

## Remuneration Tribunal

### 2018 Review of Principal Executive Office Structure and Arrangements Report

This Statement concludes the Tribunal's formal review of offices covered by the *Principal Executive Office - Classification Structure and Terms and Conditions - Determination 2019*.

The Tribunal decided in March 2018 to conduct a review of the Principal Executive Office (PEO) structure and arrangements. Since 2010 the Tribunal has conducted jurisdictional work value reviews into the remuneration of members of parliament, the office of secretary, Specified Statutory Offices, full-time offices; part-time offices and the judicial and related offices. These reviews have provided opportunities to realign remuneration based on comprehensive and detailed studies and consultation on work value changes.

Unlike the earlier reviews this review focussed on the PEO classification structure, not the work value and remuneration arrangements of individual offices. As a result there are no changes to the remuneration of individual office holders.

The purpose of the review was to consider whether the PEO classification structure and related arrangements continue to meet the government's policy requirements for the structure, employing body operational requirements and contemporary remuneration practices.

#### Conclusions

The Tribunal does not consider it necessary to make any significant changes to the current PEO structure and arrangements. The Tribunal is pleased to report that comments from the range of employing bodies consulted throughout the review were generally positive on the operation of the structure and there was unanimous acknowledgement of the value of having an independent body managing and monitoring the arrangements.

Consultation with relevant Ministers indicates also that the structure has the confidence of government as a suitable mechanism to provide flexibility, within boundaries, to employing bodies of Government Business Enterprises (GBEs) in establishing remuneration for their Chief Executives.

The Tribunal will maintain the five band PEO classification structure with new remuneration rates applying to the range of each band (as noted earlier this does not impact remuneration for office holders); provide advice in guidance material on the types of offices that might be placed within each band; issue a new determination and a new set of guidelines that incorporate guidance on 'at risk' components of remuneration.

As part of the review, in consultation with relevant Ministers as employing bodies, a number of offices were returned to the Tribunal's determinative jurisdiction. The Tribunal will commence a process seeking updated information on the roles and responsibilities of those offices that remain with the PEO structure and have not been reviewed for some time.

## **Principal Executive Office Classification Structure**

### *Current arrangements*

The *Remuneration Tribunal Act 1973* (the Act) sets out the current PEO arrangements. The Act identifies a number of offices as PEOs; sets out the Tribunal's powers to determine a classification structure and the terms and conditions (including remuneration and allowances) applicable to each classification; and to determine significantly related matters.

The Minister responsible for the Act, currently the Minister Assisting the Prime Minister for the Public Service and Cabinet, has a range of powers in relation to PEOs. The Minister can declare an office to be a PEO; assign the office to a classification within the PEO structure; and give notice to the employing body fixing commencing remuneration for the office. For each of these decisions the Minister must seek the advice of the Tribunal and take that advice into account. The Minister can also declare an employing body for the PEO.

The Act provides an employing body with the power to determine the terms and conditions (including remuneration and allowances) applying to an office, consistent with the terms and conditions for the classification determined by the Tribunal.

### *History*

The PEO arrangements were established in 1988 by amendments to the Act, to provide scope for the Boards of GBEs to determine remuneration for their chief executives with the Tribunal providing an advisory role.

Use of PEOs expanded significantly from 1999, when the arrangements were adopted as a vehicle to incorporate performance pay as part of the remuneration package for full-time offices. The Tribunal's role in advising, and later providing consent, to employing bodies was firmed up by amendments to the Act over the 1999-2002 period.

The Tribunal undertook a detailed review of the PEO structure and its operation during 2003-2005, resulting in the arrangements that are largely still in place. Since 2007 the number of PEOs has declined. PEO declarations have been revoked for a number of offices following a change in government policy on the use of performance pay for senior Commonwealth office holders. There has also been a shift from Ministers being directly involved in setting remuneration for offices, with a preference for these to be matters to be determined by the Tribunal.

New PEOs continue to be declared from time to time as new GBEs are established.

## **Conduct of the Review**

### *Consultation*

The Tribunal commenced the review by consulting with the Minister Assisting the Prime Minister for the Public Service at the time and the Minister for Finance, who has policy responsibility for GBEs.

Both Ministers supported the intent of the Tribunal's review and expressed a desire that the PEO arrangements reflect modern remuneration structures while meeting the government's policy requirements and were in line also with the government's approach to an independent, transparent and consistent method of remunerating senior public officials.

The Tribunal also consulted with a number of Ministers who were employing bodies for offices to establish whether they might have a preference of returning the relevant office to the Tribunal's determinative jurisdiction. This occurred in most cases where there was no desire for the remuneration discretion available in the PEO arrangements. To date 11 offices have returned to the Tribunal's determinative jurisdiction.

Meetings were held throughout 2019 with representatives of 16 employing bodies, boards and councils, to discuss their experience with administering the PEO arrangements. Details of the meetings held are at [Attachment A](#) to this report.

General themes coming from the meetings with employing bodies included:

- support for the current structure
- recognition that the current structure provides rigour to maintaining remuneration of public offices at 'reasonable' levels
- current remuneration has not caused issues with attracting the right people for the office, but there is an ever present need to be aware of 'market conditions'
- there is flexibility in the arrangements that is attractive to employing bodies
- there is some variability in how performance is managed and how the 'at risk' component of remuneration (where available) is applied
- there is general support for transparency of short-term incentive processes.

The Tribunal thanks all those who contributed to the review.

In concluding the review the Tribunal also considered its own experience with managing the PEO arrangements and the experience of its Secretariat in providing advice to employing agencies and in briefing the Tribunal Minister on matters relating to the exercise of their powers.

## **Outcomes**

Based on the information collected throughout the review and the views of those consulted the Tribunal has concluded that there are no systemic issues that indicate a need for wholesale changes to the current arrangements.

### *Classification Structure*

The Tribunal will maintain the current five band structure. The remuneration points for each band will be changed to reflect the outcomes of reviews of other relevant Tribunal jurisdictions following work value studies.

The Tribunal will also provide descriptors in guidance material of the types of offices that might be placed in each band taking into consideration the work value of similar offices in its other full-time office jurisdictions.

Details of the revised structure and the descriptors can be found at [Attachment B](#) to this report.

The flexibilities available to employing bodies to determine remuneration set within parameters determined by the Tribunal remain the same. Terms and conditions outlined in the current determination also remain the same.

The changes to the classification structure will require the reclassification of some offices without change to the remuneration of these offices.

#### *Guidelines*

The *Guide to the Principal Executive Office (PEO) Structure* has been rewritten. The guidelines now incorporate the performance remuneration guidelines that have previously been a separate document. The updated guidelines use more contemporary language and are less prescriptive about some processes.

While the Tribunal has no role in assessing the performance of an office holder it does expect employing bodies to establish robust performance management arrangements that ensure accountability and transparency of incentive payment decisions. The Tribunal is concerned that the 'at risk' component of PEO remuneration, where it applies, is not seen as an opportunity to increase fixed total remuneration. The guidelines have been updated to strengthen the management of this component of remuneration.

The revised classification structure, including guidance on the types of offices that might be placed within each band, has been incorporated also into the updated guidelines.

#### *New determination*

The Tribunal will issue a new PEO determination to incorporate changes as detailed in this report. Following engagement with the Office of Parliamentary Counsel on a new determination further minor changes may be required to the guidelines.

#### *Remuneration Arrangements for Offices*

It was noted that the work value of a number of offices in the PEO structure have not been reviewed for significant periods of time. The Tribunal will seek updated information from employee bodies on the roles and responsibilities of these offices.

### **Remuneration Tribunal**

25 March 2020

## Meetings with Employing Bodies

- Ms Louise Markus, Chairperson, Australian Institute of Health and Welfare
- Mr Peter Dexter, Board Member, Australian National Maritime Museum
- *Additional attendees:*  
Mr Paul McCarthy, Executive Manager, Governance and Corporate Strategy
- Lucio Di Bartolomeo, Chair, Australian Naval Infrastructure Pty Ltd
- Mr John Stanhope AM, Chairman, Australia Post
- The Hon Warren Truss AC, Chairman, Australian Rail Track Corporation
- Mr Tony Matthews, Chairman, Civil Aviation and Safety Authority
- Mr David Thodey AO, Board Chairman, CSIRO
- The Hon Sandy Macdonald, Chairman, Defence Housing Australia
- *Additional attendees:*  
Ms Jan Mason, Former Manager Director  
Mr Ross Jordan, General Manager, Governance
- Mr James Millar AM, Chairman, Export Finance and Insurance Corporation
- Mrs Robyn Kruk AO, Chairperson, Food Standards Australia New Zealand
- Dr Kerry Schott AO, Chair, Moorebank Intermodal Company Limited
- Mr David Jones, Chair, National Museum of Australia
- Ms Catherine Tanna, Remuneration Committee Chair, Reserve Bank of Australia
- Dr Bulent Hass Dellal AO, Chairman, SBS
- Mr Bob East, Chair, Tourism Australia
- *Additional attendees:*  
Mr Mark Craig, Executive GM, Corporate  
Mr Steven Murphy, GM People and Culture
- Mr Paul O'Sullivan, Chairman, Western Sydney Airport Corporation

## New PEO Classification structure

Classification	Total Remuneration Range	Descriptors
PEO Band E	From \$570,000	The most senior offices, including heads of large agencies with commercial responsibilities
PEO Band D	\$400,000 - \$650,000	Heads of agencies with significant size and complexity, equating to Austrade, NDIA and Bureau of Meteorology, or requiring significant, high value expertise
PEO Band C	\$300,000 - \$460,000	Roles with at least the breadth and complexity of responsibilities of a Deputy Secretary, including heads of medium-sized agencies and specialists with high value expertise
PEO Band B	\$220,000 - \$345,000	Heads of small agencies or agencies with limited scope, specialists operating in limited environments
PEO Band A	Up to \$240,000	Specialists with specific functions, sometimes operating across jurisdictions but with limited scope