in the PAA.

Currently, DPC and the relevant portfolio departments are jointly responsible for managing the appointment and remuneration of statutory office holders in both public entities and the public service. The Bill currently before Parliament does not give the VIRT the power to make determinations with respect to statutory office holders.

Statutory officers were out of scope for the ISR program, but the review identified several instances where CEOs who are statutory office holders are employed under public service arrangements, while their subordinates are subject to GSERP arrangements (or vice versa). The review found that the current division of responsibilities and employment arrangements is inadequate, gives rise to confusion, and prevents adequate benchmarking across the public sector. DPC should carefully consider the ongoing need for separate arrangements for statutory officers.

The review heard in consultations that an unknown number of highly remunerated contractors and consultants are currently engaged by public entities to perform executive-like duties. Although these individuals may be paid considerable sums of public money, they are not centrally reported or monitored, because they fall outside the definition of a public entity executive. In some cases, highly remunerated individuals are engaged as contractors and consultants in order to avoid GSERP reporting and bypass government remuneration policy.

In the absence of central reporting, the review was unable to determine the total number of highly remunerated contractors and consultants, nor estimate the prevalence of deliberate non-compliance. It is likely that most contractors and consultants are engaged through proper procurement processes and for legitimate business reasons. The review considered the merits of including contractors and consultants in the definition of a public entity executive, but found that this would have undesirable negative impacts, including generating significant administrative burden for agencies. Instead, government remuneration policy should make clear that use of contractors or consultants to avoid proper process or scrutiny is not permitted.

Finally, there are some overlaps between executive arrangements and industrial agreements that present a risk to government, in particular in the public healthcare segment. These could be addressed in future industrial negotiations.

Recommendation 7 – That the *Policy on Executive Remuneration in Public Entities* (or any replacement) be revised to change the definition of a public entity executive to:

“A public entity executive is any person who is:

- 1. the Chief Executive Officer (however titled) of a public entity; OR**
- 2. an employee of any public entity who:**
 - a. receives a Total Remuneration Package equal to or greater than the base of the Victorian Public Service executive remuneration range; AND**
 - b. has significant management responsibility (that is, the primary role of the employee is to provide leadership and strategic direction for other staff members).**

The following should not be considered public entity executives:

- 1. staff whose remuneration rates are specified by an award or enterprise agreement; OR**
- 2. technical specialists who meet the remuneration criteria, but do not have a people management function; OR**
- 3. statutory or prerogative office holders appointed to public entities; OR**
- 4. Victorian Public Service executives employed under Part 3 of the *Public Administration Act 2004*, including by virtue of a specific legislative reference or an order/instrument made under legislation.”**

Contractual arrangements and the employment offer

Current inconsistent contracting practices present a range of financial, employment and integrity risks to government. GSERP provides a template employment contract for public entities to use when employing executives. While the template is not mandatory, some of its provisions are mandatory under GSERP policy. The review found that while the majority of entities use the template contract or minor variations, there are other common law contracts in use. In addition, several entities have made adjustments to the template contract, including altering mandatory provisions in contravention of GSERP policy. There are also significant differences between the standard contracts for VPS executives and those employed in public entities. In effect, this results in differing employment offers between the VPS and public entities, with consequences for mobility across the public sector.

At the time of writing, DPC was in the process of revising and modernising the standard VPS executive contract, including to allow for contracts longer than five years, and introduce new notice periods for termination at will linked to contract length on a pro-rata basis. These revisions present an opportunity to update and clarify the mandatory elements of the public entity executive contract, and to align it as closely as possible to the VPS executive contract. This would reduce duplication of effort, and facilitate executive mobility between the VPS and public entities.

To maintain the competitiveness of the public entity executive employment offer both relative to the VPS and to other jurisdictions, while retaining appropriate controls, the at will termination provisions for public entity executive contracts should align to those proposed for the VPS. The review heard evidence that both at will termination and contract expiry are often used as a substitute for appropriate performance management. Longer at will termination provisions should encourage employers to make use of more appropriate channels to manage, and if necessary remove, under-performing executives.

The review recommends that the five year limit on contract lengths should remain in place for the time being. Several departments expressed concern that longer or open-ended contracts would frustrate other Government policy priorities such as gender diversity and more frequent market testing of roles. In addition, some public entities have statutory limits on Chief Executive Officer terms that would require legislative change to remove. In exceptional circumstances, such as engaging a specialised

executive to oversee a seven year infrastructure project, public entity employers should be permitted to seek approval from the Secretary of the relevant portfolio department for a longer term.

Together with improved support from central agencies and portfolio departments as recommended in this report, these recommendations should improve clarity and consistency, strike an appropriate balance between the competitiveness of the offer and employer flexibility, and facilitate the mobility of executives between public entities, and between the VPS and public entities.

Recommendation 8 – That the Victorian Public Sector Commission prepare a revised standard employment contract for executives in public entities, with the standard contract aligned as far as practicable with the standard contract for Victorian Public Service executives. The revised standard contract should be mandatory for all new executive contracts that commence on or after 1 July 2019. The Victorian Public Sector Commission should provide clear guidance on which elements of the revised standard contract can be modified to meet the specific needs of individual public sector employers.

Recommendation 9 – That the Victorian Public Sector Commission, in preparing the revised standard employment contract for executives in public entities:

- a. align the standard ‘at will’ termination provision with the arrangements applying to the Victorian Public Service; and**
- b. retain the five year limit on contract lengths for public entity executives, apart from in exceptional circumstances where the Secretary of the relevant portfolio department has approved a longer term.**

Performance management and bonuses

The review found strong support for the retention of bonuses in most industry segments, although the evidence to suggest that bonuses drive higher performance in public entities is limited. Many public entities have elected to remove bonus opportunities from executive contracts, considering that bonuses have no place in public sector work and create competition where collaboration is required. Other agencies are protective of bonuses and defend their role in achieving high performance.

The review found limited links between performance management and bonuses. In practice, bonuses are too commonly used as a remuneration ‘top up’ rather than a means of rewarding truly exceptional performance.

The review therefore recommends the removal of bonuses from public entity executives, as has already occurred in the public service. As the independent body responsible for remuneration, the Government should request advice from the proposed VIRT on the level of adjustment to remuneration (if any), including any factors the VIRT considers relevant to specific industry segments, organisations or roles.

The review recommends that any exemption from the public sector-wide removal of bonuses should only be granted if a compelling case can be made that the retention of a bonus arrangement for a particular executive is essential to meet government objectives. The Victorian Funds Management Corporation and Treasury Corporation of Victoria are the only entities that the review has identified where it is possible that a sufficient case may be made for bonus opportunities to continue for a very limited number of specialist senior investment and treasury roles. Even in these instances, the Boards of these organisations would need to make a compelling case that there is a need to retain bonus arrangements. If such a case cannot be made, all bonuses should be removed.

To support public entity employers to continue to drive high performance and deliver the best outcomes for the Victorian community, the VPSC should provide advice to Government and public entity employers on how to best preserve and strengthen executive performance management approaches in the absence of financial performance incentives.

Recommendation 10 – That bonus opportunities in new public entity executive contracts be discontinued with immediate effect, and all public entity executive contracts be varied to phase out bonus eligibility by 1 July 2019. Any consideration of possible exemptions from this policy should be limited to a very small number of investment and treasury specialist roles at the Victorian Funds Management Corporation and the Treasury Corporation of Victoria.

Recommendation 11 – That the Special Minister of State request that the Victorian Independent Remuneration Tribunal provide advice by 1 January 2019 on appropriate standard rates for rolling existing bonus provisions into Total Remuneration Packages, taking into consideration any factors specific to an industry segment, organisation or role.

Compliance, continuous improvement and next steps

Taken together, the recommendations present an opportunity to align, clarify and modernise public service and public entity executive remuneration and employment conditions. However, implementing these reforms will require commitment, patience and careful scheduling. It is likely that it will take three to five years to fully realise the reforms. During this implementation phase, it will be important to monitor the public sector's understanding of, and compliance with, the reforms.

In the short to medium term, the review recommends that all public entity employers should be asked to submit to the VPSC an annual certification of compliance with all whole of government executive workforce policy requirements. The review considers that such a certification should be completed alongside the annual public entity executive data collections administered by the VPSC.

Finally, the review recommends that the arrangements for employment and classification oversight and support should be evaluated within two years of implementation to ensure that the most efficient and effective arrangements are pursued. Having regard to the independence of the proposed VIRT, this evaluation should not encompass remuneration oversight and support, but should examine whether or not employment and classification arrangements support and complement the VIRT's remuneration determinations.

Recommendation 12 – That the Victorian Public Sector Commission:

- a. develop a streamlined process for public entities to certify their compliance with whole of government executive workforce policies and procedures on an annual basis, commencing from 30 June 2020; and**
- b. within two years of those arrangements taking effect, evaluate the effectiveness of oversight arrangements for employment and classification matters, and their support for the Government's policy objectives for the executive workforce.**

1. BACKGROUND

1.1 Executive workforce reform

This report is part of a considerable program of executive workforce reforms in the Victorian public sector. It follows on from the *Review of Victoria's Executive Officer Employment and Remuneration Framework, August 2016*, (the original review) that the Premier commissioned in July 2015 and that focused on the public service.

The original review was the first comprehensive examination of Victoria's Executive Officer (EO) employment and remuneration arrangements in over two decades. It found that the existing employment and remuneration arrangements were not best placed to support a high performing VPS EO workforce, and recommended the following key changes:

- the development of a **new framework for classifying and remunerating** public service executives on the basis of work value;
- changes to **employment terms and conditions** to make Victoria's executive offer more competitive;
- stricter requirements and improved guidance on **performance management processes**; and
- more **systematic oversight and governance** of the workforce, including a single point of oversight for significant remuneration decisions and analysis of public service EO employment trends.

The executive workforce reforms are intended to:

- drive greater integrity, accountability and value for money;
- attract and retain high performing executives; and
- establish Victoria as an employer of choice for public service executives in Australia.

In December 2016, the Premier directed VPSC to undertake eight industry segment reviews (ISR) of executive employment and remuneration arrangements in public entities, to examine whether the VPS reforms could be extended into the broader public sector.

1.2 Industry segment reviews

Between January 2017 and March 2018, the VPSC undertook eight reviews of executive remuneration and employment conditions in Victorian public entities. The review methodology divided public entities into the following eight industry segments:

- public healthcare (PH)
- transport, construction and infrastructure (TCI)
- finance and insurance (FI)
- water and land management (WLM)
- sport, recreation, arts and facilities management (SRAF)
- emergency services (ES)
- TAFE and other education (TAFE)
- regulators and other agencies (RO)

This report summarises and updates the findings of all eight ISR reviews, and provides a conclusive set of recommendations for the Premier to consider.

1.3 Summary of individual segment reviews

Figure 2 outlines the key findings of each ISR report.

Figure 2: findings of individual industry segment reviews

Segment / Profile	Key findings
<p>Public healthcare The segment comprises 89 public entities:</p> <ul style="list-style-type: none"> • 16 metropolitan and teaching health services • 15 regional health services • 12 rural health services • 41 small rural health services • 4 other health organisations • Ambulance Victoria 	<ul style="list-style-type: none"> • There is a need to simplify governance arrangements for executive employment and increase central oversight. Central oversight and commissioning will support the Government to be better informed of the status of executive employment in the healthcare segment. • There is a need to improve and simplify arrangements through stronger oversight and a range of centralised supporting activities, including coordination and data sharing. • The current framework is largely effective in controlling healthcare executive remuneration and enables the attraction and retention of appropriately skilled talent in most cases. However, it does not provide Government with sufficient transparency and control of executive workforce costs. • There is confusion among Chairs and CEOs regarding how to apply the current framework when appointing executives. • The existing GSERP framework can be adapted to require: early and more detailed consultation by Chairs and CEOs on role fulfilment at CEO and direct report levels; reporting of all executive employment arrangements and remuneration on a regular basis. To constrain costs, remuneration bands should continue to be set centrally and periodically reviewed.
<p>Transport, construction and infrastructure The segment comprises 7 public entities:</p> <p>Transport:</p> <ul style="list-style-type: none"> • Public Transport Development Authority • Victorian Rail Track Authority • V/Line Corporation <p>Construction:</p> <ul style="list-style-type: none"> • Melbourne and Olympic Parks Trust <p>Infrastructure:</p> <ul style="list-style-type: none"> • Port of Hastings Development Authority • Victorian Ports Corporation (Melbourne) • Victorian Regional Channels Authority 	<ul style="list-style-type: none"> • The segment is experiencing considerable growth. Large scale transport infrastructure investment is placing demand pressure on critical executive leadership, technical, operational and commercial capability. • Stronger oversight and a system-wide view of executive employment and remuneration arrangements is required to ensure remuneration decisions remain appropriate. • Although the segment is largely compliant with current executive employment and remuneration arrangements, these arrangements are not best placed to support the segment into the future. • There is no clear rationale for applying GSERP policy to agencies such as V/Line, VicTrack and Public Transport Victoria, while applying VPS executive employment policy to agencies such as VicRoads, Transport for Victoria, Level Crossing Removal Authority and Melbourne Metropolitan Rail Authority. This results in confusion, unnecessary variability and constraint on capacity to take a clear systems view of the executive workforce. • The segment is generally able to attract executive talent within the available remuneration offering. However, there are some circumstances where high remuneration may be warranted for workforce 'hotspots' where there is demand for exceptional talent. • Removal of restrictive percentage rules controlling subordinate executive remuneration will address arbitrary constraints placed on agencies subject to GSERP policy. • Increases to at will termination provisions from 4 to 6-9 months will improve capacity to attract talent from the private sector and establish consistent contractual provisions between agencies and VPS organisations in the segment. • Performance management and bonus practices vary between agencies.

Segment / Profile	Key findings
<p>Finance and insurance The segment comprises 6 public entities:</p> <p>Financial and investment services:</p> <ul style="list-style-type: none"> Treasury Corporation of Victoria Victorian Funds Management Corporation <p>Insurance:</p> <ul style="list-style-type: none"> Transport Accident Commission Victorian Managed Insurance Authority Victorian WorkCover Authority <p>Personal financial administration:</p> <ul style="list-style-type: none"> State Trustees Limited 	<ul style="list-style-type: none"> This segment would benefit from stronger central oversight, support and intelligence gathering. There is significant variation in practice within the segment and between other parts of the public sector. This variation is based on a view that the segment is – and should be – more closely aligned to private sector financial services employment practices, rather than public sector practices. VPSC does not share this view. As a consequence of this view: <ul style="list-style-type: none"> some agencies have moved away from public sector policies, legislative requirements and common standards; and alignment with private sector standards has also resulted in employment practices at non-executive levels, such as bonus opportunities, that are not reflective of wider public sector employment arrangements. The segment is able to attract executive leaders from the private sector and from within the public sector. Remuneration in the finance agencies is amongst the highest remuneration for senior executives in the Victorian public sector, although it is comparable with the public sector finance agencies in other jurisdictions and lower compared with private sector benchmarks. While performance assessment arrangements vary between agencies in the segment, there appears to be a more formal performance assessment approach generally than in some other parts of the public sector. Bonus allocation is explicitly linked to the performance assessment process in most, but not all, agencies in the segment. Bonus opportunities in the segment are high by public sector standards, although not high in comparison with the private sector. Most agencies offer executive bonus opportunities up to 20% of TRP. Practices for awarding bonuses vary between agencies within the segment.
<p>Water and land management The segment comprises 51 public entities:</p> <p>Water:</p> <ul style="list-style-type: none"> 19 water corporations 10 catchment management authorities <p>Land management:</p> <ul style="list-style-type: none"> 5 large land management agencies 6 small land management agencies 4 alpine resort management boards 7 waste and resource recovery groups 	<ul style="list-style-type: none"> Greater central oversight and support is required to give Chairs and CEOs/MDs confidence in remuneration and employment conditions across the segment. These should be based on a fair and consistent view of the value that executives provide for Victoria. Although the current framework is largely effective in controlling executive remuneration and attracting and retaining appropriately skilled talent, the rules are arbitrary and no longer fit-for-purpose. This creates perverse incentives to work around the rules. The rules do not effectively address the continued pressure from employers to appoint at the top of the outdated and overlapping remuneration bands, nor provide enough support to help them make appropriate remuneration decisions. There is confusion in the current system, which can be difficult to navigate. There is also dissatisfaction with the level of transparency, predictability, and timing of GSERP decisions.

Segment / Profile	Key findings
<p>Sports, recreation, arts and facilities management</p> <p>The segment comprises 22 public entities:</p> <p>Sport and recreation:</p> <ul style="list-style-type: none"> 11 public entities, including: the Australian Grand Prix Corporation, Greyhound Racing Victoria, Zoological Parks and Gardens Board, Visit Victoria, Victorian Institute of Sport <p>Facilities management:</p> <ul style="list-style-type: none"> 6 public entities, including: Melbourne Convention and Exhibition Trust, Melbourne Market Authority, Federation Square Pty Ltd <p>Creative industries:</p> <ul style="list-style-type: none"> 5 public entities, including Geelong Performing Arts Centre Trust and Victorian Arts Centre Trust 	<ul style="list-style-type: none"> The segment would benefit from stronger central oversight and advice, and a more robust executive classification and remuneration framework. This segment has mixed executive employment arrangements, where the majority of executives are employed under the GSERP policy, while other executives are employed under VPS terms and conditions. Executive employment and remuneration arrangements are not well understood in all parts of the segment. Several CEOs and Chairs consulted consider the current GSERP rules to be restrictive, confusing and a barrier to attracting and retaining suitably qualified executives. The commercial focus of some parts of the segment means that some public entities consider their executive employment and remuneration arrangements should more closely align with those in the private sector. However, this review considers that the segment should align with a VPS classification and remuneration framework. Some CEOs and Chairs hold the view that executive remuneration levels in the segment are too low and restrict capacity to attract candidates from the private sector or overseas. Nevertheless, the segment has successfully attracted leaders from the private sector and other jurisdictions. This cohort has accepted remuneration reductions to lead Victorian public sector organisations.
<p>Emergency services</p> <p>The segment comprises 4 public entities:</p> <ul style="list-style-type: none"> Country Fire Authority Emergency Services Telecommunication Authority Metropolitan Fire and Emergency Services Board Victoria State Emergency Service 	<ul style="list-style-type: none"> This report coincided with a period of significant reform affecting the two largest agencies in the segment. While all agencies were aware of their broad obligations under the GSERP policy, a number of deviations from both policy and good practice were identified. All agencies reported that they would welcome and benefit from increased central support and guidance on executive remuneration matters, including benchmarking, work value assessments, data collection and sharing. The segment faces upward pressure on executive remuneration from increases in salary and allowances for senior non-executive staff employed under enterprise bargaining agreements (EBAs). This is particularly apparent where growth in EBA benefits and conditions has led to a notable overlap in salary bands with executives. Turnover of executive staff (including CEOs) has been high for several years across the segment. The average length of service for executives was found to be below the public sector average. Effective executive performance management and managing under-performance were identified as a challenge in the segment. CEOs and Chairs did not support the use of bonuses to drive executive performance and would support their removal if accompanied by an appropriate uplift in TRP.

Segment / Profile	Key findings
<p>TAFE and other education The segment comprises 15 public entities:</p> <ul style="list-style-type: none"> • 12 TAFE institutes • AMES Australia • VET Development Centre • Victorian Institute of Teaching 	<ul style="list-style-type: none"> • A high degree of compliance with the GSERP policy has successfully constrained executive remuneration. However, the majority of Chairs/CEO consider the current arrangements to be arbitrary, unduly restrictive and a barrier to attracting and retaining suitably qualified executives. • The abolition of CEO remuneration bands and subordinate executive percentage rules, coupled with benchmarking executive remuneration against public sector standards, would positively affect current arrangements and improve future outcomes. • The sector has experienced a range of financial and operational challenges over the last decade. This has had implications for the attraction and retention of high calibre leaders. Challenges have included significant changes to state and national policy and regulatory settings, constrained resources, a series of mergers and campus closures, and integrity concerns. • Turnover of executive staff, including CEOs, has been high for several years. The average length of service for executives has declined significantly since 2012, and is below than the public sector average. This raises questions about agencies' capacity to develop durable executive teams and maintain adequate talent pipelines.
<p>Regulators and other agencies The segment comprises 23 public entities:</p> <ul style="list-style-type: none"> • 5 Class A cemetery trusts • 6 regulators • 12 other agencies 	<ul style="list-style-type: none"> • Executive remuneration levels in the segment are largely aligned with other public entities in the broader public sector. Agencies are generally able to attract leaders. • Less than 5% of survey respondents indicated that the employment and remuneration offering has precluded executive roles from being filled. However, public entities based in regional areas of the state generally considered the current remuneration offering to be insufficient to attract high-calibre candidates from the private sector or metropolitan areas. • While remuneration levels are largely contained, there is clear evidence of significant upwards pressure on remuneration in parts of the segment. • Some public entities, particularly those in the cemetery trusts sub-segment, have consistently awarded above-average bonuses to executives over the same period of time. • Performance management practices vary markedly across the segment and are not always robust. As a result, it is unclear to what extent bonuses are effective as a driver of organisational performance.

1.4 Methodology

The Premier provided Terms of Reference for the ISR program. An acquittal against the Terms of Reference is at **Appendix 1**. The methodology for the industry segment review program has included the following elements:

- analysis of VPSC's executive workforce data holdings and files of the Government Sector Executive Remuneration Panel (GSERP);
- desktop research of relevant policies and legislation;
- surveys of board Chairs and CEOs in each segment. See **Appendix 2** for the collated survey questions and responses;
- consultation with selected segment Chairs and CEOs and senior VPS staff. See **Appendix 3** for a list of consultations;
- file reviews of executive remuneration information, contracts, and performance management documents from individual public entities in each segment;
- inter-jurisdictional and private sector research; and
- regular consultation with portfolio departments in the form of review updates.

1.4.1 Data

Data on Victorian public sector employment and remuneration in this report comes from three sources:

- the annual GSERP Data Collection, which contains employment and remuneration data for Victorian public entity executives;
- the annual Executive Data Collection, which contains employment and remuneration data for Victorian Public Service executives and statutory appointees; and
- the annual Workforce Data Collection, which contains employment and remuneration data for the non-executive public sector workforce.

Unless otherwise indicated, this report uses the most current data available from these three collections, which in each case is for 30 June 2017.

Data on public sector employment and remuneration in other jurisdictions was provided by Public Sector Commissions and their equivalents in those jurisdictions. This data was provided in confidence and has been removed from this report.

2. CONTEXT

2.1 The Victorian public sector

The Victorian public sector is defined by the PAA and exists to support the government of the day in serving the Victorian community. It is made up of two groups of agencies: the Victorian Public Service, and public entities. **Figure 3** provides an overview of the Victorian public sector, as at June 2017.

The Victorian Public Service comprises departments, administrative offices and other public service employers. Departments are ministers' principal source of advice on portfolio matters. They implement ministers' decisions and assist ministers in accounting to Parliament for the actions and performance of their department and any administrative offices and public entities in their portfolio.

Administrative offices and other public service employers are public service bodies that are distinct from departments. They are typically established to undertake specific tasks requiring a degree of independence, and include the Environment Protection Authority, the Victorian Auditor-General's Office, the Victorian Electoral Commission, and the VPSC.

Public entities are statutory authorities, state owned corporations and advisory bodies established outside the public service in order to perform defined public functions. These include delivering services such as health, education, and water; managing significant public assets; regulating industries and professional groups; and providing specialist advice to the government of the day. Public entities operate at arm's length from government in their day-to-day operations, but are ultimately accountable to a minister for their performance.

Figure 3: structure of the Victorian public sector and distribution of public employees, June 2017



2.2 Scope of the ISR program

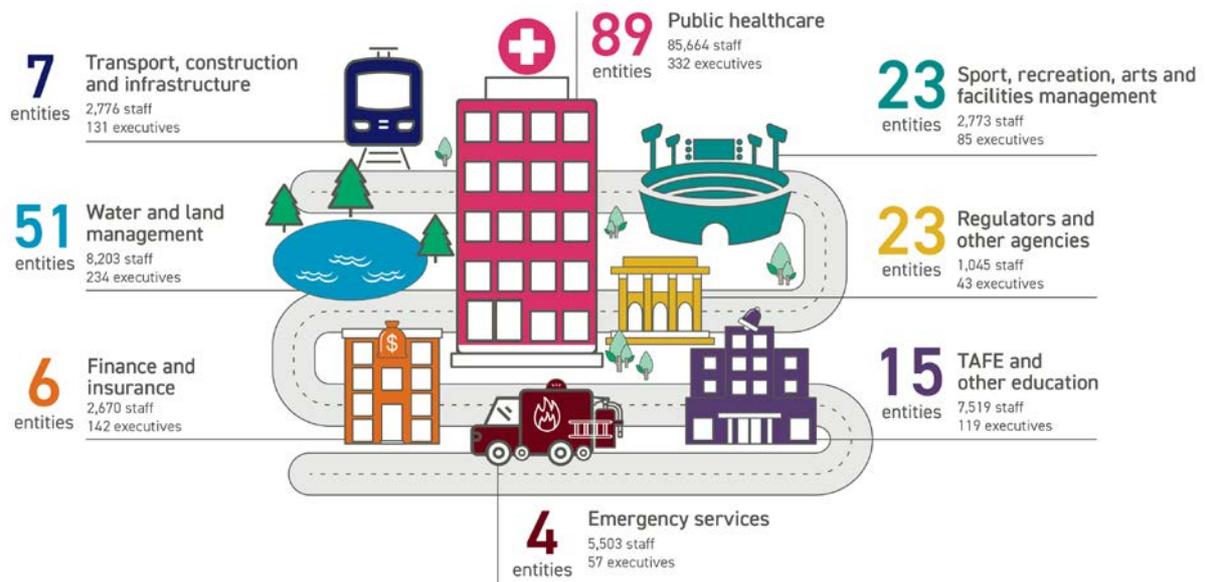
The scope of the ISR program included all of those agencies that employ executives under public entity arrangements. As such, the following groups of agencies and executives were out of scope:

- agencies that employ all executives under VPS arrangements, including departments, administrative offices and other public service employers;
- agencies (for example, the National Gallery of Victoria) and individual executive roles (for example, the CEO of the Victorian WorkCover Authority) that are Declared Authorities under section 104 of the PAA;
- agencies that do not employ any executives under public entity arrangements (for example, Victoria Police, which employs only sworn police and VPS executives);
- agencies that did not employ any executives at all at the time the review was conducted (for example, the Melbourne Cricket Ground Trust); and
- executives working in public entities but employed by another agency under VPS arrangements (for example, Sustainability Victoria, where all staff other than the CEO are employed by DELWP).

In addition to these standard exclusions, the teams conducting each ISR (in consultation with relevant portfolio departments) elected to exclude certain agencies from scope. This was generally done where the agency in question was too small to be meaningfully compared to others in the segment. The composition of all eight industry segments is detailed at **Appendix 4**.

Figure 4 shows the scope of the industry segment reviews, by industry segment.¹

Figure 4: ISR program industry segments, number of entities, staff and executives, June 2017



2.3 A statistical profile of Victorian public entity executives

At 30 June 2017, there were 1,143 in scope executives employed across the eight industry segments. This cohort comprised 202 CEOs (18%) and 941 subordinate executives (82%). Women held 39% of public entity executive roles – 37% of the CEO roles and 41% of the subordinate roles. This was lower

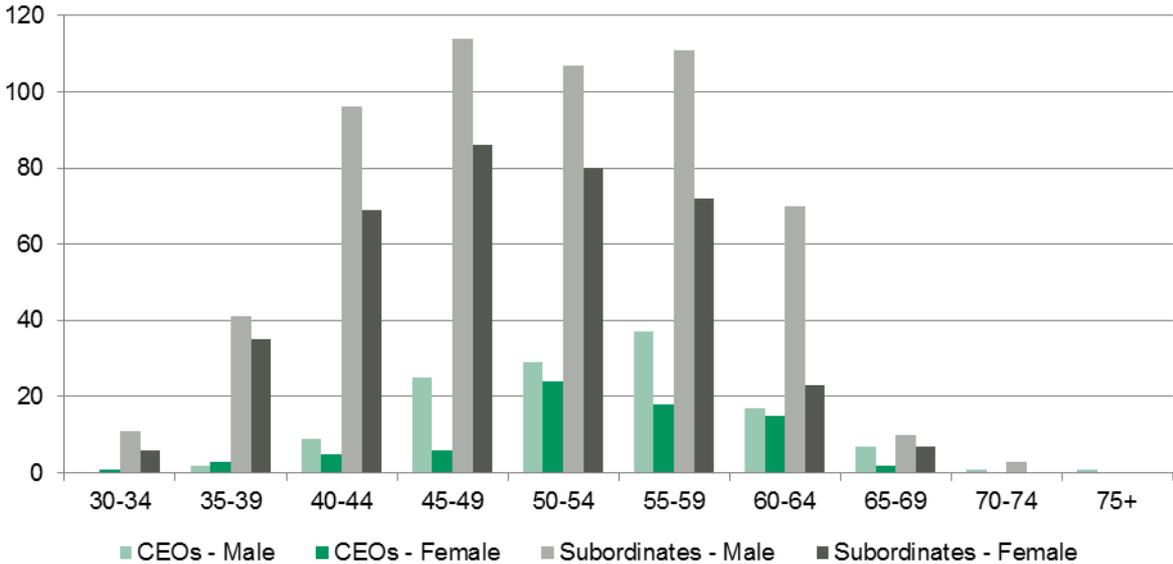
¹ Figure 4 is compiled from separate data sources: the number of staff are taken from the June 2017 workforce data collection. The number of executives is taken from the June 2017 GSERP data collection. The number of public entities have been updated to reflect decisions made in the course of the ISR program. The information is accurate at the point in time the report was written. The numbers may vary across Industry Segment Reports as a result of public entities moving between segment or different data sources being used.

than the VPS executive workforce (49% women), the Victorian public sector as a whole (67% women), and the Victorian labour force (47% women).²

The average age of public entity executives was 51. This compares to 54 for CEOs and 50 for subordinates. This was slightly older than the average for the VPS executive workforce (49) and older than the average for the Victorian public sector as a whole (43).

Among CEOs, men outnumber women in all age brackets, with the exception of those between 30 and 39. Men are particularly over-represented in the 45-49 age bracket, where they outnumber women almost 5 to 1. Amongst subordinate executives, women are more evenly distributed (though still in a minority) while men are particularly over-represented in the 60-64 age bracket. **Figure 5** provides a breakdown of the age and gender of public entity executives.

Figure 5: Age profile of public entity executives, by level and gender, June 2017



2.4 The Victorian Independent Remuneration Tribunal

The *Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Bill 2017* will establish the Victorian Independent Remuneration Tribunal (VIRT). At the time of writing, the Bill is making its way through Parliament.

The aim of the Bill is to comprehensively reform and strengthen the allowances and standards regime for Victorian Members of Parliament. However, the VIRT will also have several functions that relate to VPS and public entity executives. These functions include:

- inquiring into and determining the remuneration bands for executives employed in prescribed public entities;
- issuing guidelines with respect to the placement of executives within remuneration bands;
- at the request of the Minister, inquiring into and determining the remuneration package for a Chief Executive Officer employed in a prescribed public entity;
- inquiring into and determining the remuneration bands for executives employed in public service bodies;
- issuing guidelines with respect to the placement of public service body Heads and other executives within remuneration bands determined by the VIRT; and

² Victorian Public Sector Commission, 2017, *The State of the Public Sector In Victoria 2016-17*, p.31.

- providing advice about requests to approve remuneration for public service body Heads and other executives that is above the relevant remuneration band.³

At the time of writing, it is expected that the VIRT will commence operations in mid-2018. Over time, the Government's intention is that VIRT will become a 'one stop shop' for remuneration for senior public officials.

2.5 Other jurisdictions

The industry segment reviews compared Victoria's arrangements to those in other Australian jurisdictions. Overall, the differing public administration arrangements in other jurisdictions make executive remuneration and employment arrangements comparisons of limited value. In many cases, public entity executives are employed under public service arrangements, or under a classification and remuneration framework that aligns with the public service arrangements. Victoria also has a larger number of independent public sector employers than most other jurisdictions.

In the cases where there were comparable public entity executive roles in other jurisdictions, the remuneration was largely in line with Victoria. The review approached other public sector commissions for data on average executive remuneration growth in their jurisdictions. This is discussed further in **section 3.4**.

³ Parliament of Victoria 2017, *Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Bill 2017 – Explanatory Memorandum*, p.4.

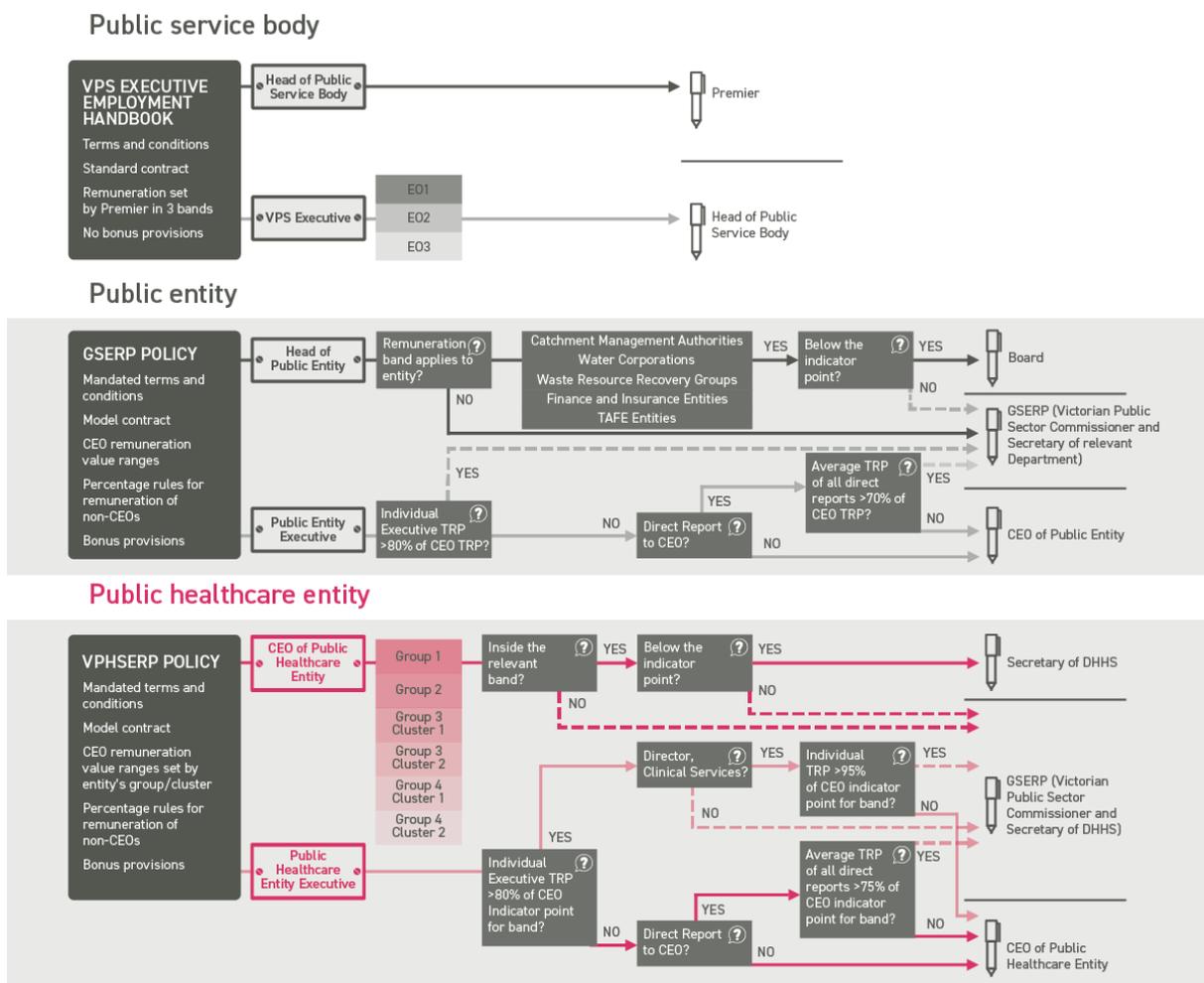
3. FINDINGS

3.1 Governance arrangements

KEY FINDINGS: Current governance arrangements for executive employment and remuneration in public entities are distributed, inconsistent and confusing. Public entity boards and CEOs would benefit from stronger monitoring and advice on executive remuneration and employment conditions in public entities.

Current governance arrangements for executive employment and remuneration in public entities are distributed, inconsistent and confusing. There are currently three primary sets of governance arrangements for different categories of executives, as set out in **Figure 6**.

Figure 6: Executive employment and remuneration governance arrangements in VPS and public entities



The employment and remuneration of VPS executives is administered by the Department of Premier and Cabinet (DPC). A small number of public entities, and some individual executives in public entities, are Declared Authorities under section 104 of the PAA. Governance arrangements for their employment and remuneration largely mirror those of VPS executives.

The majority of public entity executives are subject to the Victorian Government's *Policy on Executive Remuneration for Public Entities in the Broader Public Sector*. This policy establishes the Government

Sector Executive Remuneration Panel (GSERP), which comprises two members: the Victorian Public Sector Commissioner (as Chair), and the Secretary of the relevant portfolio department. GSERP determines, monitors and reports on executive remuneration in the Victorian public sector to provide the Government with assurance that executive remuneration is not excessive. This role includes endorsement of CEO Total Remuneration Packages (TRPs), and endorsement of other executive TRPs where the remuneration proposed exceeds certain thresholds.

In the public healthcare segment the Secretary to the Department of Health and Human Services (DHHS) has statutory responsibility under the *Health Services Act 1988* to approve the appointment, remuneration, and terms and conditions of all health service CEOs. To support this, DHHS operates a separate executive remuneration policy and governance framework to other public entities, the Victorian Public Health Sector Executive Remuneration Policy (VPHSERP). Decisions under VPHSERP are made by the Secretary alone, without the involvement of GSERP, except where agencies request remuneration outside the VPHSERP band structure. VPSC collects data to support both GSERP and VPHSERP, but otherwise the two systems operate independently.

More than one of these arrangements can apply in a single agency. For example, at the Victorian Health Promotion Foundation (VicHealth) the CEO is a statutory officer and a Declared Authority with VPS EO-like employment arrangements (top line in **Figure 6**), while the direct reports to the CEO are public entity executives (second line in **Figure 6**).

Approaches to supporting public entities on executive employment and remuneration matters vary both between and within departments. Some departments distribute these support functions across policy and program teams (DELWP, DJR, DPC), while others provide a single point of contact for all public entities in their portfolio (DEDJTR, DTF) or share the function between policy and human resources business units (DET, DHHS). Departmental secretaries also have varying levels of involvement with agencies, which may be driven by individual or ministerial priorities, risk factors, legislative requirements, or other governance arrangements (such as the Secretary, DTF's position on the boards of the Treasury Corporation of Victoria and the Victorian Funds Management Corporation).

The existence of multiple governance arrangements is confusing, and contributes to inconsistencies and inequities in remuneration across the public sector. The review found that the sector would benefit from more consistent governance arrangements with broad jurisdiction over all categories of executive.

In April 2017, while the ISR program was underway, the Government announced its intention to establish an independent remuneration tribunal – the VIRT – to set salaries and allowances for Members of Parliament, public service executive officers and other public sector office holders, including public entity executives. Once operational, the Government intends for the VIRT to absorb many of the executive remuneration powers and functions of DPC and GSERP, though DHHS will continue to perform its current role, and policy responsibility will remain with the Premier.

The review heard that the advice and support provided by the GSERP Secretariat is highly valued by employers. This advice and support function should be retained and expanded under any new arrangements. Resourcing for this function has been limited for some years, and both Government and employers would benefit significantly from a wider support offering including intelligence gathering, market analysis, benchmarking of like roles, data analytics and reporting, and regular reviews of remuneration levels and bands. The review understands that many of these functions are envisaged as part of the VIRT's operating model, and some are specified in the Bill that is before Parliament at the time of writing.

Beyond remuneration, the ISRs have uniformly found that there is a great need for stronger policy leadership and advice to guide public entities in executive employment, classification and performance management. While these matters are beyond the scope of the proposed VIRT, its establishment provides the Government with an opportunity to reconsider the roles and responsibilities of other key stakeholders and how they can support the VIRT to succeed. In this, the review heard that DPC, the VPSC, and portfolio departments should all play a role.

3.2 Attracting and retaining capable leaders to the sector

KEY FINDINGS: The review found that the public sector can attract capable leaders, by offering interesting work, greater security of tenure and an opportunity to contribute to the public good. However, public entities cannot always compete with the private sector on executive remuneration. There is a genuine need for remuneration above public sector benchmarks to fill some specialist roles. Victoria's long-standing use of a large number of relatively small agencies to deliver public services places a strain on the ability of government to attract the highest calibre leaders.

The review surveyed public entity Chairs and CEOs across all eight industry segments, asking their views on:

- how well the current framework supports the attraction and retention of suitably skilled executives; and
- whether they had been unable to fill an executive role in the last 24 months due to the current employment and remuneration offering.⁴

In aggregate, survey respondents were slightly more likely to agree than disagree that the current framework supports the attraction and retention of suitably skilled executives. Respondents were most likely to agree in the finance and insurance, and public healthcare industry segments, while TAFE and other education respondents were most likely to disagree. In all segments except TAFE and other education, agencies reported that they have generally been able to fill executive roles under the current offering.

The majority of Chairs and CEOs consulted considered that their segment's remuneration offering was low. The review's analysis of remuneration data from other jurisdictions and sectors does not support that view (see **section 3.4**). There are some executive roles for which the public sector needs to pay above public sector benchmarks in order to attract specialised skills. These include:

- **senior clinical roles** in the public healthcare segment: some regional and rural hospitals reported that they struggle to attract the clinical skills they require for the remuneration available;
- **specialised engineering roles** that are required in the transport, construction and infrastructure segment: skills shortages in this area can affect the scheduling of major infrastructure projects; and
- **senior financial roles** in the finance and insurance segment; while few in number, these roles are essential to the success of Victoria's finance agencies.

The review also heard that there are a wide variety of non-financial aspects of public sector employment that can assist agencies to attract and retain suitable executives. These include the opportunity for interesting work, greater security of tenure than the private sector, availability of flexible working arrangements, and the opportunity to serve the community and contribute to the public good.

For candidates from interstate and overseas, the opportunity to live and work in Victoria (and particularly in Melbourne, which is consistently rated one of the world's most liveable cities) is a key attraction factor, providing access to a high standard of living and a wide range of career, educational, cultural and recreational benefits for both executives and their families.

3.2.1 Mobility

The review undertook desktop research and analysis of the work histories of CEOs and their direct reports across all segments, focusing on immediate previous roles. This analysis examined the

⁴ A more comprehensive discussion of survey results can be found at Appendix 2.

mobility of these cohorts within and between agencies, industry segments, jurisdictions, and the public and private sectors.

The review found that a majority of CEOs and direct reports in public entities were recruited outside their current employer, but inside their current industry segment. Current inconsistent classification and remuneration frameworks may be hindering mobility between industry segments, as well as between public entities and the Victorian Public Service.

As **Figure 7a** shows, external recruitment of senior executives is less prevalent in segments where a higher proportion of roles require specialist skills and experience (such as finance and insurance, water and land management, and emergency services). Out-of-segment recruitment is not especially common outside the transport, construction and infrastructure segment, but rates are particularly low in the public healthcare segment (see **Figure 7b**).

Figure 7a: proportion of CEOs and direct reports whose previous role was outside their current organisation

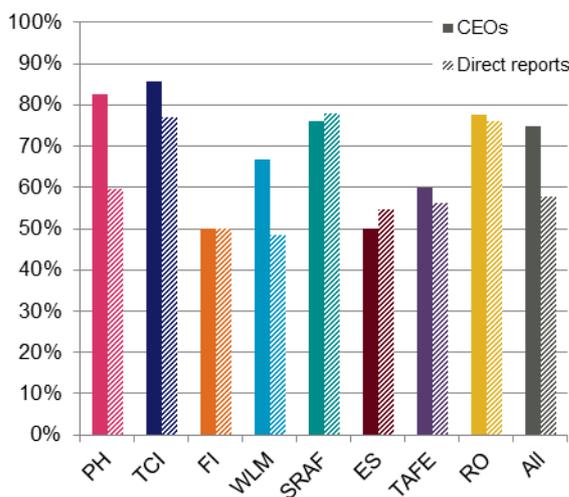
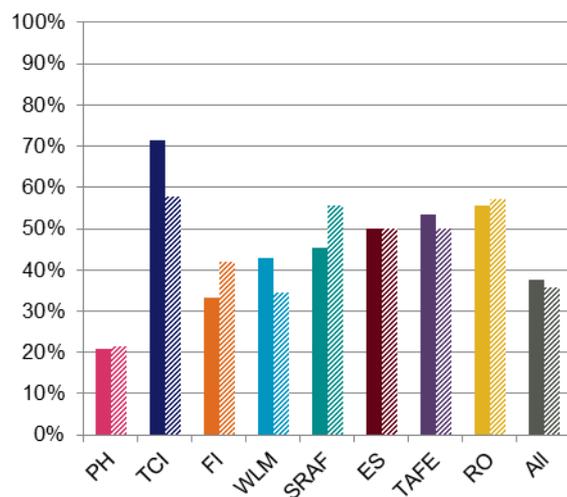


Figure 7b: proportion of CEOs and direct reports whose previous role was outside their current industry segment



Survey responses and analysis of remuneration proposals provided to GSERP do not suggest that there are significant time delays in filling senior executive roles. However, the review heard that employers are not always able to secure the highest calibre candidates where these are drawn from the private sector or from outside Victoria. Nevertheless, Victorian public entities have secured non-public sector candidates for approximately 25% of CEO and direct report roles (see **Figure 8a**) and out-of-state candidates for 20% of CEO roles and 10% of direct report roles (see **Figure 8b**). The transport, construction and infrastructure segment and the sport, arts, recreation and facilities management segment are particularly successful in attracting candidates with these backgrounds.

The review notes that some reduction in overseas hiring is expected in light of the Australian Government’s decision to abolish the 457 visa for temporary skilled migration, which took effect in 2017. The visa has been replaced with two new temporary visas; a two-year visa, and a more specialised four-year visa that targets higher skilled professionals.⁵

⁵ Australian Government Department of Home Affairs, 2018. *Abolition and replacement of the 457 visa – Government reforms to employer sponsored skilled migration visas*. Available at: <https://www.homeaffairs.gov.au/trav/work/457-abolition-replacement> [Accessed 16 March 2018].

Figure 8a: proportion of CEOs and direct reports whose previous role was outside the public sector (all jurisdictions)

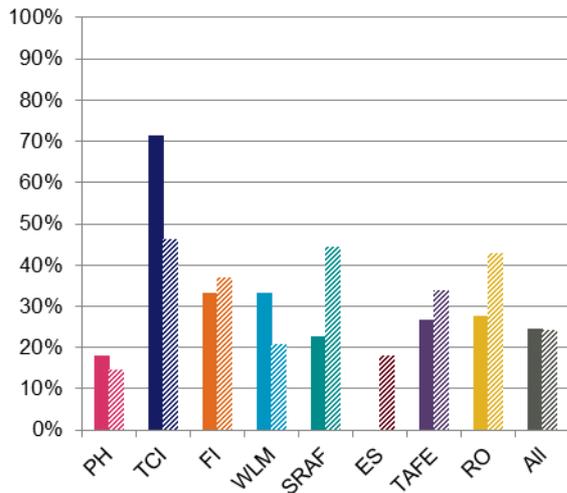


Figure 8b: proportion of CEOs and direct reports whose previous role was outside Victoria

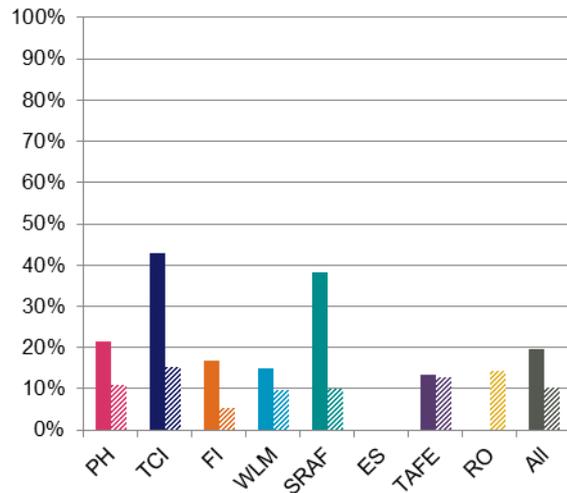


Figure 9a shows how, when considered over entire careers, approximately three quarters of current CEOs and direct reports were found to have past experience in the Victorian public sector, and many had returned to it from other industries or jurisdictions. This suggests that there is an enduring attractiveness to Victoria’s public sector that cannot be explained solely by remuneration.

As shown in **Figure 9b**, Victoria’s public entity CEOs and direct reports also have significant levels (33% and 49% respectively) of past private sector experience. Somewhat lower levels of past public sector experience (and correspondingly high levels of private sector experience) in the sport, recreation, arts and facilities management segment, and in the transport, construction and infrastructure segment may reflect limited public sector opportunities in these sectors at the highest executive levels (for example, there is only one Zoos Victoria) as well as demand for highly specialised skills in an international market.

Figure 9a: proportion of CEOs and direct reports with any past experience in the Victorian public sector

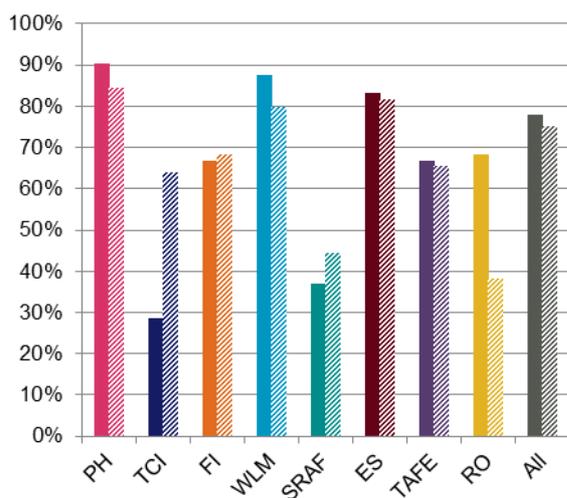
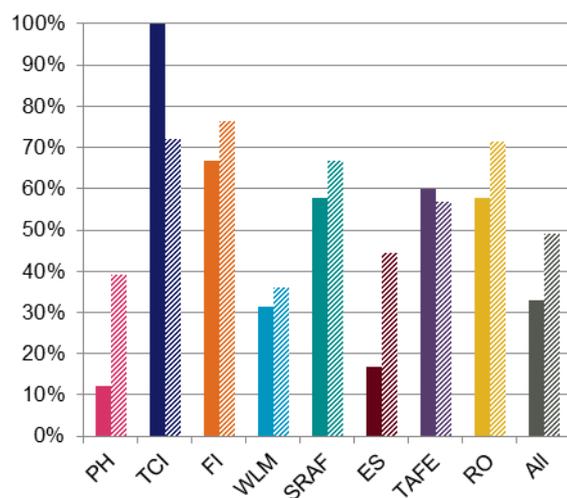


Figure 9b: proportion of CEOs and direct reports with any past experience in the private sector



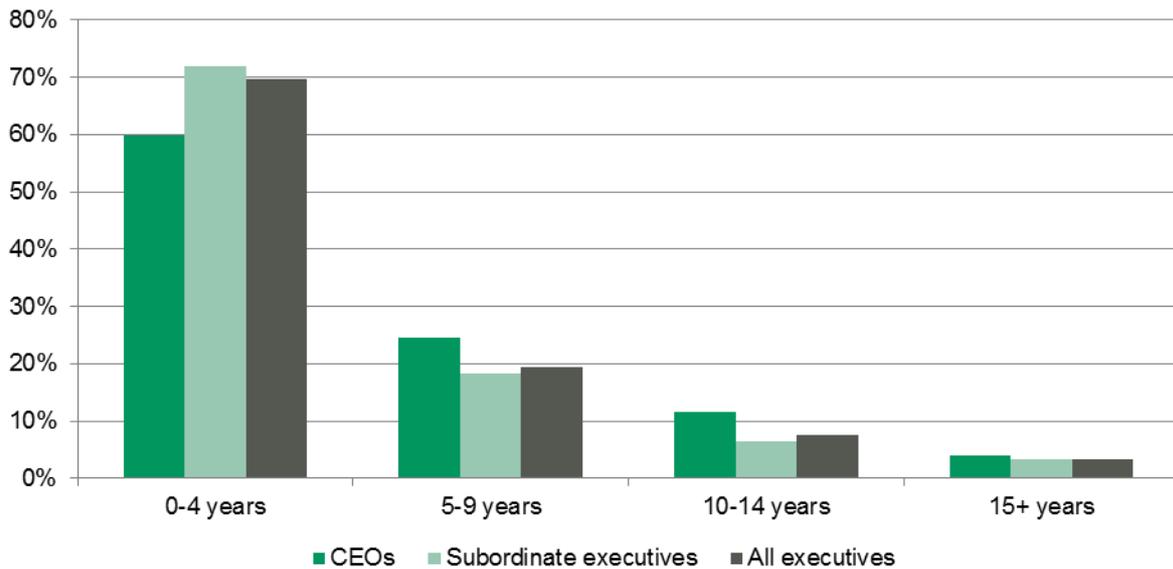
The review heard diverse views in consultations on the merits of public versus private sector expertise, local versus out-of-state, and the necessity of hiring executives with skills or experience in a relevant industry. While it is a relative strength to understand a sector well, acquiring the majority of executives from within a particular industry may be inadvertently limiting the talent pool, particularly

given that the skills required in many executive roles (such as HR, finance, project management, and ICT) should be readily transferrable.

3.2.2 Length of service and turnover

The majority (70%) of the current executive cohort have been with their current employer for less than five years (typically one contract term). Amongst CEOs, longer service periods were more common, though (as **Figure 10** shows) a majority of CEOs (60%) had less than five years' service.

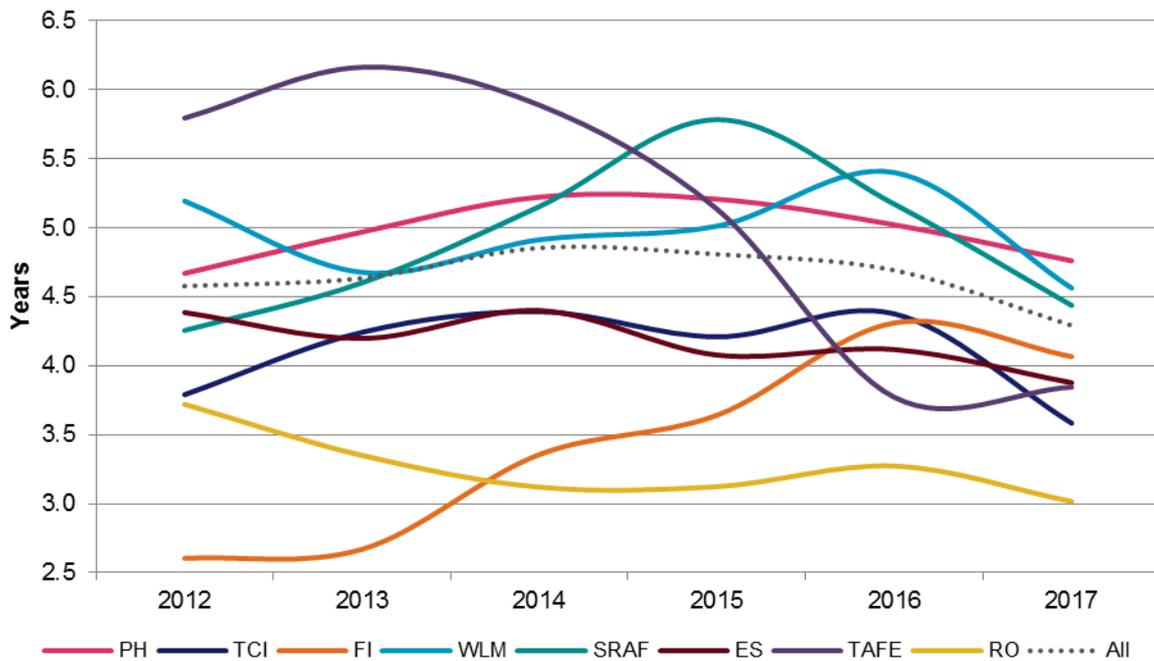
Figure 10: Length of service as executive in current organisation, June 2017



At June 2017, the average length of service for public entity executives was 4.2 years, down slightly from 4.6 years at June 2012. Part of this change may be explained by improvements in data quality over this period. This level of stability over time indicates that public entities are generally able to attract a replacement level of recruits each year.

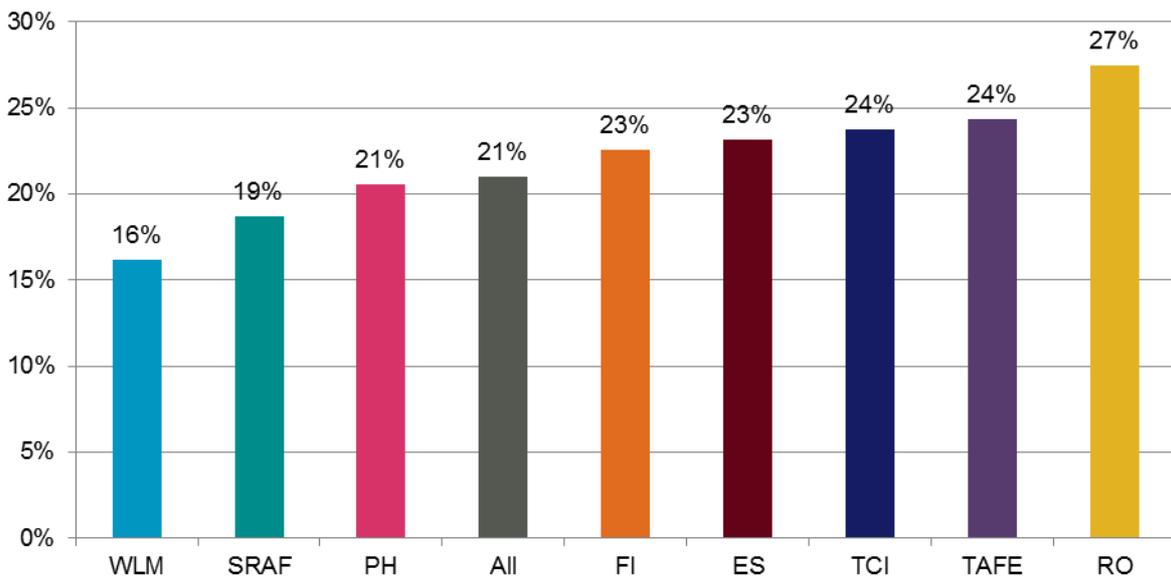
Variations in length of service between segments are generally modest. As **Figure 11** shows, only the regulators and other agencies segments is noticeably below average on this measure. This is driven in part by the review's decision to place several newly created public entities in this segment. Average length of service in the TAFE and other education segment has declined significantly over the past five years, while the finance and insurance segment has risen from the lowest in the sector to just below average over the same period. Decline in the transport, construction and infrastructure segment in 2016-17 likely reflects the impact of new executives recruited to deliver the government's major infrastructure agenda.

Figure 11: Average length of service by industry segment, all executives (2011-2012 to 2016-17)



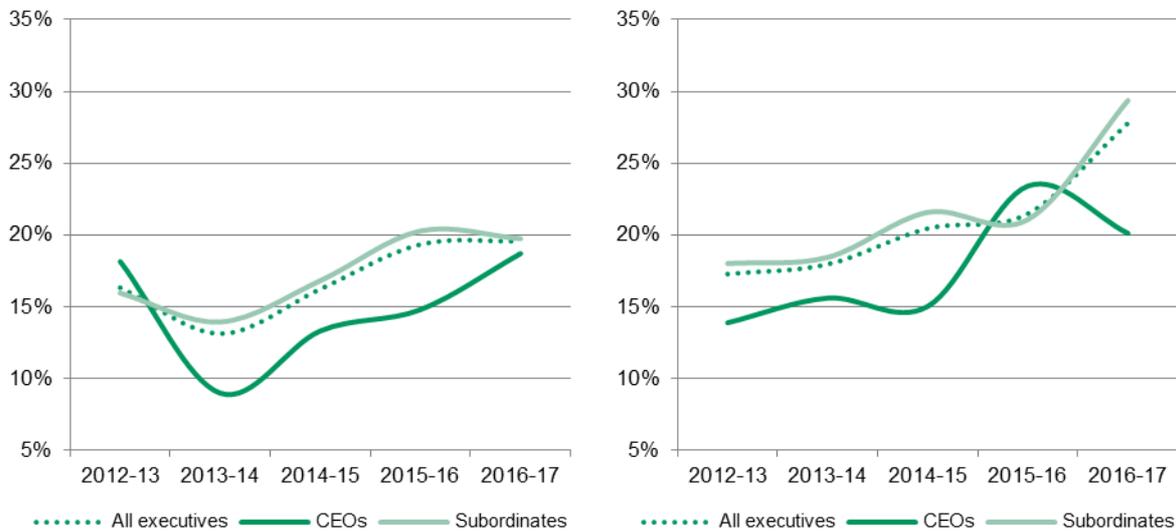
Over the last five years, executive annual separation rates averaged 21% in public entities. This is higher than in the VPS, where the five year average is 15%. As **Figure 12** shows, average separation rates are highest in the regulators and other agencies segment, and lowest in the water and land management segment. Separation rates are generally higher in those segments that have experienced significant change in the last five years, including machinery of government changes (such as in regulators and other agencies, TAFE and other education, and transport, construction and infrastructure), and major policy reforms (such as in TAFE and other education, and emergency services).

Figure 12: Five year average annual separation rates by industry segment (2012-13 to 2016-17)



Since 2012-13, both new starter rates and separation rates have increased for both CEOs and subordinate executives (see **Figure 13**), though separation rates have increased more rapidly.

Figure 13: New starter rate (left) and separation rate (right), all segments



3.2.3 Public sector structure

One barrier to attracting the highest calibre leaders, in particular from interstate and overseas, is the large number of small public entities in many portfolios and the resulting lack of comparable roles. Victoria has a long history of more devolved governance arrangements compared to other jurisdictions.

Under this model, agencies like public hospitals, water corporations and TAFE institutes are able to operate at arm's length from their responsible Minister when making day-to-day decisions. This independence can improve local involvement in decision making, increase responsiveness to the local community, encourage creative solutions to difficult problems, and instil greater public confidence (especially for integrity, regulatory or quasi-judicial functions).

However, devolution also presents risks to government. These can include:

- **fragmentation of approaches** – in the course of developing creative local solutions to executive employment and remuneration issues, independent agencies can diverge from one another, from government policy, or from public sector standards;
- **financial and employment risks** – diverse policies and practices and lack of a sector-wide perspective can result in agencies employing executives for excessive remuneration or on terms and conditions inconsistent with public sector standards; and
- **lack of adherence to whole of government policies and standards** – various factors (including authorising environment and the level of support provided by portfolio departments and central agencies) can contribute to lower awareness of relevant whole of government policies and standards. In the most serious cases, agencies can come to view their independent status as a mandate to avoid such requirements entirely.

Of particular relevance for this review, devolution also means many executive roles are relatively small, particularly when compared with other jurisdictions. This issue manifests in some way in almost every segment. For example, Victoria has:

- over 80 independent health services (while NSW and QLD have 17 and 16, respectively);
- 19 water corporations (while WA, SA and TAS operate single statewide water agencies); and

- 12 independent TAFE institutes (while NSW, QLD, SA and TAS operate single statewide TAFE agencies).

Smaller organisations are not always able to attract high calibre executives from other jurisdictions, where financial rewards are higher and the scope of a role is greater. Conversely, some organisations reported issues retaining executives (in particular CEOs) who were attracted to roles in other jurisdictions with equal or greater remuneration, but lower levels of responsibility.

Addressing this issue would require either an increase in the size of smaller public entities, or an increase in the use of shared service CEOs and other senior executives (a strategy already used by some small rural hospitals). Either option would increase the work value of roles, justifying higher remuneration and improving the capacity of the state to attract and retain high calibre executives. The number and scale of public entities is – other than by virtue of its impact on remuneration – outside the terms of reference set by the Premier, and therefore the review has not made a recommendation on this subject.

3.3 How executives should be defined

KEY FINDINGS: The current definition of a public entity executive is problematic in several areas: the minimum remuneration threshold, the flexibility with which CEOs can decide to move individuals into and out of scope, the lack of clarity regarding some categories of public office holders, and the use of contractors and consultants to avoid GSERP rules. In addition, there are some overlaps between executive arrangements and industrial agreements that present a risk to government, in particular in the public healthcare segment. These could be addressed in future industrial negotiations.

For GSERP purposes, an ‘executive’ is currently defined as:

- a CEO or equivalent role; and
- any person who has significant management responsibility, as determined by the CEO or equivalent role and receives a Total Remuneration Package (TRP) of \$159,501 or more.

The policy does not apply to technical specialists without a management function, or to those whose employment is regulated by an award or enterprise agreement.⁶

3.3.1 Remuneration threshold

The current remuneration threshold of \$159,501 was established in order to align with the base of the VPS executive officer (EO) remuneration band structure. Following the original review, the Premier agreed to lift the VPS EO minimum to provide for a clear distinction between the remuneration of executive and non-executive employees. As at 1 July 2017, the VPS EO minimum is \$178,500. Given these changes, there is no longer any policy reason to maintain the threshold of \$159,501.

3.3.2 Discretionary definition

Under current GSERP policy, public entity CEOs are permitted to define which employees they consider to have ‘significant management responsibility’. This has led to large disparities in reported executive numbers between like organisations (see **Figure 14**) and reduces both transparency to the public, and the capacity of government to monitor and control executive remuneration practices in public entities.

While substantial redefinitions to remove executives from the definition are not encouraged, they have occurred several times in recent years. Most notably, between 2015 and 2016 several Water

⁶ *Government Sector Executive Remuneration Panel (GSERP) Frequently Asked Questions*

Corporations adopted a new interpretation of 'significant management responsibility'. This process excluded 66 individuals, or 44% of the previous executive cohort, from the definition.

Figure 14: Ratio of reported executives to full time equivalent staff, selected large entities (June 2017)

Large health services		Large water corporations		Insurance and trustees		Large TAFE institutes	
Agency	Ratio	Agency	Ratio	Agency	Ratio	Agency	Ratio
Western Health	1:165	South East Water	1:24	Vic. Managed Insurance Auth.	1:13	Melbourne Polytechnic	1:35
Monash Health	1:222	City West Water	1:47	Transport Accident Comm.	1:16	Holmesglen Institute	1:48
Eastern Health	1:655	Yarra Valley Water	1:57	Vic. WorkCover Authority	1:18	Chisholm Institute	1:55
Austin Health	1:687	Melbourne Water	1:86	State Trustees	1:91	Box Hill Institute	1:64
Alfred Health	1:775	Goulburn Murray Rural Water	1:105			Bendigo Kangan Institute	1:160
Melbourne Health	1:951						

3.3.3 Statutory office holders

The current definition lacks clarity with respect to statutory office holders in public entities (such as Governor-in-Council appointments). This group are not considered public entity executives because they are not employees, although some perform duties equivalent to the CEO of a public entity.⁷ Many statutory office holders in public entities are employed under the public service executive officer employment arrangements set out in the PAA.

Currently, DPC and the relevant portfolio departments are jointly responsible for managing the appointment and remuneration of statutory office holders in both public entities and the public service. The Bill currently before Parliament does not give the VIRT the power to make determinations with respect to statutory office holders.

Statutory officers were out of scope for the industry segment reviews, but the review identified several instances where CEOs who are statutory office holders are employed under public service arrangements, while their subordinates are subject to GSERP arrangements (or vice versa). The review found that the current division of responsibilities and employment arrangements is inadequate, gives rise to confusion, and prevents adequate benchmarking across the public sector.

DPC should carefully consider the need for separate arrangements for statutory officers. Two statutory offices in the DELWP portfolio⁸ were recently converted to conventional executive employment arrangements, and further legislative amendments may be desirable. The review understands that, given legislative requirements, the proposed VIRT will play an advisory rather than a determinative role in setting the remuneration of statutory officers.

3.3.4 Contractors and consultants

The review heard that an unknown number of highly remunerated contractors and consultants are currently engaged by public entities to perform executive-like duties. Although these individuals may be paid considerable sums of public money, they are not centrally reported or monitored, because they fall outside the definition of a public entity executive.

⁷ Examples of statutory office holders in public entities include the CEOs of the Roads Corporation (VicRoads), the Public Transport Development Authority (Public Transport Victoria), the Victorian Health Promotion Foundation (VicHealth), and the Victorian WorkCover Authority (WorkSafe Victoria), as well as the Director of Energy Safety, Energy Safe Victoria.

⁸ The Director, Royal Botanic Gardens and the CEO, Zoological Parks and Gardens Board.

Consultations with public entity Chairs and CEOs indicated that some of these highly remunerated individuals are engaged as contractors and consultants in order to avoid GSERP reporting and bypass government remuneration policy. In the absence of central reporting, the review was unable to determine the total number of highly remunerated contractors and consultants, nor estimate the prevalence of deliberate non-compliance.

It is likely that most contractors and consultants are engaged through proper procurement processes and for legitimate business reasons. The review considered the merits of including contractors and consultants in the definition of a public entity executive, but found that this would have undesirable negative impacts, including generating significant administrative burden for agencies. Instead, government remuneration policy should make clear that use of contractors or consultants to avoid proper process or scrutiny is not permitted. The government may wish to consider future opportunities to assess compliance with this standard.

3.3.5 Intersection with awards and enterprise agreements

There are some overlaps between public entity executives and staff employed on awards and enterprise agreements, most notably in the public healthcare segment. Senior executives in clinical positions (such as Clinical Directors and Directors of Nursing) may be employed on a GSERP contract, but are also covered by the relevant industrial agreement, with the most favourable conditions prevailing in the event of any conflicting terms.

It is less clear whether or not healthcare executives in corporate roles (such as CEOs, CFOs and HR directors) have similar access to more favourable terms and conditions, as the relevant enterprise agreement contains clauses that appear to exclude those on GSERP contracts. This potential overlap is as yet untested at the Fair Work Commission.

These arrangements restrict the extent to which Government can standardise executive contracts across the public sector (see **section 3.6**). Similarly, they may restrict the capacity to address any governance risks associated with long executive tenure through mechanisms such as market testing at contract end dates.

Ideally, these two employee groups should be mutually exclusive. In any future industrial negotiations, Government should endeavour to remove any doubt about which employees are executives, and which are covered by awards and enterprise agreements.

3.4 Remuneration levels

KEY FINDINGS: Three quarters of public entity executives are currently remunerated within the limits of the VPS executive remuneration range, and most of those outside this range are in all likelihood remunerated appropriately for their work value. Remuneration growth among public entity executives has been higher than public and private sector benchmark rates in recent years, though average remuneration levels are comparable to those on offer in similar Australian jurisdictions. The current percentage-based rules for subordinate executives are arbitrary and have not significantly curtailed wage growth for this cohort compared to CEOs. Boards and CEOs need greater support and access to benchmark data if they are to take responsibility and accountability for appropriately remunerating their executive workforces.

The review found that remuneration offerings within the VPS executive remuneration range (\$178,500 to \$439,332) are generally adequate to attract high calibre executives to the sector. There remains a genuine need for remuneration outside this range in a limited range of roles, and access to such remuneration should be retained with appropriate checks and balances. 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.

In 2016-17, the mean average executive remuneration of all public entity executives was \$224,531 and the median remuneration was \$207,000. The highest reported TRP was \$575,000, and the lowest reported TRP was \$128,464.⁹

Currently, 12 roles in public entities attract remuneration above the VPS maximum: 10 CEO roles and two subordinate executives. In most cases, these roles are of strategic importance to the success of Victoria and its government, or require certain highly specialised skill sets where the market for suitable candidates is exceedingly competitive. However, there were a few instances where the review could not see a clear justification for remuneration at this level.

A significantly larger number of roles (272) are currently remunerated below the VPS minimum. Approximately three quarters of these are lower-level subordinate executive roles in larger public entities. Of the remaining one quarter, 32 are CEO roles in public entities with fewer than 100 employees (FTE) and the rest are subordinate executive roles in small public entities. The existence of CEO roles remunerated at this low level is largely a factor of the large number of small public entities in Victoria, where limited functions and responsibilities drive relatively low work value.

Most executives receiving remuneration below the VPS minimum are likely being remunerated appropriately for their work value. However, there are some cases where comparison between public entities reveals TRPs that are clearly inequitable by any measure of the relative risk, complexity or significance to Victoria, especially when roles are compared across segments. Particular examples of roles that may be relatively underpaid include the CEOs of small rural hospitals, and to a lesser extent, subordinate executive roles in mid-size TAFE institutes. Along with the regulatory limitations discussed at length in this report, these smaller entities may be additionally constrained by their limited budgetary capacity and an understandable preference to prioritise spending on additional service delivery.

In these and other such roles, there is an elevated risk that agencies will be unable to retain the highest calibre executives. Five year average executive turnover in small rural hospitals currently stands at 28%, significantly exceeding the averages for the segment (21%) and for all public entities (21%). By increasing central oversight, introducing regular review of remuneration frameworks, and improving alignment between like executive roles in public entities and the VPS, it should be possible for Victoria to gradually reduce these kinds of remuneration disparities and mitigate these risks.

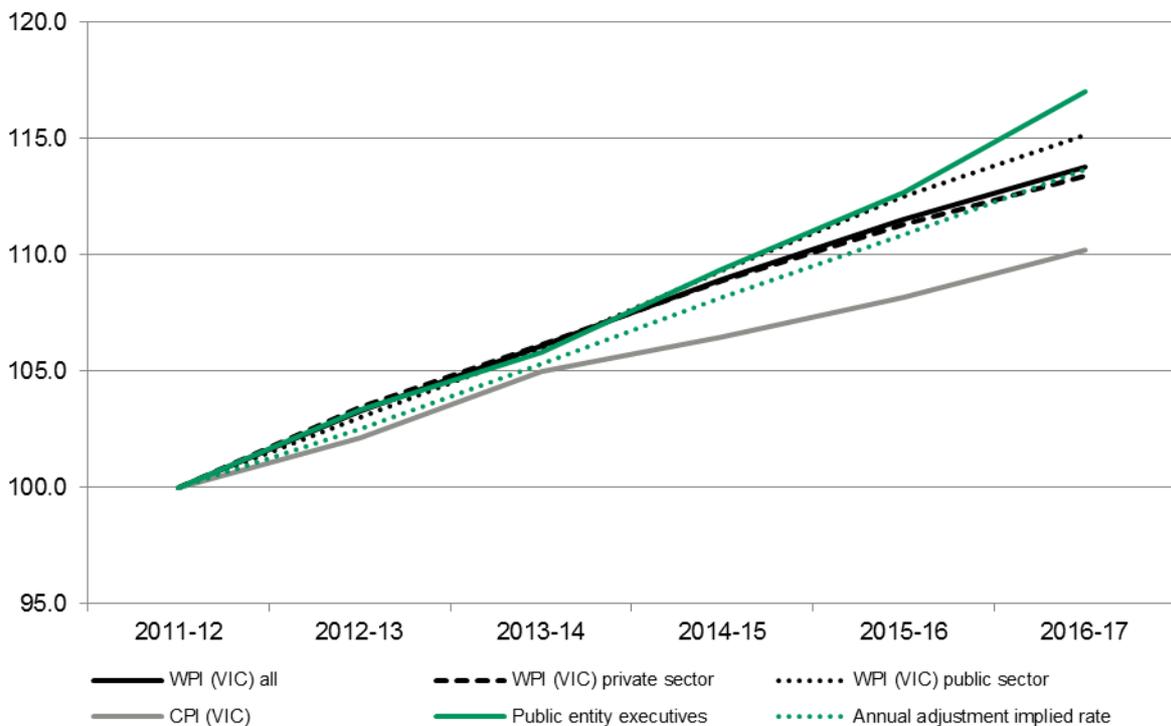
⁹ This role, like others with remuneration lower than the GSERP threshold of \$156,374, is considered an 'executive' role by virtue of its status as the CEO of a public entity.

3.4.1 Remuneration growth

The review sought and analysed data from the Australian Bureau of Statistics and other public sector commissions, to compare Victorian public sector wage levels and growth to other jurisdictions. This analysis found that public entity executive remuneration growth has somewhat exceeded accepted benchmark rates.

Based on the staff and remuneration reported in the data collection, average remuneration of public entity executives increased 17.1% between June 2012 and June 2017. This is slightly less than the 18.1% increase in reported remuneration for all public entity staff over this period.¹⁰ As shown in **Figure 17**, growth has exceeded state Wage Price Index (WPI) growth of 13.8%, and state Consumer Price Index (CPI) growth of 10.2%. Growth has also outstripped government executive wages policy, with annual adjustments growing at only 13.7% in the same period.

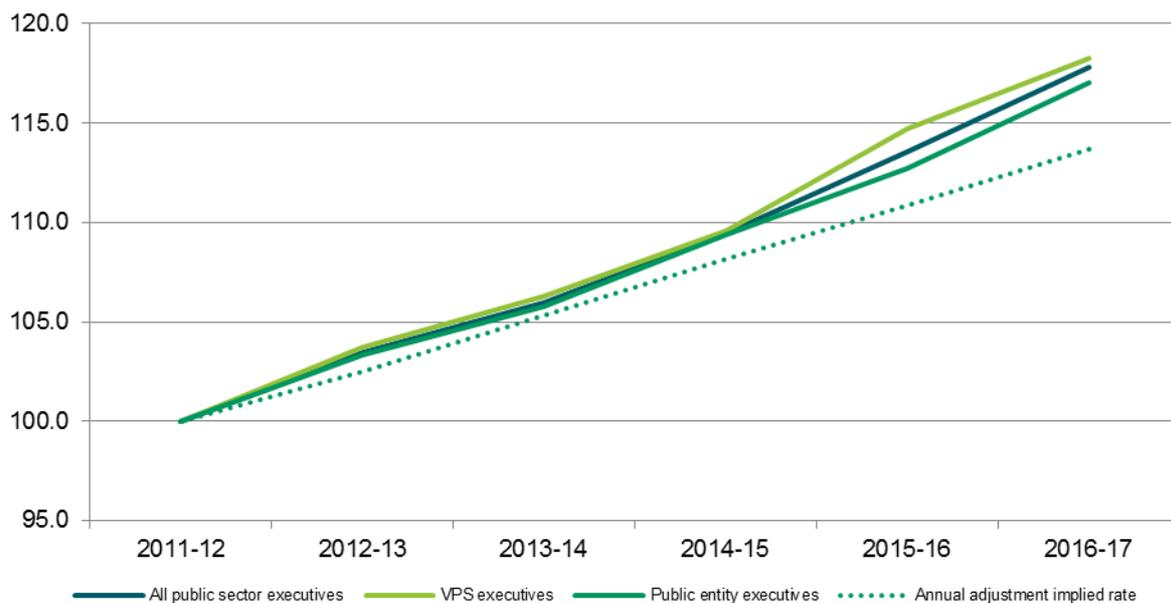
Figure 17: Comparison of five-year growth in public entity executive average TRP to WPI and CPI (Victoria), and the rate of annual Premier's adjustments (indexed to 100 at June 2012)



Public entity executive wages have grown at a rate slightly below those of Victorian Public Service executives (18.2%), after accounting for the impact of the one-off 4% bonus buyout in 2016-17. This suggests that GSERP has been similarly effective to the band-based structure in curtailing excessive remuneration growth. **Figure 18** shows the rate of growth in executive remuneration in the VPS and public entity executive cohorts, adjusted for the VPS bonus buyout in 2016-17.

¹⁰ Between 2012 and 2017 a number of organisations revised who they categorise as an executive, which has reduced the number of lower paid executives in the data set. The quality of reporting of remuneration rates has also improved since 2012. These changes may affect the reported increase in average remuneration.

Figure 18: Comparison of five-year growth in VPS executive and public entity executive TRPs (indexed to 100 at June 2012)



Data provided by other Australian jurisdictions suggests that Victoria's public entity executive TRPs are competitive with other states. The growth rate of executive remuneration over three years has also been comparable with other states.

3.4.2 Percentage rules

The GSERP percentage rules were designed as a way to constrain subordinate executive remuneration and maintain relativities between CEOs and their subordinates. The review found that the rules are arbitrary and administratively burdensome, prevent agencies from restructuring their executive workforce, and serve as a barrier to attraction and retention. The vast majority of Chairs and CEOs consulted for the review had a negative view of these rules.

GSERP policy requires that agencies seek GSERP's endorsement for subordinate executive remuneration packages where:

- the remuneration proposed for an individual executive exceeds 80% of the TRP set by GSERP for the CEO (the 80% rule); and/or
- the average TRP of all the CEO's direct reports will exceed 70% of the CEO's TRP (the 70% rule).

In the public healthcare segment, the percentage rules operate somewhat differently, reflecting the higher average remuneration of healthcare specialists. Under the VPHSERP policy that governs most of the public healthcare segment, CEOs are organised into bands with three remuneration points 'new/inexperienced' (the lowest), 'competent/experienced' (near to the mid-point) and 'proven/outstanding' (the maximum payable). VPHSERP percentage rules specify that:

- the remuneration of the Director of Clinical Services (or equivalent) should not exceed 95% of the maximum TRP for the relevant CEO band;
- an individual executive's remuneration (other than that of the Director of Clinical Services) should not exceed 80% of the relevant CEO band's 'competent/experienced' remuneration point; and
- the average TRP of all the CEO's direct reports (excluding the Director of Clinical Services) should not exceed 75% of the relevant CEO band's 'competent/experienced' remuneration point.

The percentage rules operate only in Victorian public entities, not in the VPS. Most jurisdictions seek to maintain relativities between CEOs and subordinates, but the review understands that only Victoria and one other jurisdiction require a specific percentage gap.

While Chairs and CEOs consulted acknowledged the merits of restraining subordinate executive wages and preventing 'gaming' of CEO remuneration limits (for example, through the appointment of a very highly paid Deputy CEO), they expressed frustration at the rules' arbitrary nature. Some CEOs indicated that they were comfortable having subordinates who were paid as much as or more than themselves if there was a sound business reason. This was seen as relatively normal practice in industry segments with highly paid specialists, such as public healthcare or finance and insurance.

The review found a significant level of confusion about the processes for requesting an exemption, or where agencies had applied, dissatisfaction with the process. Chairs and CEOs indicated in consultations that having to apply for an exemption was a significant disincentive to taking action on subordinate executive remuneration.

The review also found that the percentage rules give rise to a number of unintended consequences, some of which are outlined in the case studies below.

Case study: issues with the percentage rules

The Chair of an agency was succession planning for a CEO's retirement (the incumbent was planning to leave in the next 12 months). The agency was in the market for a Chief Operating Officer of high calibre, who would grow in the job to be a viable candidate for the CEO position when it became vacant. The agency's board considered that the administrative burden of applying to GSERP for permission to offer remuneration higher than 80% of the current CEO's TRP was too high. As a result, the organisation could not attract its preferred candidate (however, it was still able to fill the position).

An agency appointed a new CEO on a significantly lower TRP than the predecessor. The CEO position had four subordinate executives, who with the new appointee suddenly found themselves in breach of both the 70% and 80% rules. The agency approached GSERP to report this technical breach and were granted an exemption.

An agency approached GSERP with a request to increase their CEO's TRP in order to be able to offer their subordinate executives pay increases within the 70/80% rules. As a principle, GSERP does not increase a CEO's remuneration in order to achieve compliance with percentage rules.

An agency with a relatively low-paid CEO and relatively highly-paid non-executive staff found that it could only pay its subordinate executives within a narrow range of a few thousand dollars without either breaching the 70% rule, or paying executives less than their direct reports.

An alternative to the percentage rules would be to base remuneration on work value assessments. The review found examples of these types of assessments in every segment, where private consultancies would assess roles to support GSERP submissions. However, these work value assessments were of variable quality, applied a range of methodologies, and often failed to consider the broader public sector context. It would be preferable to base work value assessments in the public sector on a common classification framework. This would improve consistency, ensure relevant benchmarks are applied, and save on consultancy costs.

3.5 Classification and remuneration frameworks

KEY FINDINGS: The review found that classification of executives varies significantly across the industry segments. GSERP has set band structures for CEOs in some segments and sub-segments (public healthcare, finance and insurance, water corporations, and TAFE institutes) but elsewhere, remuneration is determined on a case-by-case basis. There are no segment- or sector-wide band structures for subordinate executives. This has led to inconsistencies and inequities in remuneration outcomes both within and across segments.

Public entity executive remuneration (excluding bonus payments) cost government approximately \$257 million in 2016-17. At this level of public expenditure, it is essential to ensure that executives are classified and remunerated at a level commensurate with the work value of their role.

Under current governance arrangements (see **section 3.1**), most executive remuneration decisions are made by employers, and do not require a submission to GSERP. These include remuneration decisions for almost all subordinate executives, and for CEOs who are paid below the mid-point of the relevant band (where applicable). The review found that the use of a submissions process is fundamentally sound, but that both employers and decision-makers would benefit from a more rigorous framework that allows for benchmarking across the public sector.

It is common practice for public entity boards, which can have a limited perspective on wider public sector executive remuneration trends, to approach GSERP or DHHS out-of-cycle to argue for larger than normal pay increases. This is generally done either to attract or retain a CEO that the board considers an outstanding candidate or performer. This puts upward pressure on executive remuneration within that industry segment, as peer agencies call for matching increases, and can have similar flow on effects across the broader public sector. This effect has been observed even where remuneration increases are rumoured, but not approved, and gives rise to perceptions of inequity and inconsistent application of the rules.

Drawing on the experience of other jurisdictions, the review found that there is much to be gained by moving all public entity executives into a common remuneration band framework aligned to arrangements in the VPS.

3.5.1 Segments with remuneration bands for CEOs

Four of the eight industry segments under review (public healthcare, finance and insurance, water and land management, and TAFE and other education) operate under individual classification and remuneration band frameworks for CEOs (or equivalent roles). These banding frameworks are intended to ensure that larger or more complex public entities are able to offer higher CEO remuneration than their smaller or less complex peers, and are based on various indicators of organisation size and complexity.

The review found very little difference in median remuneration growth between the four industry segments that currently operate under individual CEO remuneration band frameworks and the remaining industry segments that operate without such bands. In theory, band frameworks for CEOs can assist in benchmarking CEO roles within industry segment or sub-segment, and maintaining appropriate relativities.

However, the review found that existing band frameworks are arbitrary, outdated, often overlapping, and a cause of confusion and frustration for Chairs and CEOs. There is widespread dissatisfaction about the current allocations of agencies to bands, and considerable disagreement within each segment about which agencies belong in the same band. Many indicators are overly simplistic and fail to adequately account for the complexity and work value of CEO roles, especially as this may shift through the life-cycle of an organisation. Adding to these frustrations, there is limited information about

the origins of some band structures, and no regular, formal review to ensure they are still relevant and appropriate.

There is a long history of agencies placing pressure on Ministers, portfolio departments and GSERP seeking reallocation to a higher band, increases to the maximum permissible remuneration for each band, or exemptions from band structures altogether. In some segments there is evidence of agencies routinely seeking to work around the bands, or even ignoring them altogether.

Some of the issues with band structures are explored in the case studies below.

Case study: remuneration bands

In the healthcare segment, health services routinely lobby DHHS to be reclassified to a higher band. At times, this has been successful and justified. However, as individual organisations have been reclassified without a whole band-system review, it has undermined the band framework as a whole. For example, two health services have been classified as Group 3, Cluster 2 hospitals, even though one has approximately triple the financial turnover, assets and staff. The current overlapping bands also constrain inter-agency mobility, particularly between Group 2 and Group 3 metropolitan health services, and (combined with the impact of percentage rules) reduce or remove remuneration incentives for executives to pursue lateral moves into health services of a lower classification.

In the water and land segment, the lack of regular, whole-system review of remuneration bands has created an impression amongst water corporations in particular that the bands are outdated, organisations are incorrectly classified, and therefore that water executives are generally underpaid. Several water corporations have sought to move into higher bands, or have taken steps to increase remuneration outside GSERP processes by adjusting bonus opportunities. The emphasis on the position of an organisation in the remuneration band structure has led to an excessive focus by water corporations on their relative position, and on seeking avenues to pay above the authorised band.

3.5.2 Segments without remuneration bands

Four of the eight industry segments operate without remuneration bands, and CEO remuneration is set directly by GSERP on a case-by-case basis.

The VPS executive band structure is relatively well-known in the public sector. Some agencies told the review that they align their remuneration to a greater or lesser extent with the VPS bands, or expressed a desire to do so. This was particularly the case where groups of related agencies are divided between VPS-like employment arrangements and public entity arrangements (such as the transport, construction and infrastructure segment, the emergency services segment, and the creative industries sub-segment). Examples of this kind of division are set out in **Figure 23**.

Figure 23: Division of executive remuneration arrangements within groups of related agencies

	Executives employed under VPS arrangements	Executives employed under public entity arrangements
Transport	Level Crossing Removal Authority Melbourne Metro Rail Authority North East Link Authority Taxi Services Commission Transport for Victoria (part of DEDJTR) VicRoads (Declared Authority) Western Distributor Authority	Port of Hastings Development Authority Public Transport Development Authority V/Line Corporation Victorian Ports Corporation (Melbourne) Victorian Rail Track Corporation Victorian Regional Channels Authority
Police and emergency services	Emergency Management Victoria (staff employed by Secretary, DJR) Forest Fire Management Victoria (DELWP business unit coordinating firefighters from DELWP, Melbourne Water, Parks Victoria, and VicForests) Victoria Police (unsworn staff only)	Ambulance Victoria Country Fire Authority Emergency Services Telecommunications Authority Metropolitan Fire and Emergency Services Board Victoria State Emergency Service
Creative industries	Australian Centre for the Moving Image Film Victoria Museum Victoria National Gallery of Victoria State Library of Victoria	Geelong Performing Arts Centre Trust Melbourne Recital Centre The Wheeler Centre Victorian Arts Centre Trust

Where no bands are provided, agencies must seek independent advice on appropriate remuneration levels for their CEO, and for larger agencies, appropriate remuneration structures for their subordinate executives. The review found that the advice obtained by agencies from consulting firms was inconsistent, lacked rigour, and not always of an acceptable quality.

As already noted above, even within segments and portfolios where bands do exist, not all agencies are aligned to a band structure. The review found that some of these agencies had a lower level of awareness and understanding of GSERP policy requirements than others in the same portfolio. Application of a universal and consistent band structure to all public entities would alleviate some of these issues.

3.6 The employment offer

KEY FINDINGS: The industry segment reviews did not find the same issues with the employment offer in public entities that the original review found in the VPS. Agencies showed little appetite to offer contracts longer than five years, or to increase termination at will provisions. The revisions to the standard VPS EO contract that are currently underway present an opportunity to update and clarify the mandatory elements of the GSERP contract, and to align it as closely as possible to the VPS EO contract. This would reduce duplication of effort, and facilitate executive mobility between the VPS and public entities.

In this section, the ‘employment offer’ includes the terms and conditions of employment contained in executive contracts – particularly the length of the contract and the termination provisions – as well as non-cash elements of the TRP. Along with remuneration and bonuses, the employment offer is an important factor in attracting and retaining high calibre executives in Victorian public entities.

When surveyed, Chairs and CEOs were indifferent towards the proposition to increase the termination at will provision to nine months in long-term contracts, and showed modest support for increasing the

at will termination provision from four to six months in short-term contracts. However, survey respondents generally disagreed with the proposition of allowing maximum contract lengths of more than five years. On all three questions, CEOs were somewhat more supportive of the proposed changes than Chairs.

3.6.1 Aligning the contract to VPS contract

The majority of public entity executives are using the template GSERP contract, with a small and shrinking proportion (14.6% at June 2017) using other common law contracts. Public entities are encouraged to use the standard GSERP contract, but this is not mandatory. However, contracts are required to comply with GSERP policy in certain areas:

- contracts cannot exceed five years in length;
- contracts must include standard termination provisions (including four month at will termination);
- compensation for termination, payout of unexpired portions of contract, and other redundancy provisions are not permitted;
- remuneration must be expressed in terms of TRP; and
- bonus provisions must align with GSERP policy (see **section 3.8** for further detail).

The industry segment reviews accessed and analysed a total of 807 executive contracts. While the reviews found that most contracts examined were in compliance with the GSERP provisions, there was some level of non-compliance in every segment. These included:

- employment of some senior leaders through common law contracts or letters of offer and under collective agreements (particularly in the healthcare segment);
- additional leave provisions beyond the standard four weeks, sometimes expressed as accrued days off, flexi leave or time in lieu;
- provisions for redundancies;
- provisions for additional benefits, including housing or rental costs, membership fees, and training allowances;
- reducing standard termination provisions from four months at will termination to four weeks, and extending the grounds for summary termination; and
- allowing accrued leave balances arising from periods of employment under an enterprise agreement (such as accrued sick leave) to be paid out at executive remuneration levels in the event of termination.

DPC is currently developing a revised standard contract for VPS EOs. It is therefore timely for the GSERP contract to be updated, including a reconsideration of the mandatory aspects of the contract. This update should incorporate the findings of the contract reviews in the individual industry segments, and there should be as much alignment as possible between the VPS and public entity contracts.

3.6.2 Contract length

Survey respondents generally disagreed with the proposition of allowing either open ended contracts, or contract lengths of more than five years. In general, CEOs were neutral on this issue while Chairs were more likely to disagree. The strongest levels of agreement was found in the finance and insurance segment, where at least one agency is already using open ended contracts despite GSERP policy. Support was also stronger in the transport, construction and infrastructure segment, where some Chairs and CEOs expressed concerns about the risks attendant on losing key executives part way through a major infrastructure project due to contract expiry.

There is a tendency across public entities to address underperformance by allowing contracts to expire. There are also specific complexities in certain segments, for example:

- In the PH segment, the overlap between EBAs and executive arrangements may restrict the capacity to address any governance risks associated with long executive tenure through mechanisms such as market testing.
- In the SRAF segment in particular, CEO term limits of three to five years are included in the establishing legislation for several agencies.
- In the WLM segment, DELWP is working with Water Corporations to use executive contract expiry as an opportunity to attract diverse and competitive talent pools.

These issues would make an increase in executive contract terms more complex to achieve in public entities compared to the VPS.

3.6.3 At will termination provisions

The current GSERP standard contract includes a provision that allows for at will termination with a payout limited to four months. The original review found that this provision was a barrier to attracting executives from other jurisdictions, and recommended that the at will provisions be extended to nine months.

The industry segment review survey found little support for this proposal in public entities. Survey respondents were neutral overall on increasing the at will provision to nine months for longer contracts, but were somewhat more supportive of six months at will in shorter contracts. CEOs showed significantly greater support than Chairs for both proposals.

In consultations, many Chairs and CEOs said that they found the four month at will termination clause useful, particularly when there was a bad cultural fit, or where an executive exhibited poor behaviour rather than poor performance. Most conceded that a six month termination at will provision would be fairer, and struck a balance between attracting candidates and providing flexibility for employers.

A very small number of Chairs and CEOs expressed a preference for a 12 month at will provision, based on experience in other sectors (such as local government and the private sector). This would be a significant change to government policy, amounting to a partial roll-back of the current ban on paying out unexpired portions of contracts. The review did not find significant support for such a change.

3.6.4 Other employment benefits

Executive remuneration packages generally consist of three elements: salary, superannuation, and other employment benefits (most commonly a motor vehicle). Under GSERP policy, other employment benefits (and any fringe benefits tax arising from them) form part of the reportable TRP of an executive. However, these other benefits are poorly reported in the GSERP survey, resulting in a lack of transparency for Government regarding the total cost of executive employment in the public sector.

The review found numerous instances of executives receiving other employment benefits across all industry segments. Some of these were included in contracts, while others were provided through side letters and other documentation, or indirectly by reference to the terms and conditions contained in awards and enterprise agreements. Reporting of these benefits to GSERP as part of TRPs was similarly inconsistent.

In general, agencies demonstrated variable understanding of other employment benefits, and their obligations when offering them. In particular, many contracts include 'employment benefits' that would be more appropriately treated as business expenses (for example, the provision of phones, computers, tablets, and vehicles for work purposes; or registration fees and continuing professional development for executives whose work requires them to maintain certification as legal, medical or accounting professionals). These inclusions blur the lines between work and personal expenses in an inappropriate way, and exacerbate confusion about such matters.

Some contracts include benefits that are reasonable in concept, but not in their value or duration. For example, there are varying practices and allowances for relocation expenses across the segments, with some contracts permitting reimbursement of expenses up to \$25,000. One agency offered contracts that included uncapped distance-based travel allowances, while another included uncapped after-hours care for dependents. In both cases, reimbursement of actual expenses would be more appropriate.

Other contract inclusions were just salary by another name, including long-term accommodation payments, loadings and allowances tied to core duties (which should be included in base remuneration), and additional annual leave allowances (which should be purchased from base remuneration). For example:

- Some agencies, particularly those in rural and regional areas, offer their executives accommodation or a 'living away from home' allowance as part of the contract. This practice came under scrutiny in the 2017 IBAC investigation 'Operation Liverpool' into Bendigo Health. The review identified one case where an executive's full rental expenses in a major regional centre were paid for by the employer for a period of three years via a side letter.
- In the emergency services segment, some operational executives receive cash loadings and allowances that are paid for the performance of normal duties and without having to meet any particular conditions.
- The review also found many instances of contracts that included additional annual leave above the standard four weeks. Under current arrangements, leave that is formally purchased from salary is reported as an additional benefit, while additional leave provided as standard goes unreported as either salary or benefits. This is particularly problematic when additional leave is, or could be, cashed out as a way of significantly increasing remuneration.

Inconsistency and lack of clarity around employment benefits exacerbate the integrity risks that can arise when recruiting public sector executives. These risks may be heightened when executives with little or no public sector experience are recruited to public entities without appropriate induction on public sector standards and accountabilities. The 2017 Victorian Ombudsman's investigation into Mt Buller and Mt Stirling Alpine Resort Management Board implicated senior officers in the misuse of public funds and public resources. The investigation made clear the CEO's belief that his personal use of public assets was enabled by the board to provide a remuneration 'top up' outside government policy. The Ombudsman's report highlighted the need for improved induction for public sector executives, to ensure public resources are used responsibly.

Standardising approaches to other employment benefits across the public sector would have significant benefits for government and employers, but would require ongoing support and monitoring to succeed. The review found that employers would benefit from more comprehensive documented support and advice on these matters. In addition, boards and executives may require better induction and ongoing education on public sector standards in order to manage employment-related governance and integrity risks.

3.7 Performance management

KEY FINDINGS: The sophistication and rigour of performance management varies between agencies. There is a tendency for employers to allow contracts to expire rather than manage underperformance. Public entities would benefit from clear central policy direction as to the minimum standards for good practice in performance management.

The review surveyed Chairs and CEOs on attitudes and systems of performance management in their agencies, and accessed and analysed 327 performance management documents.

The documentation seen by the review was of variable quality. The best plans expressed clear, specific, measurable goals that were within the executive's ability to achieve in the relevant timeframe; used formal rating scales and made clear how these scales linked to bonus payments (if available); showed evidence of having been regularly updated and discussed throughout the year; and had a strong focus on the cultural and behavioural aspects of performance.

Some agencies have procured elaborate electronic performance management systems to support business processes. While these systems may have administrative advantages, the review found there to be little correlation between the sophistication of the medium and the quality of the content.

In general, surveyed Chairs and CEOs across all eight segments considered that the existing performance management arrangements in their agencies were well understood by executives. They also agreed – although less strongly – that current performance management arrangements were effective in improving performance. Most told the review that their agency's arrangements include key aspects of successful performance management processes, including:

- formal performance policies and frameworks;
- individual development plans;
- formal annual or biannual performance reviews; and
- more frequent informal performance discussions.

However, only around half of survey respondents indicated that the performance schedule in the standard GSERP contract played a role in performance management. Many of the schedules seen by the review were blank, missing or out of date. Separating performance and bonuses from the contract in this way is risky for employers wishing to manage underperformance or exercise termination provisions, and may have contributed to the disconnect between bonus payments and executive performance in some agencies (see **section 3.8**).

Due to the sequencing of projects, the review was unable to extensively test the suitability of the draft VPS Performance Management Framework for adoption in public entities. However, it is clear that employers would benefit from clear, simple, principles based guidance from the VPSC and portfolio departments on the minimum standards required for good performance management processes.

3.8 Bonuses

KEY FINDINGS: The review found limited support for the removal of bonuses in most industry segments, although the evidence to suggest that bonuses drive higher performance in public entities is limited. In practice, bonuses are too commonly used as a remuneration 'top up' rather than a means of rewarding exceptional performance.

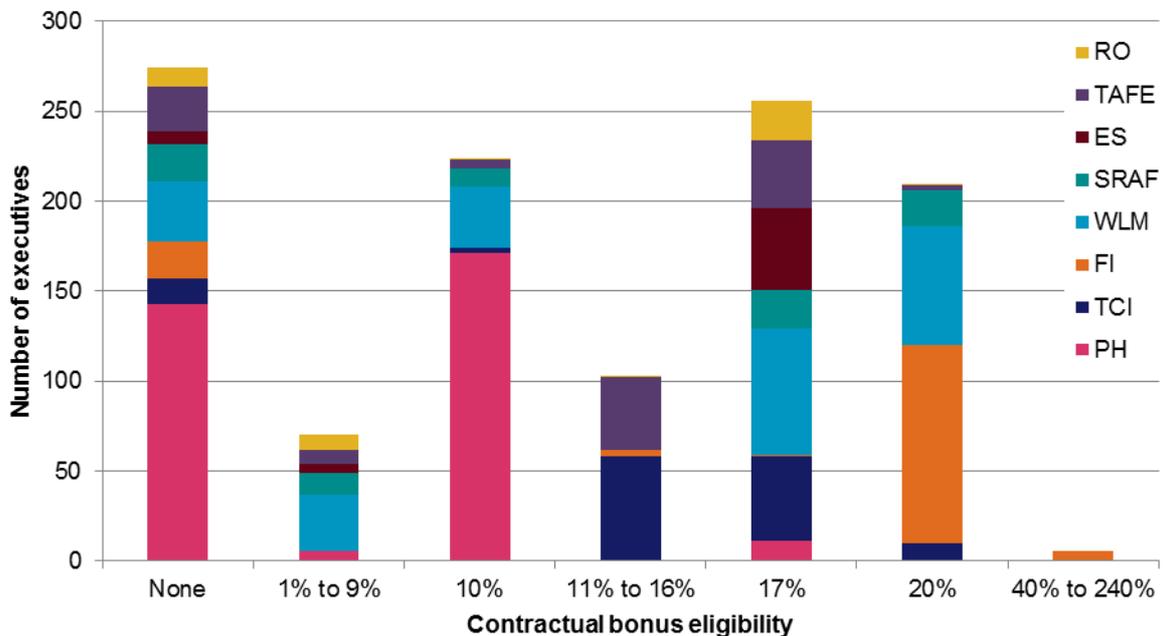
Bonus arrangements vary markedly across public entities, including in the availability and size of bonuses in executive contracts, the policy restrictions on bonus payments (or the absence of such restrictions), and the actual bonus outcomes for executives.

GSERP bonus policy indicates that the standard public entity executive bonus opportunity is either 17% or 20%. However, only 40% of all public entity executives were contractually eligible for one of these two amounts at June 2017. In the public healthcare segment, the standard maximum bonus opportunity is 10%, and the boards of some regional and rural hospitals have removed bonuses altogether. In the transport, construction and infrastructure segment, 15% bonus opportunities are relatively common, while the TAFE and other education segment makes considerable use of 12% bonus opportunities.

Significantly, 24% of public entity executives had no bonus opportunity in their contract at June 2017. This group has grown in recent years, and is now the largest in the sector. At the time of writing,

several public entities had elected to partially or completely buy out bonus opportunities, or have flagged an intention to do so. **Figure 24** shows the variation in contractual bonus eligibility across public entity segments.

Figure 24: number of executives contractually eligible for bonus, by reported percentage bonus eligible at June 2017, by industry segment



Other Australian jurisdictions have either abolished bonuses or make limited use of them. In the Australian Public Service, use of performance bonuses has declined significantly in recent years, from 30.5% of the Senior Executive Service workforce in 2011 to just 5.3% in 2016.¹¹ In most other Australian states and territories, there is generally no provision for executives to receive bonuses, except for those employed in some finance and insurance agencies. In the absence of bonus opportunities, some other jurisdictions use a framework of remuneration increases within a band to reward exceptional performance, and one jurisdiction uses other non-financial incentives such as professional development.

3.8.1 Bonus policy

GSERP and departmental policies place further restrictions on the awarding of bonuses. These restrictions can be tied to percentages or portfolio groupings.

In agencies where the maximum bonus opportunity for executives is 17%, GSERP policy requires that the total cost of bonuses across the agency should not exceed 6% of aggregate executive TRPs. Boards can approach their portfolio department Secretary if they wish to exceed this 6% average. However, agencies that retain a 20% bonus opportunity are not subject to the 6% average rule. The policy also states that bonuses should be paid only “when performance exceeds planned targets”.¹²

For public healthcare agencies with a maximum 10% bonus opportunity, VPHSERP policy requires an average expected bonus target of 5%, with “only truly exceptional performers” permitted to receive a bonus over 5%, and only in circumstances “when there has been consistent outstanding achievement with respect to challenging performance criteria”.

¹¹ Australian Public Service Commission, 2011 to 2016, *Remuneration reports* series, available from <http://www.apsc.gov.au/publications-and-media/current-publications/remuneration-surveys>

¹² These arrangements were designed to mirror those that existed in the VPS until the 2016 reforms to remove bonus opportunities from VPS contracts. The two common bonus limits (17% and 20%) are a legacy of a voluntary partial buy-out of (then-commonplace) 20% bonuses that commenced in 2005. Under this offer, executives could elect to exchange 3% of the bonus opportunity for a 3% remuneration increase.

For TAFE institutes, the *Ministerial Directions to TAFE institutes on the employment of staff* (2013) impose additional constraints on bonus practices, including that agencies are:

- required to notify the Minister in writing of bonus payments over more than 12%, and provide reasons for the payment;
- prohibited from making bonus payments if they fail to meet certain financial thresholds (such as maintaining an operating surplus, and maintaining a working capital ratio of greater than 1.0); and
- prohibited from exceeding a total bonus payments ‘budget’ equivalent to 6% of the aggregate of TRPs of all those executives assessed for a bonus without written approval from the Secretary, Department of Education and Training.

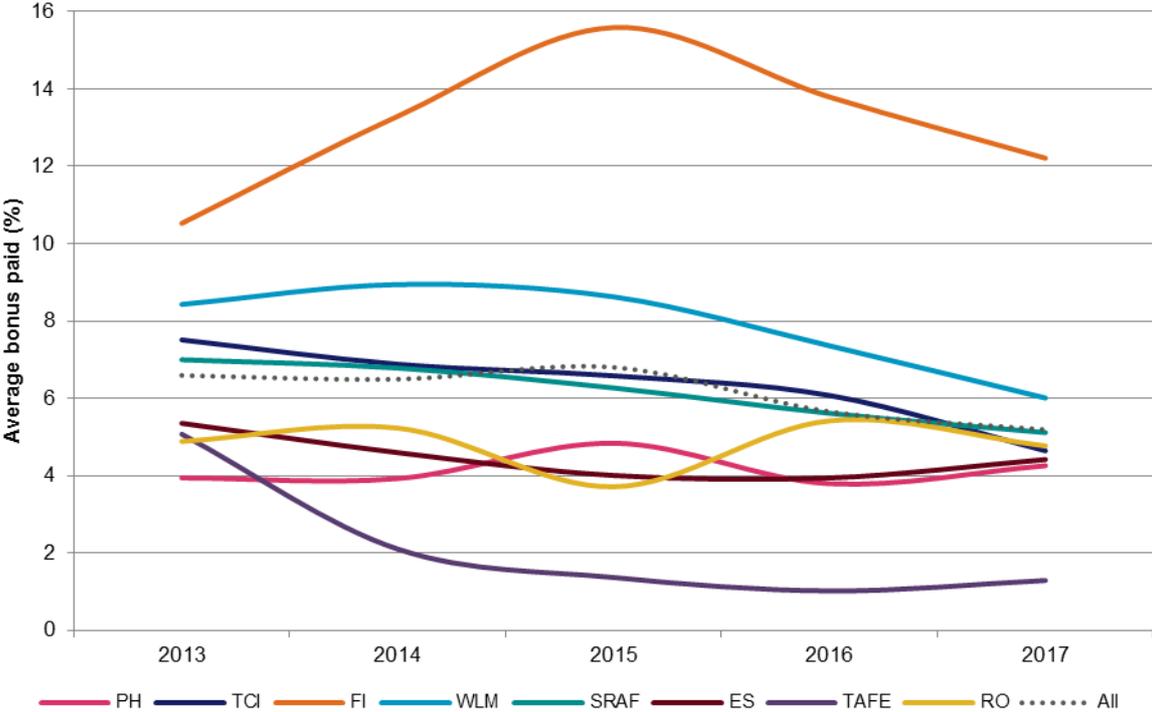
These more stringent requirements have led to more restrained bonus payments in the TAFE and other education segment than seen in some other segments, especially in recent years.

In practice, the bonus rules are not always well understood and departmental monitoring of compliance is variable. Consequently, a variety of practices have emerged, and agencies have not always understood or complied with all bonus requirements.

3.8.2 Bonus outcomes

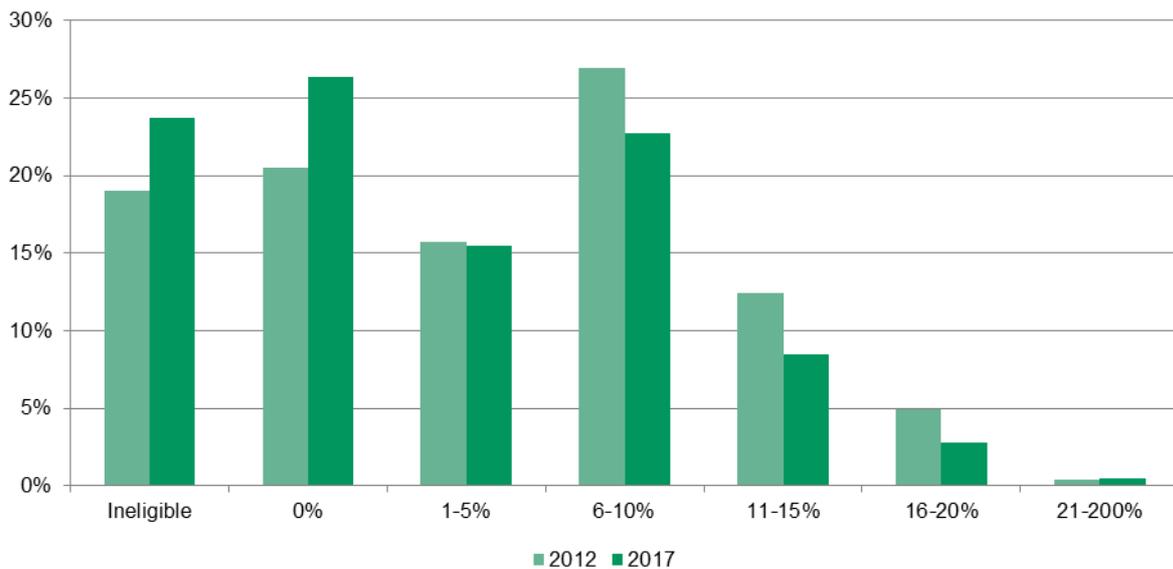
As shown in **Figure 25**, the average bonus outcome for an eligible public entity executive has declined over the last five years, from 7% in 2012-13 to 5.6% in 2016-17. Steeper declines in the TAFE and other education; transport, construction and infrastructure; and water and land management segments were only partially offset by an overall increase in the finance and insurance segment.

Figure 25: average bonus paid to eligible public entity executives, by segment and overall, 2013 to 2017



Over the past five years, the percentage of public entity executives who received no bonus payment – whether due to ineligibility or a decision of their employer – increased from 40% of the cohort to 50%. As **Figure 26** shows, bonus outcomes in all non-zero categories declined (apart from 21% to 200%, which was stable).

Figure 26: comparison of share of all public entity executives receiving a bonus outcome (including ineligible and zero), by percentage range, 2012 and 2017



Despite the overall decline in both eligibility for, and payment of bonuses, the review found evidence of a number of agencies where the entire executive workforce were awarded bonuses near to the maximum available amount every year. In other agencies, only the CEO received this annual maximum payment.

The practice of awarding bonuses near the maximum to the entire executive workforce effectively cuts the link between high performance and bonus payments and undermines public trust in the bonus system as a whole. In consultations, several Chairs and CEOs expressed a general unease with the idea of bonuses in the public sector. This was particularly the case in the public healthcare segment. Many stakeholders also pointed to the ‘headline’ bonus provision (usually 17%) as misleading for potential candidates given the policy requirement to average payments to 6%. The more commercially focused agencies questioned how high performance would be rewarded if not with bonuses.

3.8.3 Bonus removal

The majority of survey respondents disagreed that bonuses should be removed from the executive employment offering. CEOs were more likely to disagree than Chairs. Respondents in the finance and insurance segment were most likely to disagree, and respondents in the emergency services segment were most likely to agree that bonuses should be removed. However, consultations revealed greater support for the removal of bonuses if this was to be accompanied by an appropriate uplift in TRP.

Since 2005, the GSERP policy has contained a standing offer to agencies who wish to increase executive remuneration by 3% in exchange for reducing bonus opportunities from 20% to 17%. There has been significant take-up of this option in the past, but certain segments (in particular finance and insurance, and water and land management) have chosen to retain the higher figure.

In the VPS, bonus buy-outs were offered during 2017, with a 4% increase in TRP offered in exchange for removing bonus provisions. Given the various bonus practices in operation in public entities, it is unlikely that a flat 4% buy-out for all agencies would be an appropriate solution for public entities. The ‘next steps’ chapter discusses implementation issues in more detail.

4. RECOMMENDATIONS

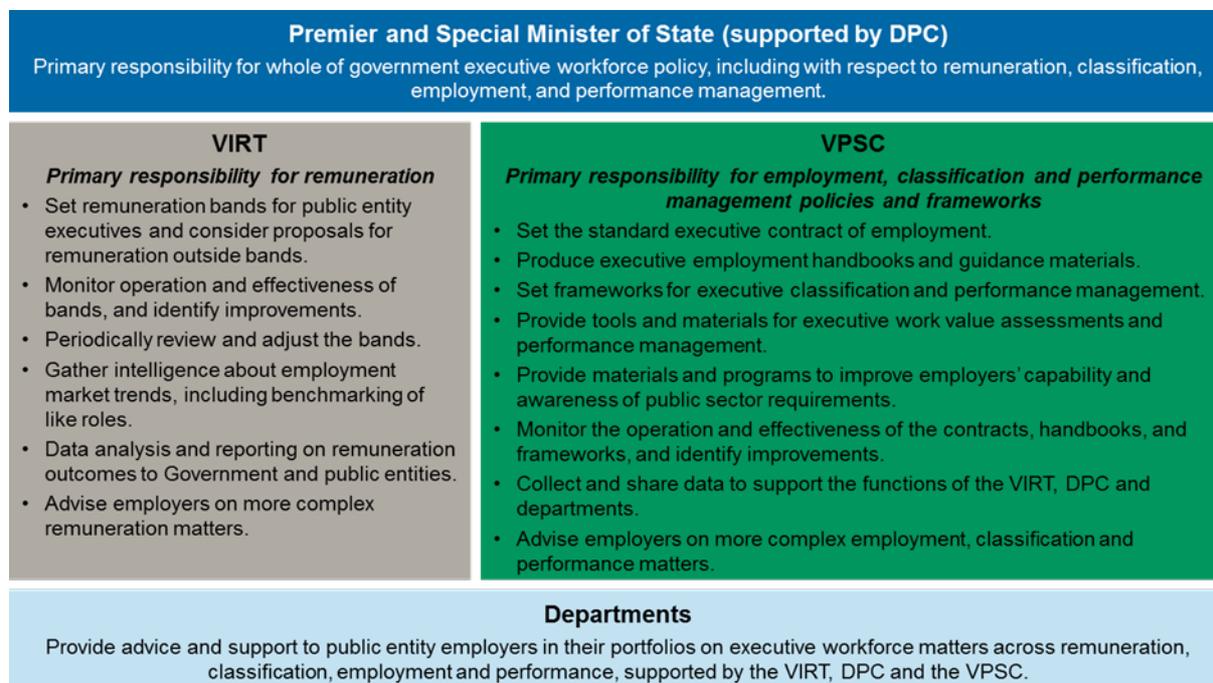
This chapter sets out the final recommendations of the ISR program. In the 18 months that the VPSC has undertaken individual ISR reviews, policy and practice in executive employment have evolved. The Government's introduction of the *Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Bill 2017* has required the review to make adjustments to its early recommendations. In developing final recommendations, the review has drawn on the learnings from the individual industry segments and considered the planned changes to governance arrangements. The final recommendations seek to achieve the greatest whole-of-sector benefits.

Governance and oversight recommendations

Governance of executive employment and remuneration in Victoria is currently distributed, inconsistent and confusing. Multiple decision-makers, gaps in oversight, and the lack of regular reviews of remuneration outcomes have contributed to inconsistencies and inequities in remuneration across the public sector. Both government and public entities require stronger and more centralised oversight to ensure that arrangements are clear, consistent, effective, efficient and transparent, that significant public funds are used appropriately, and that integrity risks are minimised.

At the time of writing, this oversight role is distributed between the VPSC, GSERP, DPC and portfolio departments, divided along administrative and portfolio lines. The establishment of the VIRT presents an opportunity to revisit and strengthen governance arrangements by breaking down these administrative silos and redistributing roles along functional lines. The review's recommended division of responsibilities and functions is at **Figure 28**.

Figure 28: recommended division of executive workforce governance responsibilities and functions



In this model, the Premier and the Special Minister of State (supported by DPC) should retain responsibility for setting whole of government executive workforce policy, encompassing remuneration, classification, terms and conditions of employment (including contracts), bonuses, and performance management.

Primary responsibility for each principal domain of executive workforce governance should be allocated to either the VIRT (for remuneration), or the VPSC (for employment, classification and

performance management). In each case, the responsible body would provide advice and support on more complex issues to employers and portfolio departments, as well as supporting one another where required.

Departmental Secretaries, in their capacity as portfolio heads under section 13A of the PAA, would continue to have primary responsibility for providing advice and support to public entity employers in their portfolios on less complex executive workforce matters across all four domains: remuneration, classification, employment and performance. In this, they should be supported by the VIRT or the VPSC as appropriate.

Recommendation 1 – That executive remuneration arrangements for the Victorian Public Service and public entities be strengthened and centralised in a single independent body: the Victorian Independent Remuneration Tribunal.

Recommendation 1 applies to all industry segments. A similar recommendation was made in all eight ISR reports.

Given its standing as an independent tribunal, and the specialised expertise required to perform its proposed statutory functions, it is clear to the review that the VIRT will be well positioned to take primary responsibility for remuneration governance. This role is largely set out in the *Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Bill 2017*, but should include:

- **setting remuneration bands** for public entity executives and considering any proposals for remuneration outside the bands;
- **ongoing monitoring** of the operations and effectiveness of remuneration bands, principally by analysing executive data to identify areas of risk or non-compliance, and identifying improvements; and
- **periodic review** of the remuneration bands, and adjustment if required.

Once established, the VIRT should absorb the VPSC's GSERP jurisdiction and supporting functions, with the exception of the data collection function (see **Recommendation 2**). Eventually, the VIRT should also absorb the VPHSERP jurisdiction and functions currently performed by DHHS, subject to any required reforms to the *Health Services Act 1988*.

DPC's VIRT establishment team is currently working to formalise the continuing role of Departmental Secretaries in the remuneration decision-making process. This role is a positive feature of the current GSERP arrangements, and its continuation will be essential to ensure that the VIRT's decisions are informed by the latest intelligence on agencies in each portfolio.

In current approval processes, executive employment contracts are not systematically examined to ensure compliance with government policy requirements. Given the potential for contractual 'work arounds' of approved remuneration (for example, through additional leave provisions), departments may wish to consider reviewing executive contracts (at least for CEOs) as part of their role in the remuneration approval process.

The review understands that the VIRT establishment team is also finalising updates to the GSERP policy, with the intention that it be reissued in the form of a new policy on public entity executive remuneration. The proposed policy, as revised and updated over time, will be a crucial mechanism for articulating government executive remuneration standards and procedures, and several recommendations made by this review rely on the proposed policy to take effect.

Recommendation 2 – That, in order to assist Ministers, public entity Board Chairs and Chief Executive Officers to understand their obligations and navigate remuneration determination processes:

- a. the Victorian Independent Remuneration Tribunal provide central support in the form of intelligence gathering, market analysis, and benchmarking;**
- b. the Victorian Public Sector Commission assist through the provision of advice to support work value assessments and through whole of sector data collection and sharing; and**
- c. Departments provide support and guidance to assist public entities in their portfolio to engage effectively with the Victorian Independent Remuneration Tribunal and comply with remuneration determinations.**

Recommendation 2 applies to all industry segments. This recommendation was made in all eight ISR reports.

Government, public entity boards and CEOs require better intelligence and support in their decision-making regarding executive employment and remuneration. There is currently significant variation in both the source and the quality of support and advice provided to employers.

Under section 13A of the PAA, departments are required to provide guidance to public entities within their portfolios on matters of public administration and governance, including executive employment and remuneration. However, each department approaches this task differently, and they are not well-positioned to take a whole-of-sector perspective.

The GSERP Secretariat within VPSC is a valuable source of advice for employers, but has a limited jurisdiction, and is not resourced for more comprehensive intelligence gathering, market analysis and benchmarking services. While the Secretariat can provide a range of guidance on remuneration, it does not provide 'pre-approval' of remuneration, which can be a source of frustration for employers who are attempting to secure candidates in a timely manner. The proposed VIRT is unlikely to change this practice, which is a consequence of preserving the independence and weight of decisions.

However, better benchmarking and data sharing (along with new remuneration bands and classification based on work value assessments) will improve transparency, make decisions more predictable and reduce frustration for employers.

Within public entities themselves, executive employment advisory capability is highly variable, with many organisations reliant on external private consultancies for advice and guidance. The review heard that these consultancies were of variable quality, applied a range of methodologies, inappropriately compared roles to the private sector, and often failed to consider the broader public sector context. For community-based boards in particular, executive recruitment can be a daunting task, especially considering how infrequently a typical agency will require a new CEO.

To support the effective and efficient administration of executive employment and remuneration, the following activities should be carried out by the VIRT as part of its primary responsibility for remuneration matters:

- intelligence gathering and market analysis regarding employment trends across the public sector, including benchmarking of like roles;
- regular reporting of data and analytics on remuneration outcomes to Government and public entity employers, to improve transparency and accountability; and
- provision of advice to employers on more complex aspects of government remuneration policy and governance.

To support the proposed statutory role of the VIRT, the VPSC should undertake the following functions:

- provision of tools and other supporting materials for work value assessments, including in support of submissions of remuneration outside the remuneration bands set by the VIRT; and
- collection and sharing of data on executive remuneration.

The VPSC is well placed to support work value assessments as part of its primary responsibility for executive classification matters. To take advantage of existing expertise and economies of scale, data collection functions should also remain with VPSC, subject to appropriate resourcing and a Memorandum of Understanding between the two agencies.

Recommendation 3 – That the Victorian Public Sector Commission provide public entity employers and executives with central support to promote compliance with whole of government executive workforce policies and procedures by:

- a. developing and maintaining a dedicated public entity executive handbook that aligns as far as practicable with the existing Victorian Public Service Executive Employment Handbook, and introducing this new handbook by 1 July 2019; and**
- b. assisting Departments with the provision of additional advice and support to public entity boards and executives to improve capability and awareness of public sector norms and requirements.**

Recommendation 3 is a new recommendation in the final report, and should apply in all industry segments.

While the establishment of the VIRT will provide a single governance body for remuneration matters, the review found widespread issues of consistency in executive employment practices that require central oversight and support, but do not sit well with the proposed statutory role defined for the VIRT.

In light of the VPSC's existing responsibilities for executive matters, including GSERP and the Victorian Leadership Academy, the review considers that the VPSC would be well positioned to develop the new public entity executive handbook. The significant work already completed by DPC on an updated handbook for VPS executives provides an ideal starting point for this next stage.

In the course of conducting the ISR program, the review identified a capability gap in public entities with respect to awareness of public sector standards and requirements. Common manifestations of this include agencies that believe they do not need to comply with public sector requirements because they are (or believe that they are) statutorily independent, commercial in nature, or not part of the public sector at all. This problem is not universal, but was apparent in a range of organisations and industry segments, and is not limited to executive workforce matters.

While the focus of the review was executive employment and remuneration, this capability gap clearly has broader implications for compliance with a wide range of whole of government policy frameworks, and attendant risks. To address the capability gap and mitigate potential risks, the review recommends an expansion of both the scope and reach of capability-building advice and support services to ensure that public entity boards and executives are aware of public sector standards and obligations, and that public entities both set and comply with appropriate policies and processes. The VPSC already provides some services of this nature, and is well placed to expand this offering, subject to appropriate resourcing.

In addition, to support intelligence sharing and promote good executive workforce practice, the VPSC should consider establishing a reference group or community of practice with membership from the VIRT, DPC, portfolio departments and public entities.

Appropriate classification and remuneration

Recommendation 4 – That the Special Minister of State request that the Victorian Independent Remuneration Tribunal consider:

- a. aligning executive remuneration levels between the Victorian Public Service and public entities; and**
- b. abolishing existing industry segment-specific public entity remuneration bands (where these exist), and replacing them with a common band structure for all public entity executives. An individual public entity should remain bound by the existing remuneration bands until such time as the Victorian Independent Remuneration Tribunal has determined new remuneration bands for that public entity.**

Recommendation 4 has evolved over the course of the ISR reviews. While all reports favoured abolishing current public entity band structures, some earlier reports recommended retention of parallel structures and others recommended a common framework across the public sector.

On balance, the review considers that remuneration arrangements should be broadly consistent across all industry segments, and between public entities and the VPS. Acknowledging that actual remuneration bands will ultimately be independently determined by the VIRT, the review considers that as a general principle, VPS and public entity bands should be aligned to one another, and individual bands should be of roughly equal size and should not overlap one another. To prevent any potential gaps in oversight, existing public entity band structures should continue to apply to an organisation until the VIRT has determined a new band structure for that organisation.

The most recent executive data collected by the VPSC shows that three quarters of reported executives are paid within the limits of the existing VPS executive remuneration range, suggesting that the existing remuneration range is broadly appropriate for public entities. While approximately one quarter of reported public entity executives are paid below the minimum of that range (currently \$178,500), the review's assessment is that many of these roles should no longer be considered 'executives' or reported as such (see further discussion under **Recommendation 7**).

While the review identified only 12 roles in public entities which received remuneration greater than the VPS maximum (currently \$439,332), it is likely that remuneration at this level can be justified only for a very small number of roles. These should include roles of strategic importance to the success of Victoria, or certain highly specialised roles where the market for suitable candidates is highly competitive. In cases where an employer considers that an executive role warrants remuneration above the maximum of the highest band, the employer should have to present evidence to the VIRT to support a special determination. Such exemptions from standard practice should be unusual.

Recommendation 5 – That the Victorian Public Sector Commission lead work to refine the new Victorian Public Service Classification Framework, consulting closely with public entity employers and with the Victorian Independent Remuneration Tribunal (once established), to ensure that the framework is fit for purpose for the broader public sector and can inform the development of new remuneration bands for public entity executives.

Recommendation 5 is a new recommendation in the final report, but draws on the approach taken to classification matters in the individual industry segment review reports.

Implementing executive classification and remuneration arrangements for public entities that align with the VPS will require a move away from remunerating executives based on the size and complexity of the agency, and toward remuneration based on the size and complexity of the job (i.e. the work value).

As a general principle, executive roles of similar size and complexity should be classified and remunerated at a similar level, regardless of whether they are located in the VPS or public entities.

Together with the improved oversight and benchmarking made possible by **recommendations 1, 2 and 3**, and the alignment of remuneration bands proposed by **recommendation 4**, introducing common executive bands across the public sector would increase the legibility of classification and remuneration, promote transparency, facilitate mobility between agencies, provide improved career pathing for executives, and help to gradually reduce those remuneration disparities that have emerged over time.

As requested by the Premier, the VPSC has developed a draft Classification Framework for VPS executives. This framework has been successfully piloted in the Department of Justice and Regulation, and the VPSC is currently consulting with other public service employers on both design and implementation. The review considers that many of the core elements of the proposed framework (including the structure of work value factors, work streams, and classification bands) are likely to be suitable for application in most public entities.

However, further refinement will be required to ensure that this resource is fit for purpose and presented in a way that is relevant to the operating environment of public entities. In refining the detailed design of the framework, the VPSC should closely consult with public entity employers, and consider the need for development of additional work factors, work streams, and classification bands.

The Government's decision to establish the VIRT has implications for the timing and sequencing of classification reform. The Bill currently before Parliament requires the VIRT to determine remuneration bands for both VPS and public entity executives by 1 July 2019. As the detailed design of the classification framework will inform the development of the new remuneration bands, the VPSC must also consult closely with the VIRT over the course of the next year to ensure a smooth transition to the new arrangements.

Once introduced, the VPSC should review its classification frameworks and supporting materials at least every four years to ensure that they remain fit-for-purpose. The timing of these reviews should align with the proposed VIRT's regular reviews of remuneration band determinations.

Recommendation 6 – That percentage rules for subordinate executives be abolished, affirming CEO responsibility for determining subordinate remuneration within the limits of the Tribunal's remuneration determinations. An individual public entity should remain bound by the existing percentage rules until such time as the Victorian Independent Remuneration Tribunal has determined new remuneration bands for that public entity.

Recommendation 6 applies to all industry segments. A recommendation to abolish the percentage rules was made in all eight ISR reports.

The percentage rules should be abolished, and subordinate executive roles should be allocated to the remuneration bands set by the proposed VIRT according to their work value. This will allow greater freedom for CEOs to attract and recruit high quality executives to their organisations, balanced by full accountability for those decisions.

Work value assessment would be a more rigorous approach to determining subordinate executive remuneration than the current percentage rules. The review acknowledges that agencies already commission work value assessments for some roles, however a consistent approach to assessing work value across the public sector would better support employers to set executive remuneration.

Public entities should be supported to conduct their own in-house assessments for subordinate executive classification and remuneration. This would build capability and reduce the need to

outsource assessments to consultants. VPSC could provide support for this process, subject to appropriate resourcing.

The percentage rules currently act to restrain subordinate executive remuneration growth. There is a risk that their removal will result in substantial (and potentially unsupported) increases in executive salaries. **Recommendations 1 and 2**, if accepted, would help mitigate that risk. In addition, the removal of the percentage rules from an organisation should be delayed until the VIRT has determined new remuneration bands for that organisation.

Some portfolio departments have expressed concern that the removal of percentage rules would allow public entities to employ subordinate executives who are paid more than their CEOs. The review considers that the requirement for work value assessments should prevent this, but acknowledges the risk that some employers may see the removal of percentage rules as an opportunity to circumvent the VIRT's remuneration determinations for CEOs.

However, the review also notes that there can be legitimate reasons for a subordinate executive to be paid more than their CEO (such as in certain medical, engineering or finance specialist roles) if this is supported by appropriate work value assessment and market analysis.

To mitigate this risk while allowing for legitimate exceptions, the VIRT may wish to consider introducing a general rule that subordinate executives should not receive a TRP greater than that of their organisation's CEO without the approval of the VIRT. If this is not feasible, individual portfolio departments would still retain the option to issue ministerial directions to employers imposing additional controls in proportion to the risk profile, so long as these requirements do not conflict with the determinations of the VIRT.

Definition of an executive

Recommendation 7 – That the *Policy on Executive Remuneration in Public Entities (or any replacement)* be revised to change the definition of a public entity executive to:

“A public entity executive is any person who is:

- 1. the Chief Executive Officer (however titled) of a public entity; OR**
- 2. an employee of any public entity who:**
 - a. receives a Total Remuneration Package equal to or greater than the base of the Victorian Public Service executive remuneration range; AND**
 - b. has significant management responsibility (that is, the primary role of the employee is to provide leadership and strategic direction for other staff members).**

The following should not be considered public entity executives:

- 1. staff whose remuneration rates are specified by an award or enterprise agreement; OR**
- 2. technical specialists who meet the remuneration criteria, but do not have a people management function; OR**
- 3. statutory or prerogative office holders appointed to public entities; OR**
- 4. Victorian Public Service executives employed under Part 3 of the *Public Administration Act 2004*, including by virtue of a specific legislative reference or an order/instrument made under legislation.”**

The individual ISR reports were not required to make recommendations on how to define public entity executives were made in individual segment reviews. However, the Terms of Reference requires the final report to consider how a public entity executive should be defined.

The policy, or its proposed replacement, should be amended to incorporate this definition. Supporting explanatory materials should be produced to assist agencies and individuals to understand and implement this definition. In particular, the VIRT should issue firm guidelines on what constitutes a 'significant management responsibility' and a 'technical specialist'.

The proposed definition is a further refinement of the current GSERP definition. It is proposed as an interim definition, which the VIRT should review and update once it is fully operational, and the impact related reforms can be assessed.

While the proposed definition sets a remuneration floor to align with the base of the VPS EO-3 band (currently \$178,500), the review proposes that all CEO roles, irrespective of their remuneration, should still be considered public entity executives. There are currently more than 30 CEOs in smaller agencies remunerated less than \$178,500, and it is important that government retain oversight of all CEO roles, no matter how small.

Unlike in the VPS, the establishment of a higher remuneration floor is not a reason to automatically increase the remuneration of those public entity executives paid less than this amount. Almost one quarter of currently reported public entity executives (272 in total) are paid less than the VPS minimum. While some may be underpaid, many are being remunerated appropriately for smaller roles, and others are probably not truly 'executives' but fall within the current definition and reporting requirements. The review considers that public entity executives paid less than the VPS minimum should not receive an uplift in remuneration without undergoing a work value assessment.

Once adjustments are made for any executives deemed to be underpaid following a work value assessment, it is likely that most of this group can be released from current executive remuneration policy restrictions and reporting requirements. This is expected to contribute to a more consistent delineation of 'executive roles' across the Victorian public sector, as well as easing the administrative burden on agencies. Of those paid less than the VPS minimum, only those in CEO (or equivalent) roles should require ongoing central oversight of their remuneration.

The Government should give consideration to whether those employees who are no longer classified as 'executives' following these reforms should be brought under enterprise agreement arrangements (as normally required by government policy) or whether limited term common law employment contracts can continue to be utilised for this cohort.

The employment offer

Recommendation 8 – That the Victorian Public Sector Commission prepare a revised standard employment contract for executives in public entities, with the standard contract aligned as far as practicable with the standard contract for Victorian Public Service executives. The revised standard contract should be mandatory for all new executive contracts that commence on or after 1 July 2019. The Victorian Public Sector Commission should provide clear guidance on which elements of the revised standard contract can be modified to meet the specific needs of individual public sector employers.

A recommendation to revise and mandate the use of a public sector executive employment contract was made for all industry segments, except for public healthcare, where some enterprise agreements limit the extent to which standardisation can be achieved. Recommendation 8 applies to all industry segments except for public healthcare, where it applies only to the extent possible.

Public entities should be required to use a standardised executive contract, and provide evidence of compliance through an annual certification (see **Recommendation 12**). The review proposes that the standard contract for public entity executives be closely modelled on the standard contract for VPS executives. This would further strengthen comparability and mobility benefits, but has some

implications for contract lengths and termination provisions, which are discussed in greater detail at **Recommendation 9**.

Combined with more active central oversight of executive remuneration by the VIRT (**Recommendations 1 and 2**), and a new handbook on public entity executive employment (**Recommendation 3**), this would strengthen the transparency, accountability and comparability of employment and remuneration arrangements, increase compliance with whole of government policies, and reduce potential for employment provisions that are not in keeping with public sector standards. To ensure the benefits of a standard contract are fully realised, DPC, the VPSC and the VIRT should work closely to ensure alignment between the proposed policy, the public entity executive handbook and the standard contract. Collectively, these three documents should:

- **maintain the prohibition on redundancy and related payments** – the existing prohibition on redundancy provisions, compensation for termination, and payout of unexpired portions of contracts should continue.
- **prohibit contract provisions that are tied to future industrial agreements** – employers should have reasonable flexibility to tie contract provisions to existing industrial agreements (e.g. to specify parental leave arrangements that mirror those of the non-executive workforce in the agency). However contract provisions should never be linked to industrial agreements that have not yet been created, as this exposes the employer to an unacceptable level of risk.
- **place reasonable limits on relocation expenses** – clear and reasonable limits should be placed on the use of relocation payments, living away from home allowances, payments for executives visiting immediate family interstate, and other related costs, consistent with limits in place in the VPS. Current ad hoc arrangements present financial and integrity risks to government and employers.
- **maintain and strengthen the requirement that remuneration be expressed in terms of all-inclusive TRP** – the existing requirement to express remuneration in terms of all-inclusive TRP should be maintained and strengthened, and employers should be expressly prohibited from providing any benefit outside the TRP envelope if that benefit has a cash value. Taken together, these changes and clarifications would allow for a simple and meaningful comparison of the real value of TRP, which is currently not possible. Contracts should not include:
 - **annual leave (or equivalent¹³) of more than four weeks** – these entitlements are essentially additional salary and should be treated as such. Employers should establish flexible leave or purchased leave arrangements via internal policies, consistent with practice in the VPS.
 - **provision for cashing out of personal leave¹⁴** – these entitlements should not be available to be cashed out, in particular not where they accrued prior to employment as an executive.
 - **cash loadings paid for performing regular duties** – found mostly in the emergency services segment. Like additional leave, these payments are simply additional salary and should be reclassified as such.
 - **allowances subsidising living expenses or discretionary spending** – these include payments for long-term accommodation, health care, child care, children’s school fees, insurance, or club memberships.
 - **specific purpose allowances for business expenses** – these include payments for work-related expenditure on accommodation, travel, motor vehicles, mobile devices,

¹³ ‘Equivalent’ leave structures in this context include accrued days off, flexi leave, time in lieu, and any other leave that can be (a.) taken without a specific reason and (b.) cashed out (whether at the termination of employment or at any other time).

¹⁴ ‘Personal leave’ in this context includes any kind of leave tied to a specific purpose, such as sick leave, carers leave, parental leave, cultural or ceremonial leave, or leave for defence force or volunteering purposes. It does not include recreational, annual or long service leave.

education, and professional association memberships. Employers should treat these costs as business expenses, and access to services or reimbursement for actual costs should be governed by organisational policies (e.g. on travel or professional development).

Despite the requirement to use the standard contract, employers should maintain a degree of flexibility in the employment offer where this supports government policy or legitimate business needs. For example, if government wished to encourage more regular market testing of CEO roles, the Cabinet or an individual Minister might instruct boards to limit the length of new CEO contracts. Legitimate business reasons for varying the standard contract could include expanding intellectual property provisions, extending (but not reducing) the notice period required for an employee to terminate their contract, or providing for relocation expenses (in line with government and agency policies). Guidance on these subjects should be included in the proposed handbook on public entity executive employment.

Recommendation 9 – That the Victorian Public Sector Commission, in preparing the revised standard employment contract for executives in public entities:

- a. align the standard ‘at will’ termination provision with the arrangements applying to the Victorian Public Service; and**
- b. retain the five year limit on contract lengths for public entity executives, apart from in exceptional circumstances where the Secretary of the relevant portfolio department has approved a longer term.**

Recommendation 9 applies to all industry segments. All ISR reviews made a recommendation to align the standard contract as much as possible with the VPS executive contract.

Aligning the VPS executive contract and the public entity executive contract (to the extent practicable), would address some of the current contractual variation between VPS and public entity executives. It would also strengthen transparency, comparability and mobility between the VPS and public entities.

The original review recommended that the standard VPS contract be amended to allow contract terms greater than five years, and extend termination at will provisions from four months to nine months for all contracts. These provisions were intended to improve the competitiveness of the public entity executive employment offer, facilitate greater international and interstate mobility, and encourage employers to manage executive performance early, rather than allow contracts to expire.

DPC is currently revising the VPS executive contract to address these recommendations, but has elected to take a somewhat different approach to the question of at will termination provisions, proposing a sliding scale based on contract length (see **Figure 29**).

The review found limited employer support for the original proposal, in particular for the extension to nine months for longer contracts. Due to timing factors, the review was not in a position to consult with employers on the DPC proposal, although it can be extrapolated that shorter provisions would enjoy wider support.

As a general principle, the review has made every effort to align employment and remuneration arrangements between the VPS and public entities. In the interests of consistent executive employment policy and greater executive mobility, the review recommends that at will termination provisions for public entity executives should align with the DPC proposal.

Figure 29: comparison of executive termination provisions: status quo, original review proposal, and proposed approaches for VPS and public entity executives

Contract length	Status quo (VPS and public entity executives)	Original review proposal (VPS executives)	DPC proposal (VPS executives)	Review proposal (public entity executives)
Less than 1 year	4 months	9 months	6 weeks	6 weeks
1 year to less than 2 years	4 months	9 months	2 months	2 months
2 years to less than 3 years	4 months	9 months	4 months	4 months
3 years to less than 4 years	4 months	9 months	5 months	5 months
4 years to less than 5 years	4 months	9 months	6 months	6 months
5 years	4 months	9 months	9 months	9 months
More than 5 years	Not available	9 months	9 months	9 months*
Open ended	Not available	9 months	9 months	Not available

*Only available where the relevant portfolio Secretary has approved an exemption.

The ISR reviews did not find sufficient evidence to recommend extending the availability of contracts longer than five years to public entity executives. There was limited support from employers for the proposal, even in the context of proposed changes in the VPS. Some public entities also have maximum CEO terms set in their establishing legislation.

The review therefore recommends that the current maximum contract length of five years should remain in place. In extraordinary circumstances (such as engaging a specialised executive to oversee a seven year infrastructure project), employers should be able to make a submission to the relevant portfolio Secretary seeking an exemption to this rule.

Performance management and bonuses

Recommendation 10 – That bonus opportunities in new public entity executive contracts be discontinued with immediate effect, and all public entity executive contracts be varied to phase out bonus eligibility by 1 July 2019. Any consideration of possible exemptions from this policy should be limited to a very small number of investment and treasury specialist roles at the Victorian Funds Management Corporation and the Treasury Corporation of Victoria.

Recommendation 11 – That the Special Minister of State request that the Victorian Independent Remuneration Tribunal provide advice by 1 January 2019 on appropriate standard rates for rolling existing bonus provisions into Total Remuneration Packages, taking into consideration any factors specific to an industry segment, organisation or role.

Recommendations 10 and 11 apply to all industry segments. Recommendations to phase out bonus opportunities were made in all industry segments reviews.

The review recommends that any exemption from the public sector-wide removal of bonuses should only be granted if a compelling case can be made that the retention of a bonus arrangement for a particular executive is essential to meet government objectives. VFMC and TCV are the only entities that the review has identified where it is possible that a sufficient case may be made for bonus opportunities to continue for a very limited number of specialist senior investment and treasury roles. Even in these instances, the Boards of these organisations would need to make a compelling case that there is a need to retain bonus arrangements. If such a case cannot be made, all bonuses should be removed.

To enable a consistent approach to bonus removal across the public sector, the removal of bonuses should be implemented in line with previous VPS transition arrangements. Executives with a bonus opportunity in their contract should receive an uplift in their TRPs. The VIRT, supported by VPSC and departmental representatives, should be charged with advising on an appropriate uplift, taking into consideration any factors relevant to specific industry segments, organisations or roles. Adjusted TRPs should reflect work value, market intelligence, government wages policy, and community expectations for public sector wage restraint.

To support public entity employers to continue to drive high performance and deliver the best outcomes for the Victorian community, the VPSC should provide advice to Government and public entity employers on how to best preserve and strengthen executive performance management approaches in the absence of financial performance incentives.

Compliance and continuous improvement

Recommendation 12 – That the Victorian Public Sector Commission:

- a. develop a streamlined process for public entities to certify their compliance with whole of government executive workforce policies and procedures on an annual basis, commencing from 30 June 2020; and**
- b. within two years of those arrangements taking effect, evaluate the effectiveness of oversight arrangements for employment and classification matters, and their support for the Government’s policy objectives for the executive workforce.**

Recommendation 12 is a new recommendation in the final report, although all industry segment reports recommended improved governance and oversight of executive employment and classification practices in public entities. The recommendation applies to all industry segments.

Due to the extent of the changes proposed and the ‘lag time’ of expiring executive contracts, the reforms recommended in this report are likely to take three to five years to fully realise. During this implementation phase, it will be important to monitor the public sector’s understanding of, and compliance with, the government’s expectations.

In the short to medium term, the review recommends that compliance be verified through a certification requirement for all public entity employers. The review considers that such a certification should form part of completing the annual public entity executive data collections administered by the VPSC. Certifications would not preclude additional scrutiny by the Victorian Auditor-General’s Office and other integrity bodies, nor would it replace work by portfolio departments to undertake compliance activities in keeping with their own audit and risk practices. Indeed, it is likely that the potential for such scrutiny would increase the effectiveness of the certification mechanism.

Finally, the review recommends that the arrangements for employment and classification oversight and support should be evaluated within two years of implementation to ensure that the most efficient and effective arrangements are pursued, and the Government’s objectives for the VIRT are supported. As the proposed VIRT is independent of government, this evaluation should not encompass the VIRT’s remuneration oversight and support roles. It should also not explore performance management, which has cultural and behavioural aspects that the review expects will take much longer to change.

A1 ACQUITTAL AGAINST THE TERMS OF REFERENCE

The following table provides an acquittal of each of the questions put by the Terms of Reference set by the Premier in December 2016. It includes a summary of the findings and recommendations of the ISR program as they apply to each question, and provides chapter and section references to more detailed discussion in the body of the report.

Question	Summary of findings and recommendations	Reference
1. Segment outlook		
1.1 What current and emerging risks do segments face, including in relation to demand for capable EOs, and remuneration expectation for the EO workforce?	<p>The eight industry segments face a range of current and emerging risks in relation to executive employment and remuneration.</p> <p>These include:</p> <ul style="list-style-type: none"> • high demand for capable executives, which cannot always be met to the satisfaction of employers; • insufficient support from central agencies and portfolio departments for employers to comply with whole of government policy obligations while attracting and retaining high calibre executives; • in some segments, remuneration bands and rules that are inconsistent, imbalanced or overly rigid, and encourage work arounds and/or lobbying for exceptions; • the prevalence of small devolved agencies in some segments, creating structural barriers to recruiting executives from other jurisdictions (where larger roles can attract greater remuneration); • inconsistent succession management efforts and inadequate development of talent pipelines in some agencies and segments; • a lack of interstate and intra-agency mobility, and resulting issues of capability and insularity; and • a range of issues arising from intersection of executive employment with employment under awards and enterprise agreements. 	
2. Classification		
2.1 Should the segment adopt the VPS EO classification and remuneration framework?	<p>All eight segments should adopt a common approach to classification and remuneration of executives based on work value assessment. This approach should broadly align with arrangements in the VPS.</p> <p>Introducing common executive bands across the public sector would increase the legibility of classification and remuneration, promote transparency and facilitate mobility between agencies.</p> <p>The VPSC's Classification Framework, which is currently in the early stages of implementation in the VPS, is a useful starting point for a common approach to classification across the public sector.</p>	
2.2 What (if any) modification to the VPS EO classification and remuneration framework would be required to support the operation of the industry segment?	<p>Some modifications to the Classification Framework will be required to support its operation in public entities. The VPSC should consult closely with public entity employers and the VIRT (once it is operational), to ensure that the framework is fit for purpose for public entities and can inform the development of new remuneration bands for public entity executives.</p> <p>The core elements of the Classification Framework – the structure of work value factors, work streams, and classification bands – are generally suitable for application across the public sector.</p> <p>However, further refinement – potentially including additional factors, streams and bands – will be required to ensure that this resource is presented in a way that is relevant to the operating environment of public entities.</p>	

Question	Summary of findings and recommendations	Reference
3. Employment		
3.1 Should the segment adopt the VPS EO employment offer, including the newly agreed reforms? ¹⁵	<p>The employment offer (including the executive contract) should be standardised across the public sector, with public entity executive contracts brought in line with the new VPS arrangements over time.</p> <p>There is no strong case for continuing the current highly varied practice, which is inefficient, inequitable, presents risks to both agencies and government, and frustrates inter-agency mobility.</p> <p>Public entity executive contracts longer than five years should only be permitted in exceptional circumstances (as determined by the relevant portfolio Secretary) on the basis of a clear business need, and then only where allowed by legislation.</p> <p>Termination provisions consistent with the VPS would improve the competitiveness of the employment offer, facilitate greater international and interstate mobility and encourage employers to manage executive performance early, rather than allow contracts to expire.</p>	
3.2 What (if any) modifications should be made to ensure that the employment offer meets sector specific needs?	<p>Employers should maintain a degree of flexibility in the employment offer, including the contract, where this supports government policy or legitimate business needs.</p> <p>For example, if government wished to encourage more regular market testing of CEO roles, the Cabinet or an individual Minister might instruct boards to limit the length of new CEO contracts.</p> <p>Legitimate business reasons for varying the standard contract could include expanding intellectual property provisions, extending (but not reducing) the notice period required for an employee to terminate their contract, or providing for relocation expenses (in line with government and agency policies).</p>	
4. Remuneration		
4.1 Are current remuneration levels set at the right level to support the recruitment and retention of high performing and professional EOs?	<p>The current VPS executive remuneration bands provide adequate scope for the recruitment and retention of high performing and professional executives. Current remuneration for some executive roles may not be set at appropriate levels.</p> <p>Consistent application of work value assessment methodology across the public sector, together with greater transparency and benchmarking, will help to gradually reduce those remuneration disparities that have emerged over time.</p> <p>There are a very small number of roles in public entities where remuneration above the current VPS maximum can be justified, including roles of strategic importance to the success of Victoria, or certain highly specialised roles where the market for suitable candidates is highly competitive. The evidence base for remuneration above the VPS maximum should be assessed by the proposed VIRT on a case-by-case basis.</p>	

¹⁵ That is, those reforms to at will termination provisions and contract length proposed for the VPS.

Question	Summary of findings and recommendations	Reference
<p>4.2 Should the industry segment adopt the new VPS EO base of \$175k?</p>	<p>For consistency, the definition of a public entity executive should use the same dollar threshold as the VPS. However, unlike in the VPS, there is no reason to automatically increase the remuneration of those executives paid less than this amount.</p> <p>An additional remuneration band should be created below the VPS threshold to accommodate those heads of very small organisations whose roles do not meet the criteria for the lowest VPS band.</p> <p>One fifth of currently reported public entity executives are paid less than the VPS minimum. While some may be underpaid, many are being remunerated appropriately for smaller roles, and others are probably not truly 'executives' but fall within the current definition and reporting requirements.</p> <p>Once adjustments are made for any underpaid executives, most of this group can be released from current executive remuneration policy restrictions and only those Chief Executive Officers (or equivalent) of public entities who are paid less than the VPS minimum should require ongoing central oversight of their remuneration.</p>	
<p>4.3 What (if any) modifications should be made to ensure that the remuneration offer, including any non-cash offerings, meets sector specific needs?</p>	<p>The composition of the remuneration offer should be standardised across the public sector to comprise only salary, superannuation, and approved salary-packaged benefits.</p> <p>Employers should be provided with clear central policy guidance and practical support for decision-making on non-salary inclusions, especially for personal vehicles, purchased leave, relocation expenses and long-term accommodation. Legitimate inclusions should be deducted from gross salary.</p> <p>Many non-cash offerings in current use are actually business expenses (e.g. mobile devices, work vehicles, professional development) and should be paid for by employers. Including these items in contracts blurs the lines between work and personal expenses.</p>	
<p>5. Performance management</p>		
<p>5.1 Should the industry segment utilise bonuses? If yes, what should the bonus arrangements be? If no, and bonuses are currently used, how should they be removed?</p>	<p>Bonuses should be discontinued with immediate effect in all eight industry segments, and all public entity executive contracts be varied to phase out bonus eligibility by 1 July 2019. The VIRT should be charged with determining a one-off adjustment to remuneration levels.</p> <p>Any consideration of possible exemptions from this policy should be limited to a very small number of investment and treasury specialist roles at the Victorian Funds Management Corporation and the Treasury Corporation of Victoria. Any exemption should only be granted if a compelling case can be made that the retention of a bonus arrangement for a particular executive is essential to meet government objectives.</p> <p>Removal of bonuses should be implemented in a manner consistent with previous adjustments to public service executive remuneration and any broader public sector adjustments. The VIRT, supported by VPSC and departmental representatives, should be charged with determining an appropriate uplift by 1 January 2019, taking into consideration any factors specific to an industry segment, organisation or role. Adjusted TRPs should reflect work value, market intelligence, government wages policy, and community expectations for public sector wage restraint.</p>	

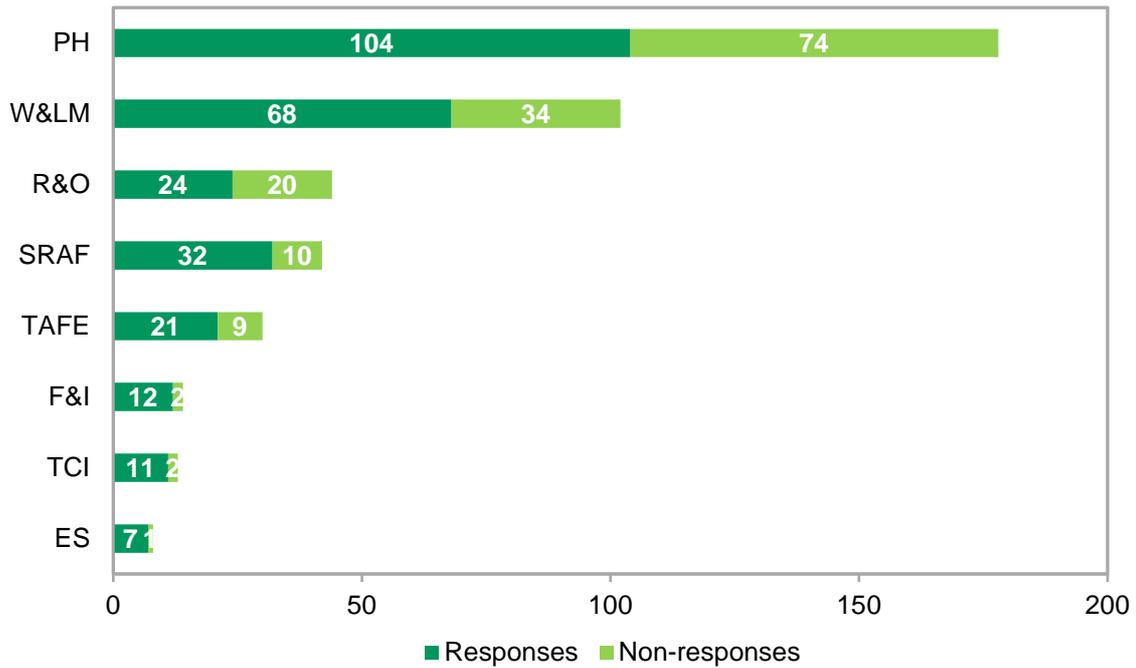
Question	Summary of findings and recommendations	Reference
5.2 Does the industry segment require specific arrangements, or could it be bound by the same performance management arrangements proposed for the VPS?	<p>Industry segments do not require segment-specific performance management arrangements, but any gains from consistent public sector wide performance management approaches are likely to be modest.</p> <p>Due to the sequencing of projects, the review was unable to extensively test the suitability of the draft VPS Performance Management Framework for adoption in public entities.</p> <p>However, it is clear that employers would benefit from clear, simple, principles based guidance from the VPSC and portfolio departments on the minimum standards required for good performance management processes.</p>	
5.3 What (if any) modifications should be made to ensure that performance management arrangements meet sector specific needs?	<p>Agencies should be permitted to design and modify performance management arrangements to meet their business needs, provided that the resulting arrangements align with any policy or procedural requirements set by the Government or the VPSC.</p> <p>The VPSC should provide advice to the Government and public entity employers on how to preserve and strengthen better practice executive performance management in the absence of financial performance incentives.</p>	
6. Governance arrangements		
6.1 What role should the proposed remuneration tribunal have in relation to the industry segment?	<p>The proposed VIRT, if established, will strengthen oversight of executive remuneration in all eight industry segments. The VIRT should provide Government and employers with central support to set remuneration, in the form of intelligence gathering, market analysis, benchmarking, and (with support from the VPSC) data collection and sharing.</p> <p>The VIRT should absorb the VPSC's GSERP jurisdiction and functions entirely, with the exception of the data collection function. To take advantage of existing expertise and economies of scale, this should remain with VPSC, subject to appropriate resourcing and a Memorandum of understanding between the two agencies.</p> <p>Eventually, the VIRT should also absorb the VPHSERP jurisdiction and functions currently performed by DHHS, subject to any required reforms to the <i>Health Services Act 1988</i>.</p>	
6.2 What (if any) modifications should be made to ensure that governance arrangements meet sector specific needs and allow for sector specific arrangements, as required?	<p>As a general principle, governance arrangements should be standardised across all eight industry segments.</p> <p>DPC's VIRT establishment team is currently working to identify an appropriate role for departments in the governance framework. Such a role will be essential to ensure that the VIRT's decisions are informed by the latest intelligence on agencies in their portfolios.</p>	

Question	Summary of findings and recommendations	Reference
7. Other		
<p>7.1 What considerations should be made regarding any intersections between local enterprise agreements and EO employment and remuneration arrangements, as required?</p>	<p>Government should take all necessary and reasonable steps to remove doubt about which public sector employees are executives, and which are covered by awards and enterprise agreements. These two groups should be mutually exclusive.</p> <p>Over time, separate enterprise agreement negotiations, variation of the standard GSERP contract by employers, and use of the standard public service contract in public entities, has led to confusion amongst both employers and employees. In particular, the situation in the public healthcare industry segment is complex and may require changes to enterprise agreements.</p> <p>In a limited number of agencies, the remuneration of employees on awards and enterprise agreements has already exceeded current and/or proposed thresholds for executive remuneration.</p> <p>It is not practical to create individualised arrangements for every agency affected by this issue. The VIRT should take these factors into account when making determinations relating to these agencies.</p>	
8. Additional Terms of Reference		
<p>8.1 How should public entity EOs be defined?</p>	<p>A public entity executive should be redefined as any person who is:</p> <p>(1.) the CEO (however titled) of a public entity; OR</p> <p>(2.) an employee of any public entity who:</p> <ul style="list-style-type: none"> a. receives a TRP equal to or greater than the base of the VPS executive remuneration range; AND b. has significant management responsibility (that is, the primary role of the employee is to provide leadership and strategic direction for other staff members). <p>The following should not be considered public entity executives:</p> <p>(3.) staff whose remuneration rates are specified by an award or enterprise agreement; OR</p> <p>(4.) technical specialists who meet the remuneration criteria, but do not have a people management function; OR</p> <p>(5.) statutory or prerogative office holders appointed to public entities; OR</p> <p>(6.) VPS executives employed under Part 3 of the PAA, including by virtue of a specific legislative reference or an order/instrument made under legislation.</p> <p>This definition will:</p> <ul style="list-style-type: none"> • retain oversight of all CEOs, regardless of remuneration levels; • remove those employed under awards and enterprise agreements, over whom the VIRT has no authority; • align the remuneration threshold with the base of the VPS executive remuneration bands; • remove highly-paid technical specialists such as surgeons, engineers and finance professionals from the definition of executives, while retaining managers who hold technical qualifications; and • clarify the status of Declared Authorities and public service executives employed in public entities. <p>Supporting explanatory materials should be produced to assist agencies and individuals to understand and implement this definition. In particular, the VIRT should issue firm guidelines on what constitutes a 'significant management function' and a 'technical specialist'.</p>	

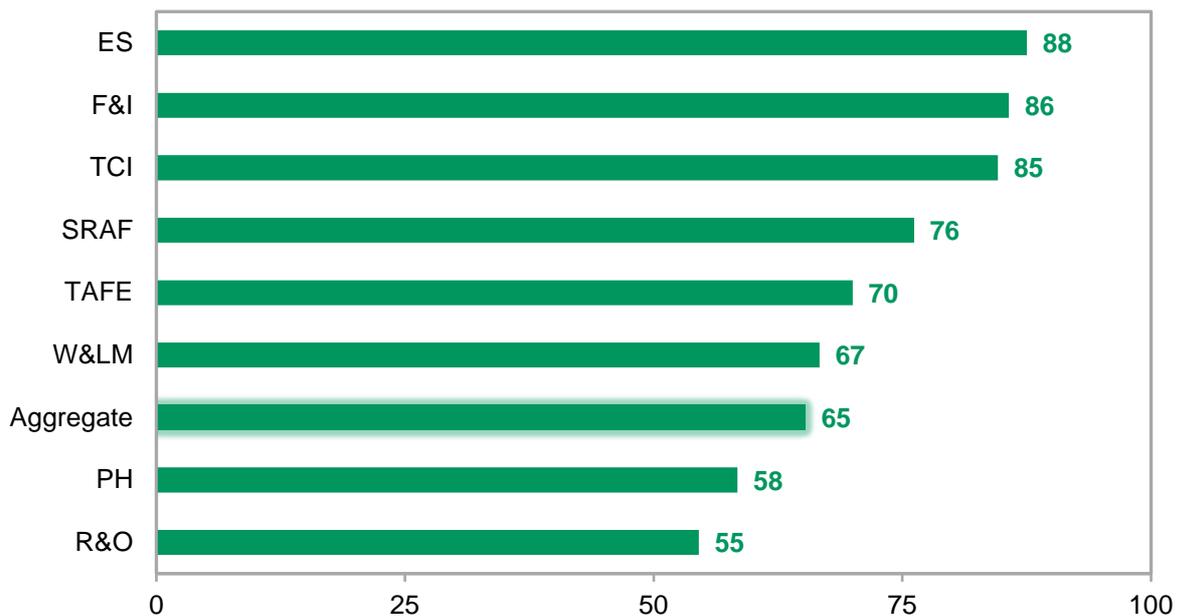
A2 SURVEY RESULTS

The survey was administered to 429 Chairs and CEOs across the eight industry segments. In total, there were 280 respondents (150 CEOs; 130 Chairs), corresponding to a response rate of 65%. The response rate for CEOs was 70%, higher than the response rate for Chairs (60%). In general, the highest response rates were recorded in those segments with a relatively small number of agencies, such as Emergency Services; Finance and Insurance; and Transport, Construction and Infrastructure.

Number of survey responses by industry segment

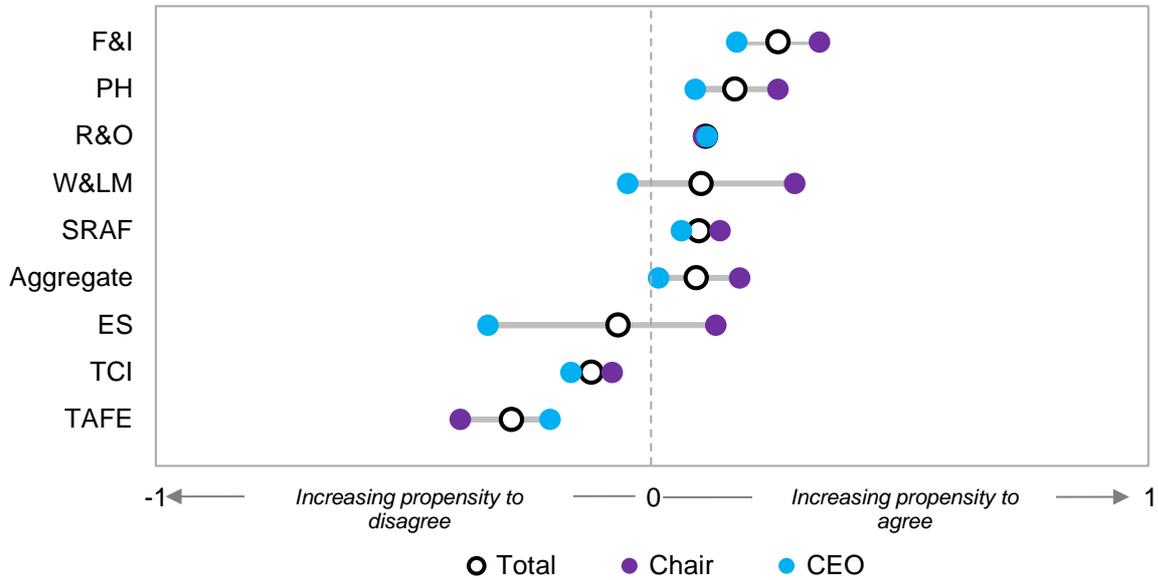


Survey response rates (%) by industry segment



In aggregate, respondents were slightly more likely to agree than disagree (+0.09) that the current framework supports the attraction and retention of suitably skilled executives, with Chairs (+0.17) more likely to agree than CEOs (+0.01). Respondents were most likely to agree in the Finance and Insurance; and Public Healthcare industry segments, while TAFE and other education respondents were most likely to disagree. Emergency Services CEO and Chair response patterns diverged most.

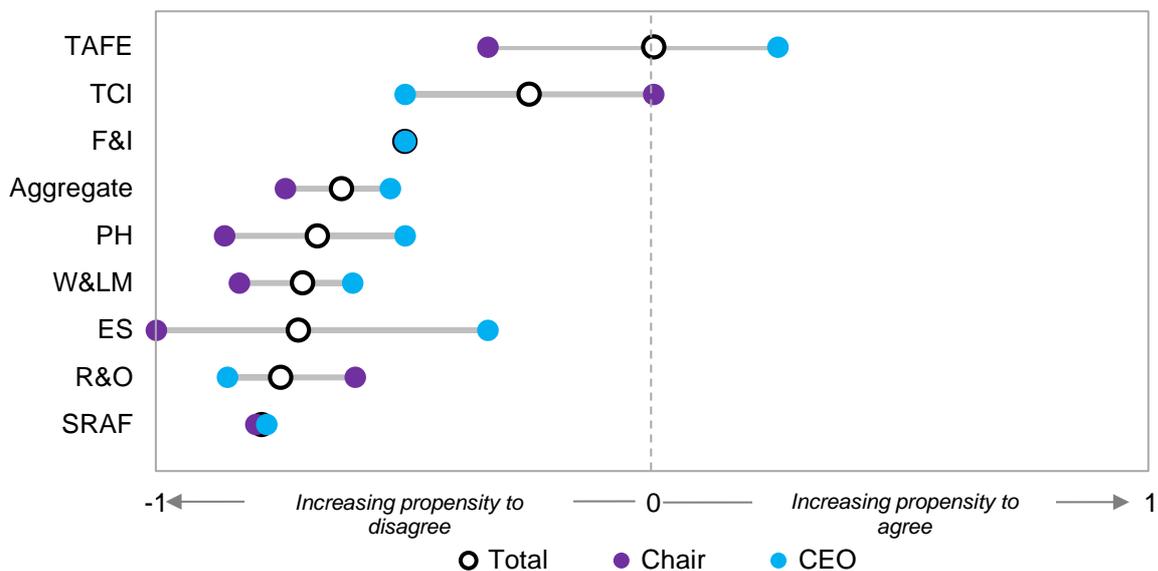
The current framework supports the attraction and retention of suitably skilled executives



Note: Horizontal axis scale ranges from -1 (unanimous strong disagreement) to +1 (unanimous strong agreement)

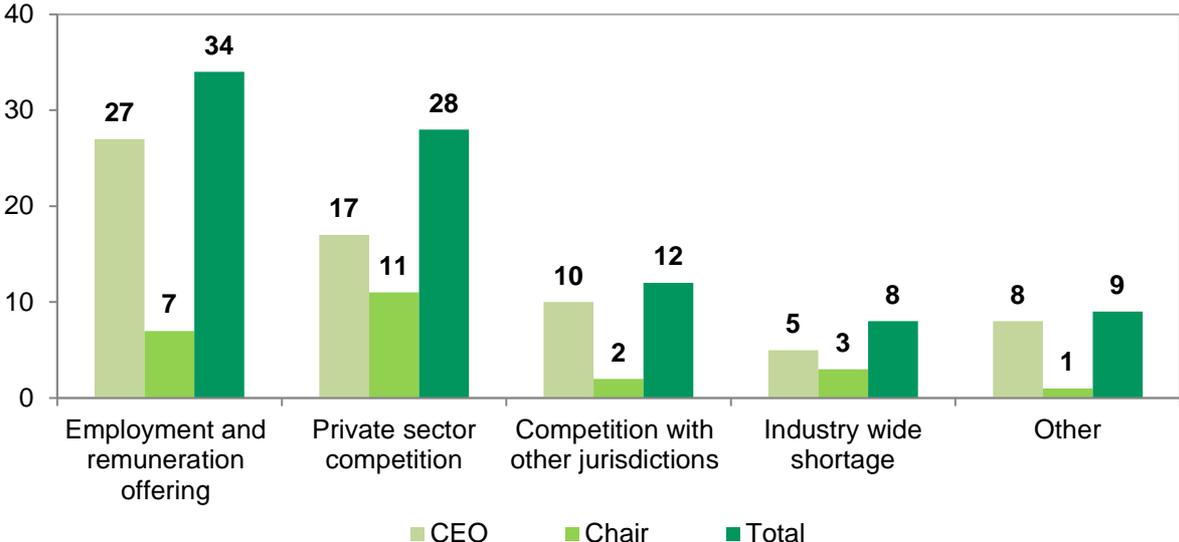
Employers have largely been able to fill executive roles, with respondents more likely to disagree than agree (-0.63). In aggregate, Chairs (-0.74) were more likely to disagree than CEOs (-0.53). All segments except TAFE and other education disagreed in aggregate, with CEOs in this segment the most likely to report recent difficulties in filling executive roles due to the current employment and remuneration offering.

Within the last 24 months I have been unable to fill an executive role due to the current employment and remuneration offering



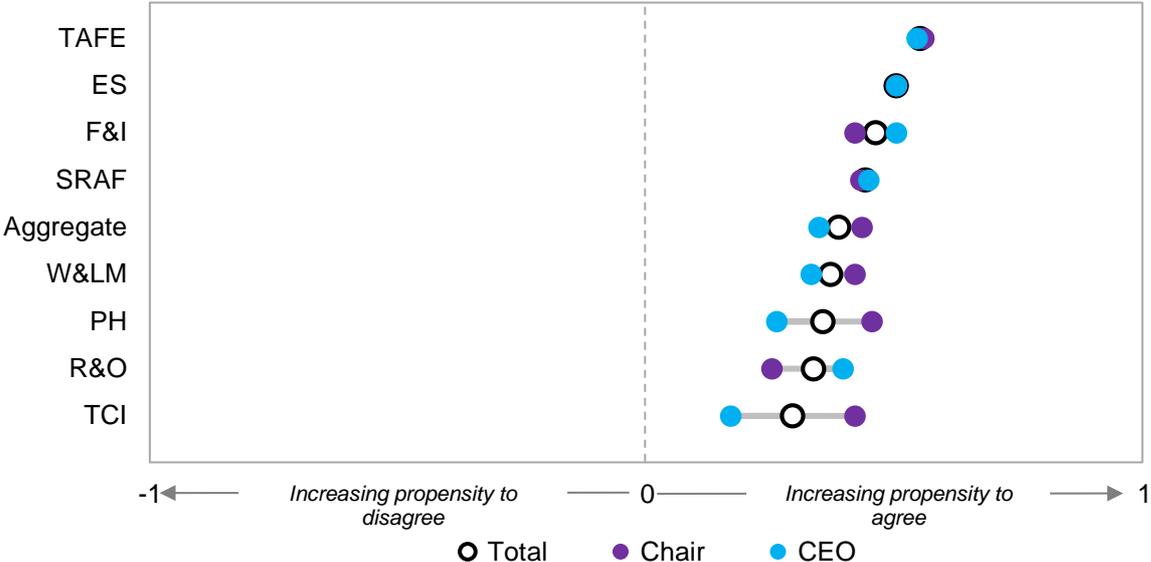
Where respondents indicated that they could not attract and retain suitably skilled executives, CEOs were most likely to cite the competitiveness of the employment and remuneration offering as a barrier, followed by private sector competition. Chairs were most likely to cite private sector competition as the main barrier to attracting and retaining executive talent. Only a small number of respondents nominated 'competition with other jurisdictions' and 'industry wide shortage' as barriers. The main reasons cited were relatively consistent across all eight industry segments.

When my organisation cannot attract and retain suitably skilled executives, the main reasons are:



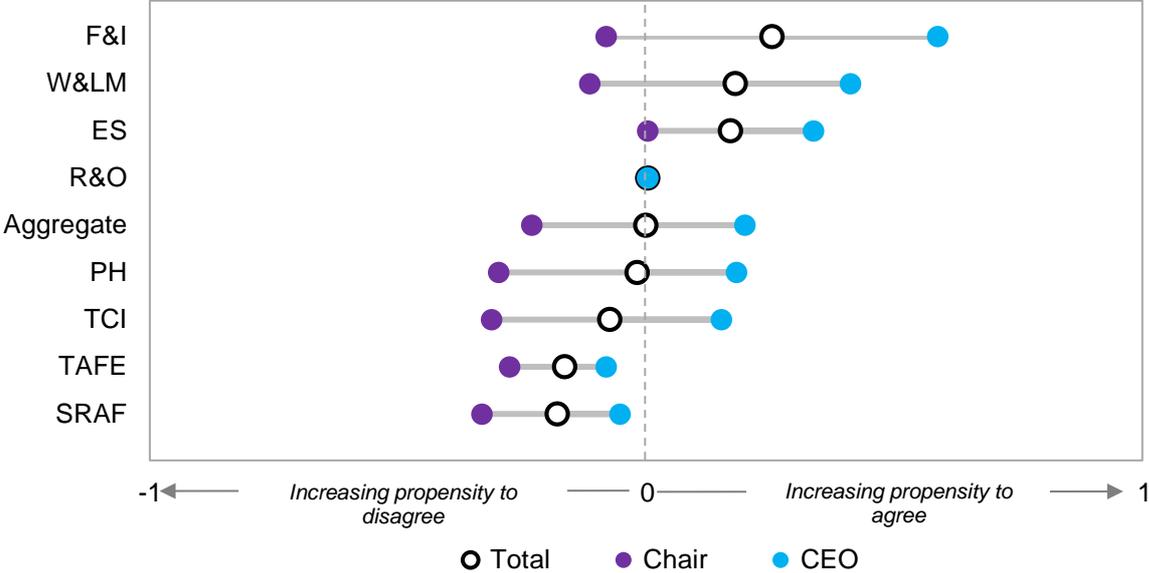
In aggregate, respondents generally agreed (+0.38) that they have access to the information they need to set executive remuneration in their organisation, with Chairs (+0.43) were slightly more likely to agree than CEOs (+0.34). While response patterns were confined to a relatively narrow band across all eight industry segments, free text responses indicated that employers would nevertheless like additional information to inform the setting of executive remuneration, such as benchmarking.

I have access to the information that I need to set executive remuneration in my organisation



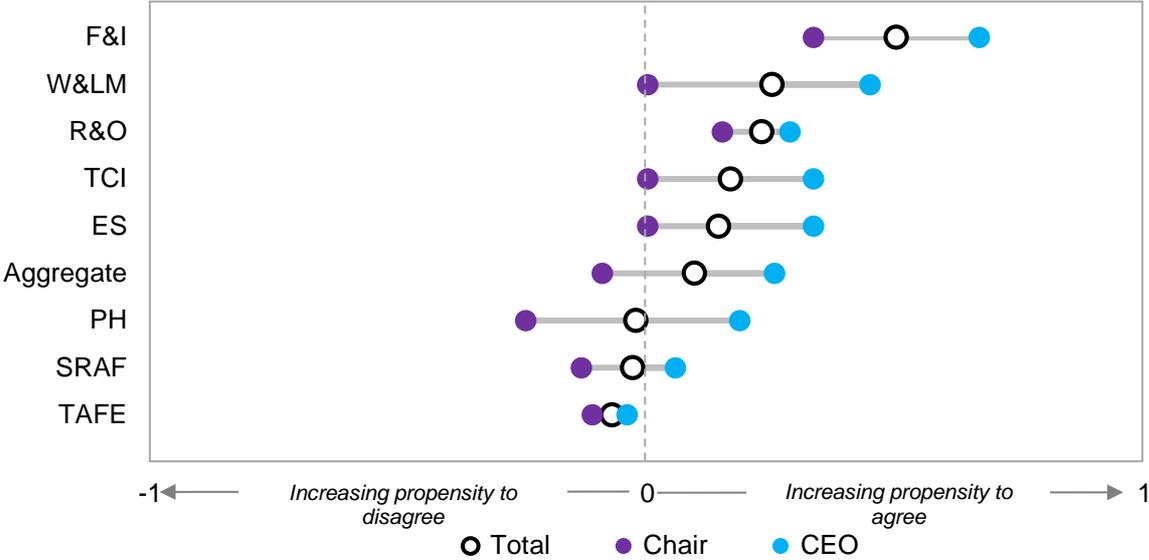
Overall, respondents were indifferent towards the proposition to increase the at will termination provision to 9 months in long-term contracts. In aggregate, CEOs were more likely to agree (+0.20), than Chairs (-0.23). This observation also applied to all segments except Regulators and other agencies, where CEO and Chair response patterns were identical.

I would support increasing the termination at will provision from 4 months to 9 months for contracts longer than 4 years



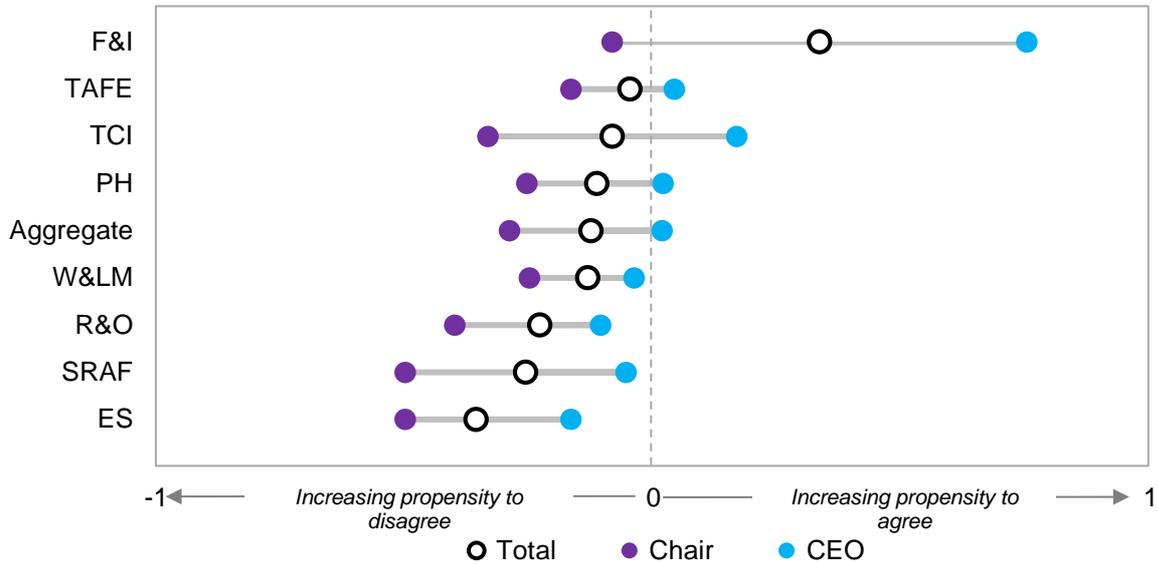
Overall, respondents were slightly supportive of increasing the at will termination provision to 6 months in short-term contracts (+0.09). In aggregate, CEOs were more likely to agree (+0.25) than Chairs (-0.09). This observation also applied to all eight industry segments. Five of the eight industry segments agreed, with the strongest support from respondents in the Finance and Insurance industry segment.

I would support increasing the termination at will provision from 4 months to 6 months for contracts shorter than 4 years



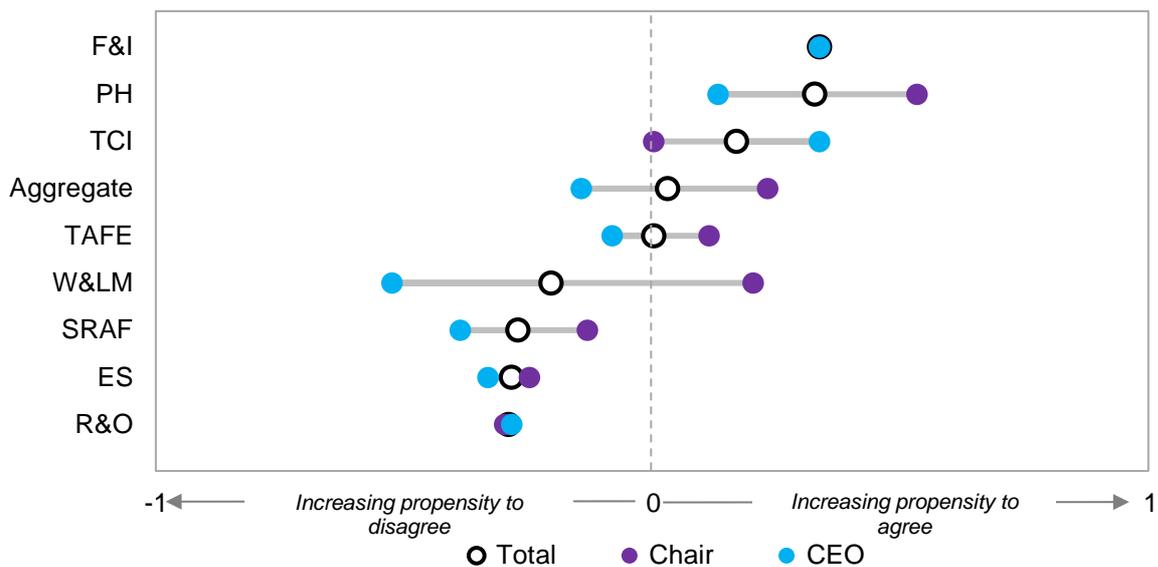
Respondents generally disagreed with the proposition of allowing maximum contract lengths of more than five years (-0.13). In aggregate, CEOs were essentially neutral (+0.02), while Chairs were more likely to disagree (-0.29). The latter was also evident in all eight industry segments. There was only one segment that agreed overall (Finance and insurance). Response patterns for other segments were confined to a narrow band, with Emergency services respondents the most likely to disagree

I would be supportive of allowing organisations to set executive contracts for periods longer than five years



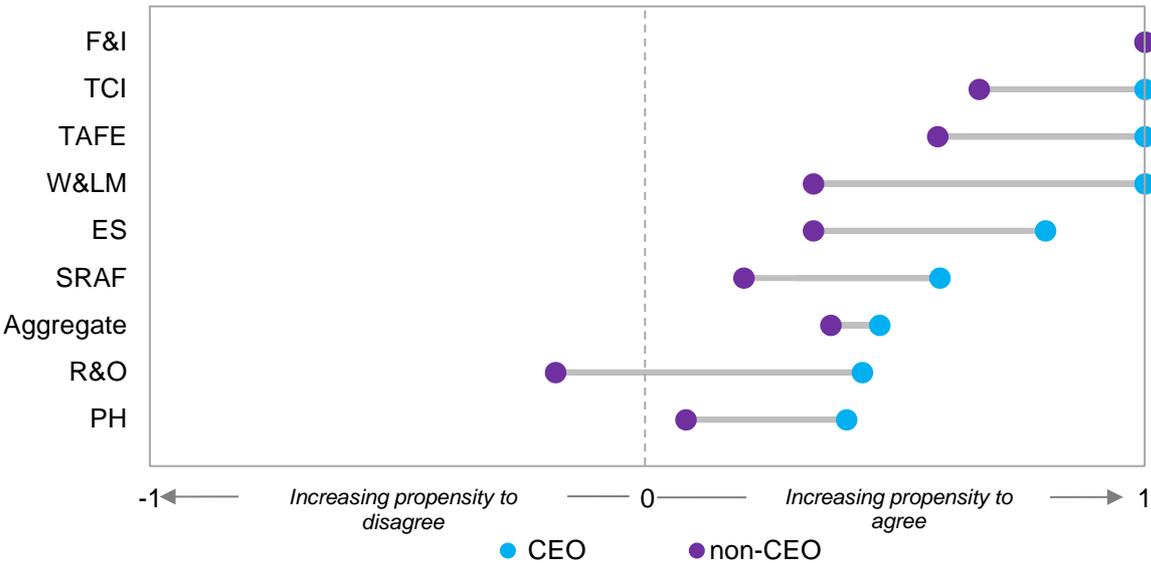
In aggregate, Chairs were generally more likely to agree (+0.23) than CEOs (-0.15) that their organisation employs senior executive leaders under an award or enterprise agreement on a TRP above \$156,374. Likely reflecting TRP relativities, Finance and insurance respondents were most likely to agree. The greatest divergence in Chair and CEO responses is evident in the Water and land management segment. However, it is important to note that a number of agencies in most segments had either the CEO or the Chair respond to the survey, but not both.

My organisation employs senior executive leaders under an award or enterprise agreement on a TRP above \$156,374



Respondents reported that most CEO contracts contained a bonus opportunity (78%), as did a majority of non-CEO executives (59%). Bonuses were universal in the Finance and insurance segment, and in the contracts of all CEOs in the Transport, Construction and Infrastructure; TAFE and other education; and Emergency services segments. In all segments, more CEOs had a bonus opportunity than not. Public healthcare was the only segment where this observation is not true for non-CEO executives.

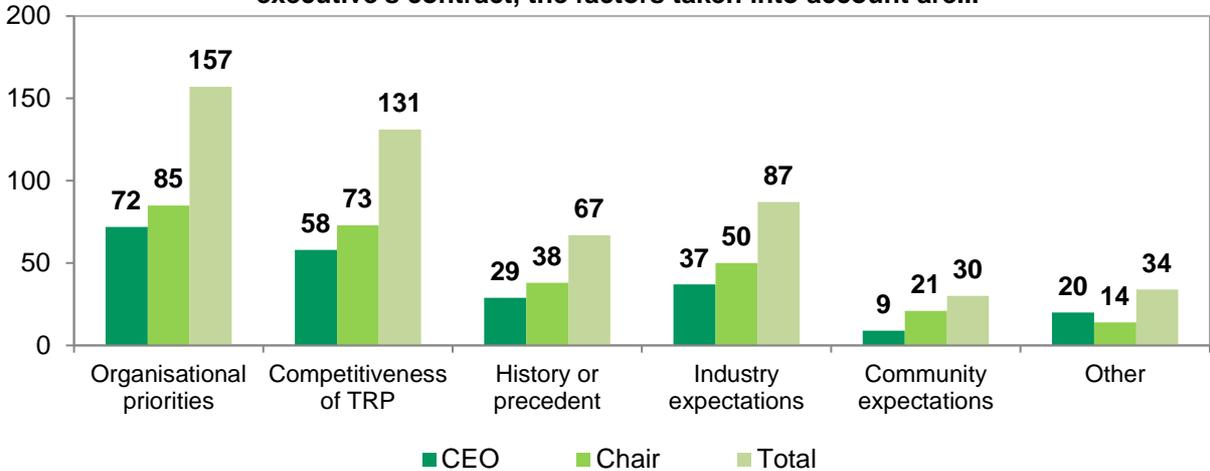
CEO and non-CEO executives in my organisation have a bonus opportunity in their contract



For both CEOs and Chairs, the main reasons taken into account when deciding whether or not to include a bonus opportunity in executive contracts are:

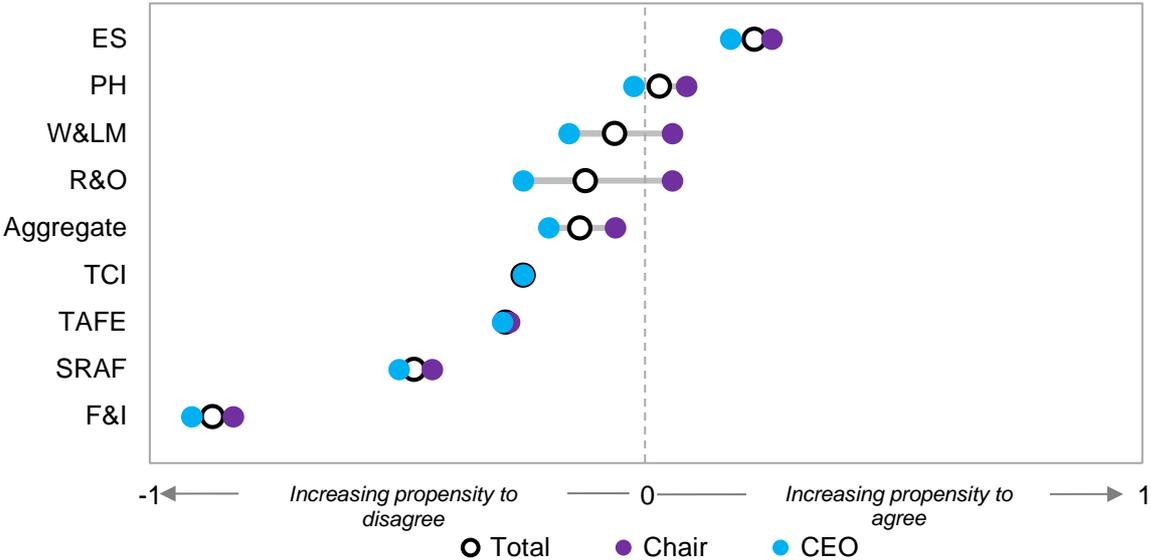
- need to drive performance to deliver organisational priorities (cited by around two-thirds of all Chairs and around half of all CEOs who completed the survey);
- competitiveness of TRP (cited by half of all Chairs and one-third of CEOs);
- industry expectations (cited by four in ten Chairs and a quarter of CEOs); and
- history or precedent.

When deciding whether or not to include a bonus opportunity in an executive's contract, the factors taken into account are...



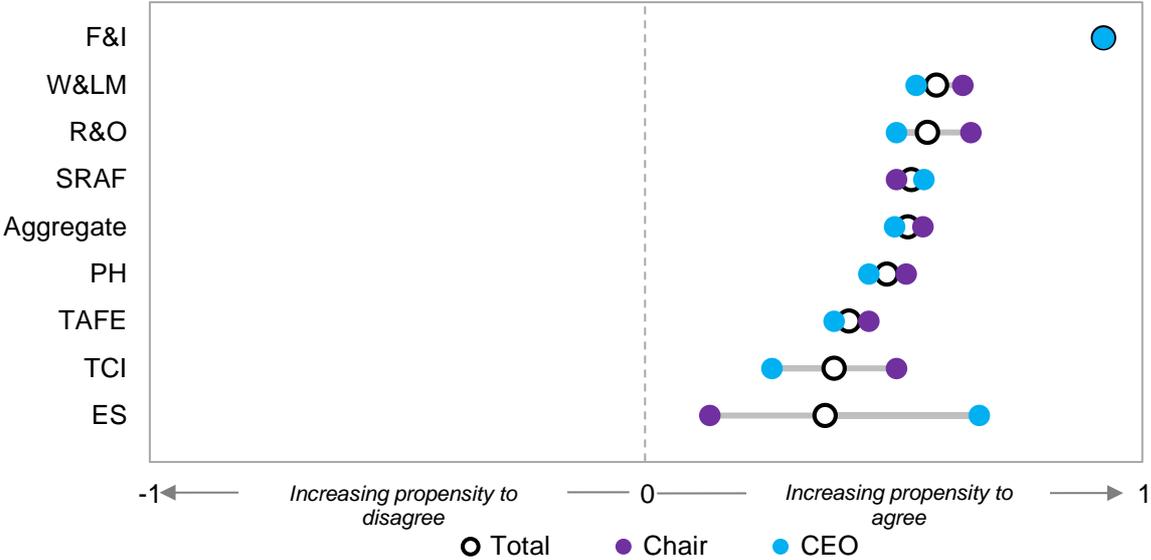
On balance, respondents disagreed that bonuses should be removed from the executive employment offering (-0.14). CEOs (-0.20) were more likely to disagree than Chairs (-0.06). Likely reflecting the magnitude and prevalence of bonuses, Finance and insurance respondents were most likely to disagree (-0.88), while respondents in the Emergency services segment were most likely to agree. It is important to note that consultations revealed greater support for the removal of bonuses if this was to be accompanied by an appropriate uplift in TRP.

Bonuses should be removed from the executive employment offering



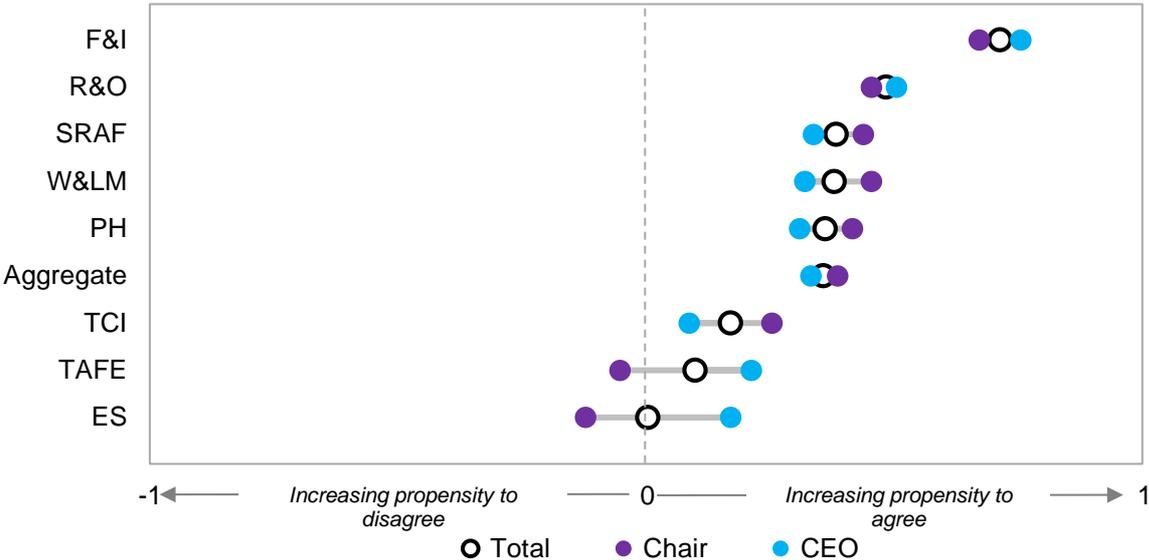
Respondents largely agreed that their performance management arrangements are well understood by executives (+0.52). Response patterns from Chairs (+0.55) and CEOs (+0.50) were comparable. All eight segments recorded moderate to strong agreement, led by Finance and insurance (+0.92). The tendency to agree was lowest in the Emergency services segment, which despite a very high response rate also displayed the greatest divergence in the views of CEOs and Chairs.

I think that my organisation's executive performance management arrangements are well understood by executives



Respondents also agreed that their performance management arrangements are effective in improving performance (+0.35), but the strength of agreement was less pronounced. Again, response patterns for Chairs (+0.38) and CEOs (+0.33) were comparable. Further, performance management arrangements are considered most effective by respondents in the Finance and insurance segment, and least effective by respondents in Emergency services segment.

I think that my organisation's performance management arrangements are effective in improving performance

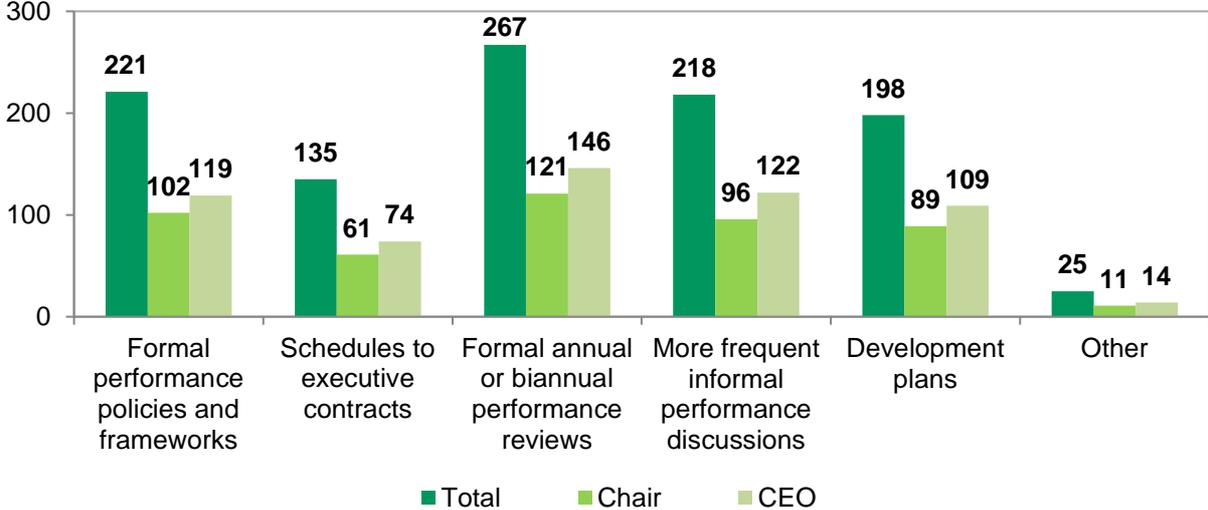


The most commonly cited performance management arrangements in public entities were:

- formal annual or biannual performance reviews (cited by almost all CEOs and Chairs);
- formal performance policies and frameworks;
- more frequent informal performance discussions; and
- development plans.

The agencies that did not undertake performance reviews were largely new organisations, or agencies in the midst of a restructure.

In my organisation, the standard performance management arrangements for executives include:



A3 CONSULTATIONS

Segment	Organisation	Position
Policy issues and final report	Department of Premier and Cabinet	Assistant Director, Public Sector Workforce
		Assistant Director, Remuneration Tribunal
		Deputy Secretary, Governance Policy and Coordination
		Special Adviser, Governance
	Department of Economic Development, Jobs, Transport and Resources	Director, Executive Services and Portfolio Management
	Department of Health and Human Services	Manager, Executive HR Services
Public Healthcare (PH)	Department of Health and Human Services	Director, Health and Human Services Workforce
		Deputy Secretary, People, Capability and Oversight
		Director, People and Culture
		Manager, Executive HR Services
		Acting Director, Commissioning, Performance and Regulation
		Special Advisor, Industrial Relations
		Deputy Secretary, Health Service Policy and Commissioning
	Albury Wodonga Health	CEO
	Ambulance Victoria	CEO
	Austin Health	CEO
	Eastern Health	Chair
	Maryborough District Health Service	CEO
	Melbourne Health	Chair
		CEO
	Monash Health	Chair
		CEO
	Northern Health	Chair
Royal Children's Hospital	Chair	
Royal Victorian Eye and Ear Hospital	Chair	
South West Healthcare	Chair	
West Gippsland Healthcare Group	CEO	

Segment	Organisation	Position
Finance and Insurance (FI)	Department of Treasury and Finance	Director, Financial Assets and Liabilities
		Secretary
	State Trustees Limited	CEO
	Transport Accident Commission	CEO
	Treasury Corporation of Victoria	Deputy Chair
		Chair
		CEO
	Victorian Managed Insurance Authority	CEO
		Chair
		GM, People and Change
	Victorian Funds Management Corporation	Chair
		CEO
	Victorian WorkCover Authority	CEO
		Chair
Transport and Construction (TCI)	Department of Economic Development, Jobs, Transport and Resources	Coordinator-General, Major Transport and Infrastructure Program
		Head, Transport for Victoria
		Director, Executive Services and Portfolio Management
	Department of Health and Human Services	Deputy Secretary
	Melbourne and Olympic Parks Trust	Chair
	Port of Hastings Development Authority	Chair
		CEO
		Former Chair
	Public Transport Development Authority	Former CEO
		CEO
	V/Line Corporation	CEO
		Chair
	VicRoads	CEO
	Victorian Ports Corporation (Melbourne)	Chair
Victorian Rail Track Corporation	CEO	
Victorian Regional Channels Authority	Chair	

Segment	Organisation	Position
Water and Land Management (WLM)	Department of Environment, Land, Water and Planning	Executive Director, Policy, Governance and Legislation
		Acting Deputy Secretary Water and Catchments
		Regional Director, Barwon South West
		Executive Director, Integrated Water and Catchments
		Director, Land Governance
		Director, Land Policy
	City West Water	Managing Director
	Falls Creek ARMB	Chair
	Lower Murray Urban and Rural Water	Chair
	Melbourne Water	Managing Director
	North East CMA	Chair
	North East Water	Managing Director
	Parks Victoria	Chair
	Port Phillip and Westernport CMA	Chair
South East Water	Chair	
Yarra Valley Water	Chair	
Western Water	Chair	
Wimmera CMA	Chair	
Sports, Recreation, Arts and Facilities management (SRAF)	Department of Economic Development, Jobs, Transport and Resources	Deputy Secretary, Creative and Visitor Economies
		Director, Tourism, Events and Visitor Economy,
		Director, Agencies and Infrastructure
	Department of Justice and Regulation	Executive Director, Liquor, Gaming and Racing
	Department of Health and Human Services	Deputy Secretary, Sport and Recreation, Infrastructure, International Engagement and Director of Housing
	Department of Environment, Land, Water and Planning	Executive Director, Land Management Policy
		Acting Director, Land Governance
	Department of Premier and Cabinet	Senior Policy Officer, Veterans Branch
	Australian Grand Prix Corporation	Chair
Greyhound Racing Victoria	Chair	
Kardinia Park Stadium Trust	former Chair	

Segment	Organisation	Position
Sports, Recreation, Arts and Facilities management (SRAF) (cont.)	Melbourne Convention Bureau	CEO
	Museums Victoria	CEO
		General Manager, People and Culture
	National Gallery of Victoria	President
	State Sport Centres Trust	Chair
	Victorian Arts Centre Trust	CEO
Zoological Parks and Gardens	CEO	
Emergency Services (ES)	Department of Justice and Regulation	Acting Deputy Secretary Emergency Management
	Country Fire Authority	CEO
		Chair
	Emergency Services Telecommunication Authority	Chief Operations Officer
		Chair
	Metropolitan Fire and Emergency Response Board	Chair
		Acting CEO
Victoria State Emergency Services	Chair	
	CEO	
TAFE and Other Education (TAFE)	Department of Education and Training	Secretary
		Executive Director, People
		Executive Director, TAFE & Participation
	AMES Australia	CEO
	Box Hill Institute	Chair
	Federation Training Institute	Chair
	Holmesglen Institute	Chair
	Melbourne Polytechnic	Chair
	Victorian Institute of Teaching	Chair
William Angliss Institute of TAFE	Chair	
Regulators and others (RO)	Department of Economic Development, Jobs, Transport and Resources	Deputy Secretary (Agriculture)
	Department of Justice and Regulation	Executive Director, People and Culture
	Department of Health and Human Services	Unit Manager, Cemetery Trust Governance

Segment	Organisation	Position
Regulators and others (RO) (cont.)	Department of Health and Human Services	Director, Health and Human Services Regulation
	Department of Environment, Land, Water and Planning	Executive Director, Planning, Building and Heritage
		Executive Director, Energy Policies and Programs,
	Department of Treasury and Finance	Acting Assistant Director, Social Policy Group
	Accident Compensation Conciliation Service; Victorian Responsible Gambling Foundation	Chair
	Energy Safe Victoria	Director of Energy
		Chief Operations Officer
	Geelong Cemeteries Trust	CEO
	Greater Metropolitan Cemeteries Trust	CEO
	Metropolitan Cemeteries Trust	CEO
Victorian Building Authority	Chair	

A4 COMPOSITION OF INDUSTRY SEGMENTS

The following tables show the composition of each of the eight industry segments, and the portfolio department responsible for each agency, at the time the review of that segment was undertaken.

Public healthcare industry segment		
Metropolitan health services		
DHHS	<ul style="list-style-type: none"> • Alfred Health • Austin Health • Dental Health Services Victoria • Eastern Health • Melbourne Health • Monash Health • Northern Health • Peninsula Health 	<ul style="list-style-type: none"> • Peter MacCallum Cancer Centre • Royal Children's Hospital • Royal Victorian Eye and Ear Hospital • Royal Women's Hospital • The Queen Elizabeth Centre • Tweddle Child and Family Health Service • Victorian Institute of Forensic Mental Health • Western Health
Regional health services		
DHHS	<ul style="list-style-type: none"> • Albury Wodonga Health • Bairnsdale Regional Health Service • Ballarat Health Services • Barwon Health • Bendigo Health Care Group • Central Gippsland Health Service • Echuca Regional Health • Goulburn Valley Health 	<ul style="list-style-type: none"> • Latrobe Regional Hospital • Northeast Health Wangaratta • South West Healthcare • Swan Hill District Health • West Gippsland Healthcare Group • Western District Health Service • Wimmera Health Care Group
Rural health services		
DHHS	<ul style="list-style-type: none"> • Bass Coast Health • Benalla Health • Castlemaine Health • Colac Area Health • Djerriwarrh Health Services • East Grampians Health Service 	<ul style="list-style-type: none"> • Gippsland Southern Health Service • Kyabram and District Health Services • Maryborough District Health Service • Portland District Health • Stawell Regional Health • West Wimmera Health Service
Small rural health services		
DHHS	<ul style="list-style-type: none"> • Alexandra District Health • Alpine Health • Beaufort and Skipton Health Service • Beechworth Health Service • Boort District Health • Casterton Memorial Hospital • Cobram District Health • Cohuna District Hospital • East Wimmera Health Service • Edenhope and District Memorial Hospital • Heathcote Health • Hepburn Health Service • Hesse Rural Health Service • Heywood Rural Health 	<ul style="list-style-type: none"> • Mallee Track Health and Community Services • Mansfield District Hospital • Moyne Health Services • Nathalia District Hospital • Numurkah and District Health Service • Omeo District Health • Orbost Regional Health • Otway Health and Community Services • Robinvale District Health • Rochester and Elmore District Health Service • Rural Northwest Health • Seymour Health • South Gippsland Hospital • Tallangatta Health Service

	<ul style="list-style-type: none"> • Inglewood and Districts Health Service • Kerang District Health • Kilmore and District Hospital • Kooweerup Regional Health Service • Kyneton District Health Service • Lorne Community Hospital • Maldon Hospital 	<ul style="list-style-type: none"> • Terang and Mortlake Health Service • Timboon and District Health Care Service • Upper Murray Health and Community Service • Yarram and District Health Service • Yarrawonga Health • Yea and District Memorial Hospital
Other public health agencies		
DHHS	<ul style="list-style-type: none"> • Ambulance Victoria • BreastScreen Victoria • Health Purchasing Victoria 	<ul style="list-style-type: none"> • Victorian Assisted Reproductive Treatment Authority • Victorian Health Promotion Foundation¹⁶

Transport, construction and infrastructure industry segment		
Transport and construction		
DEDJTR	<ul style="list-style-type: none"> • Public Transport Development Authority • Melbourne and Olympic Parks Trust¹⁷ 	<ul style="list-style-type: none"> • V/Line Corporation • Victorian Rail Track Corporation
Infrastructure		
DEDJTR	<ul style="list-style-type: none"> • Port of Hastings Development Authority • Victorian Ports Corporation (Melbourne) 	<ul style="list-style-type: none"> • Victorian Regional Channels Authority

Finance and insurance industry segment		
DTF	<ul style="list-style-type: none"> • State Trustees Limited • Transport Accident Commission • Treasury Corporation of Victoria 	<ul style="list-style-type: none"> • Victorian Funds Management Corporation • Victorian Managed Insurance Authority • Victorian WorkCover Authority¹⁸

Water and land management industry segment		
Water corporations		
DELWP	<ul style="list-style-type: none"> • Barwon Region Water Corporation • Central Gippsland Region Water Corporation • Central Highlands Regional Water Corporation • City West Water Corporation • Coliban Regional Water Corporation • East Gippsland Region Water Corporation • Gippsland and Southern Rural Water Corporation • Goulburn Murray Rural Water Corporation 	<ul style="list-style-type: none"> • Goulburn Valley Region Water Corporation • Grampians Wimmera Mallee Water Corporation • Lower Murray Urban and Rural Water Corporation • Melbourne Water Corporation • North East Region Water Corporation • South East Region Water Corporation • South Gippsland Region Water Corporation • Wannon Region Water Corporation • Western Region Water Corporation • Westernport Region Water Corporation • Yarra Valley Water Corporation

¹⁶ Except the CEO, who is a Declared Authority.

¹⁷ The Melbourne and Olympic Parks Trust is generally considered a sport and recreation agency. It was included as a transport, construction and infrastructure body because it is currently undertaking a major upgrade to facilities including Rod Laver Arena.

¹⁸ Except the CEO, who is a Declared Authority.

Catchment management authorities		
DELWP	<ul style="list-style-type: none"> • Corangamite Catchment Management Authority • East Gippsland Catchment Management Authority • Glenelg Hopkins Catchment Management Authority • Goulburn Broken Catchment Management Authority • Mallee Catchment Management Authority 	<ul style="list-style-type: none"> • North Central Catchment Management Authority • North East Catchment Management Authority • Port Phillip and Westernport Catchment Management Authority • West Gippsland Catchment Management Authority • Wimmera Catchment Management Authority
Large land management agencies		
DEDJTR	<ul style="list-style-type: none"> • Development Victoria 	<ul style="list-style-type: none"> • VicForests
DELWP	<ul style="list-style-type: none"> • Parks Victoria • Sustainability Victoria¹⁹ 	<ul style="list-style-type: none"> • Victorian Planning Authority
Small land management agencies		
DEDJTR	<ul style="list-style-type: none"> • Gippsland Ports Committee of Management 	
DELWP	<ul style="list-style-type: none"> • Barwon Coast Committee of Management • Bellarine Bayside Foreshore Committee of Management (Inc) 	<ul style="list-style-type: none"> • Great Ocean Road Coast Committee Inc • Trust for Nature (Victoria) • Winton Wetlands Committee of Management
Alpine resorts		
DELWP	<ul style="list-style-type: none"> • Falls Creek Alpine Resort Management Board • Mount Buller and Mount Stirling Alpine Resort Management Board 	<ul style="list-style-type: none"> • Mount Hotham Alpine Resort Management Board • Southern Alpine Resort Management Board
Waste and resource recovery groups		
DELWP	<ul style="list-style-type: none"> • Barwon South West Waste and Resource Recovery Group • Gippsland Waste and Resource Recovery Group • Goulburn Valley Waste and Resource Recovery Group • Grampians Central Waste and Resource Recovery Group 	<ul style="list-style-type: none"> • Loddon Mallee Waste and Resource Recovery Group • Metropolitan Waste and Resource Recovery Group • North East Waste and Resource Recovery Group

Sport, recreation, arts and facilities management segment		
Sport and recreation agencies		
DEDJTR	<ul style="list-style-type: none"> • Australian Grand Prix Corporation • Emerald Tourist Railway Board 	<ul style="list-style-type: none"> • Melbourne Convention Bureau²⁰ • Visit Victoria
DELWP	<ul style="list-style-type: none"> • Phillip Island Nature Park Board of Management 	<ul style="list-style-type: none"> • Royal Botanic Gardens Board²¹ • Zoological Parks and Gardens Board²²

¹⁹ CEO only. Subordinate executives are VPS EOs employed by the Secretary, DELWP.

²⁰ Included in Visit Victoria for SRAF ISR. Treated as separate public entity for final report.

²¹ At the time of the SRAF ISR, the Director of the Royal Botanic Gardens Board and the CEO of the Zoological Parks and Gardens Board were Declared Authorities under s.104 of the PAA, and employed under VPS arrangements. Subsequent legislative change has brought these positions under public entity executive arrangements, and they have been included in the analysis for this report.

²² See footnote 24.

DHHS	<ul style="list-style-type: none"> • Kardinia Park Stadium Trust • State Sport Centres Trust 	<ul style="list-style-type: none"> • Victorian Institute of Sport
DJR	<ul style="list-style-type: none"> • Greyhound Racing Victoria 	<ul style="list-style-type: none"> • Harness Racing Victoria
Creative industries agencies		
DEDJTR	<ul style="list-style-type: none"> • Geelong Performing Arts Centre Trust • Melbourne Recital Centre 	<ul style="list-style-type: none"> • The Wheeler Centre • Victorian Arts Centre Trust
Facilities management agencies		
DEDJTR	<ul style="list-style-type: none"> • Docklands Studios Melbourne Pty Ltd • Federation Square Pty Ltd 	<ul style="list-style-type: none"> • Melbourne Convention and Exhibition Trust • Melbourne Market Authority
DELWP	<ul style="list-style-type: none"> • Working Heritage 	
DPC	<ul style="list-style-type: none"> • Queen Victoria Women's Centre Trust 	<ul style="list-style-type: none"> • Shrine of Remembrance Trust

Emergency services industry segment

DJR	<ul style="list-style-type: none"> • Country Fire Authority • Emergency Services Telecommunications Authority 	<ul style="list-style-type: none"> • Metropolitan Fire and Emergency Services Board • Victoria State Emergency Service
------------	---	--

TAFE and other education industry segment

TAFE institutes		
DET	<ul style="list-style-type: none"> • Bendigo Kangan Institute • Box Hill Institute • Chisholm Institute • Federation Training Institute • Gordon Institute of TAFE • Goulburn Ovens Institute of TAFE 	<ul style="list-style-type: none"> • Holmesglen Institute • Melbourne Polytechnic • South West Institute of TAFE • Sunraysia Institute of TAFE • William Angliss Institute of TAFE • Wodonga Institute of TAFE
Other education agencies		
DET	<ul style="list-style-type: none"> • AMES Australia • VET Development Centre 	<ul style="list-style-type: none"> • Victorian Institute of Teaching

Regulators and other agencies

Regulators		
DEDJTR	<ul style="list-style-type: none"> • Dairy Food Safety Victoria • PrimeSafe 	<ul style="list-style-type: none"> • Victorian Fisheries Authority
DELWP	<ul style="list-style-type: none"> • Energy Safe Victoria²³ 	<ul style="list-style-type: none"> • Victorian Building Authority
DHHS	<ul style="list-style-type: none"> • Victorian Pharmacy Authority 	
DJR	<ul style="list-style-type: none"> • Victoria Law Foundation 	
Cemetery trusts		
DHHS	<ul style="list-style-type: none"> • Ballarat General Cemeteries Trust • Geelong Cemeteries Trust • Greater Metropolitan Cemeteries Trust 	<ul style="list-style-type: none"> • Remembrance Park Central Victoria • Southern Metropolitan Cemeteries Trust

²³ Excluding the Director of Energy Safety, who is a statutory officer.

Other agencies	
DEDJTR	<ul style="list-style-type: none"> Agriculture Victoria Services Pty Ltd Greater Sunraysia Pest Free Area Industry Development Committee LaunchVic Veterinary Practitioners Registration Board of Victoria
DELWP	<ul style="list-style-type: none"> Architects Registration Board of Victoria
DJR	<ul style="list-style-type: none"> Consumer Policy Research Centre Victorian Equal Opportunity and Human Rights Commission²⁴ Victorian Responsible Gambling Foundation²⁵
DPC	<ul style="list-style-type: none"> VITS LanguageLink
DTF	<ul style="list-style-type: none"> Accident Compensation Conciliation Service Victorian Asbestos Eradication Agency

A1.1 Public entities not in scope or excluded from analysis

Some public entities were out of scope for the ISR program as a whole, while the VPSC decided to exclude some others from analysis.

Public entities with no employees (such as class B cemetery trusts and crown land committees of management) were out of scope by virtue of the subject of the review. Public entities with no executive employees at the GSERP census data (such as certain small public hospitals) are excluded from analysis, but still considered in scope. Reasons for other exclusions are given in the table below.

Portfolio	Public entity	Reasons for exclusion
DEDJTR	<ul style="list-style-type: none"> Australian Centre for the Moving Image Film Victoria Museum Victoria National Gallery of Victoria State Library of Victoria VicRoads 	These agencies are Declared Authorities under s.104 of the PAA. They do not employ public entity executives. Executives are employed under VPS arrangements.
DELWP	<ul style="list-style-type: none"> Capel Sound Foreshore Committee of Management Point Leo Foreshore and Public Parks Reserves Committee of Management 	Excluded from analysis due to very small size. NB: these agencies should be included in future public entity executive remuneration governance arrangements.
DET	Centre for Adult Education	Does not employ public entity executives. Executive services provided by Box Hill Institute.
	Government schools	Do not employ public entity executives. Principals and other senior staff are employees in the Teaching Service.
DJR	Victoria Police	Does not employ public entity executives. Executives are a combination of statutory officers, sworn police and VPS EOs.
	<ul style="list-style-type: none"> Victoria Legal Aid Victorian Institute of Forensic Medicine 	These agencies are Declared Authorities under s.104 of the PAA. They do not employ public entity executives. Executives are employed under VPS arrangements.

²⁴ Commissioner only. Subordinate executives are VPS EOs.

²⁵ CEO only. Subordinate executives are VPS EOs.

Portfolio	Public entity	Reasons for exclusion
DTF	<ul style="list-style-type: none"> Old Treasury Building Reserve Committee of Management State Electricity Commission of Victoria 	<p>Excluded from analysis due to very small size.</p> <p>NB: these agencies should be included in future public entity executive remuneration governance arrangements.</p>
Other	<ul style="list-style-type: none"> Departments of the Parliament of Victoria 	Do not employ public entity executives