

## *Overlapping APS pay scales proposal*

### **Proposal**

This proposal asserts that the existing linear APS classification system no longer represents the best way to optimise employee performance and skills alignment, but could be modernised through three complementary measures:

1. Establish overlapping APS, EL and SES pay scales similar to how functional, management and executive pay scales overlap in the private sector
2. Decrease, soften or remove rigid classifications within APS, EL and SES bands to eliminate perverse hierarchies based on tenure length, not capability
3. Introduce functional groupings linked to major qualification types such as Administrative, Cyber Security or Legal, with distinct pay scales linked to market prices.

### **Objective**

A public service-wide policy of overlapping pay scales, removal of redundant work level standard classifications, and market-based remuneration will:

1. Improve alignment of leadership and management acumen with managerial positions. That is: better managers, leading better teams
2. Improve the ability to attract scarce skills under flexible and non-permanent arrangements, thereby providing an alternative to 'contractor creep'
3. Improve overall employee engagement - eliminating the pay-progression-seniority model will prevent 'promotion for convenience's sake' where a merit rationale does not exist.

### **Rationale**

Although staff are meant to only progress through APS classifications once they demonstrate sufficient capability, current practice results in many officers reaching managerial roles by virtue of having served long enough, without necessarily having demonstrated sufficient merit.

An overlapping pay structure allows certain employees to advance their careers in terms of responsibility and accountability, and others in terms of technical skills and specialization, but without forcing staff with poor aptitude for personnel management to assume such responsibilities. In other words, only officers suitable for progression to managerial roles are incentivized to do so.

Many professional services, consulting and financial firms **avoid creating perverse hierarchies** by forgoing complex and onerous top-down classification structures. Employees are employed in positions named for their functional roles, not their alignment with a one-size-fits-all work level classification structure. Outside of government, it is not uncommon to find high-performing teams composed of employees with a wide range of ages and experience, working cooperatively with no established hierarchy beyond their team manager. Individual employees are encouraged to work to the extent of their capabilities, not the extent of their position description.

Conversely in the APS, teams typically involve multiple written and unwritten hierarchies due to the APS classification system, which often correlates poorly with employee performance and capabilities. This can impair team cohesion, collegiality and trust, and leads to span of control inefficiencies. Less senior high-performing officers can at times find roles which align their responsibilities and capability, however this is the exception rather than the norm.

### *Looking at APS banding differently*

Large professional services firms such as engineering, legal, accountancy and advisory firms typically offer a broad range of services, often across diverse geographical locations. Their functional breadth and desire to attract highly talented staff is not dissimilar to federal government

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departments. Both organisation types engage with stakeholders at every level, and employees can hold significant criminal and civil liabilities for services offered, or their discharge of authority.

Outside of government in analogous firms, three distinct staffing levels are often evident. The **first layer (A)** includes office clerks, office managers, HR managers, graduates, engineers, lawyers, accountants, and so on. This is the engine room of the organisation. Typically, these staff have limited liabilities, high job mobility, and good job security. Some staff such as highly specialized engineers, lawyers or IT specialists, can command high salaries due to their niche skillsets.

The **second layer (B)** exists to direct and optimise team output. Staff at this level must display leadership aptitude and performance. While some roles require specific technical specialization, this is generally so that managers can assure the work of teams, and sell highly technical concepts in simple terms. These staff are typically better remunerated than the first layer, but there is considerable overlap based on skills and market prices (e.g. a contract services manager with managerial responsibilities may receive less remuneration than a forensic accountant with no managerial responsibilities).

The **third layer (C)** is the narrowest, and is where staff hold significant financial, legal and managerial accountabilities. In this layer it is still possible, for example, for employees with relatively lower-risk corporate enabling accountabilities to receive lower remuneration than, for example, a highly specialised employee in the layer A or B, although this is rare.

The below table outlines these layers, and how they correspond to similar public sector job types:

#	Common job titles (private sector)	Tenure characteristics	Responsibilities / accountabilities	Equivalent job titles (public sector)
A	Analyst / engineer / office clerk / office manager / receptionist / draftsman / legal assistant / lawyer etc.	Higher tenure certainty, but not absolute. Certain skills categories attract more stringent performance standards.	Wide range of responsibilities, with accountabilities varying by role. Pay progression involves greater responsibility, but not necessarily accountability.	Payroll manager, policy officer, program manager, legal specialist, receptionist, cleaner, security guard, Cyber Security specialist, etc. <b>Typically APS staff</b>
B	Manager / Associate / Director / HR manager / Vice President etc.	Decreasing tenure certainty. Clear performance expectations.	Responsible and accountable for personnel and team management. Increasing level of legislated accountabilities / liabilities.	Director, Assistant Director, Team Leader, Unit Head etc. <b>Typically EL staff</b>
C	President / Deputy President / Exec Director / CEO / COO / Group Head / Partner / Chairperson etc.	Tenure linked to regular performance benchmarks and legislative requirements	Clear accountabilities in relevant legislation e.g. ASX and other personal liabilities. Ultimately responsible for financial and organisational performance.	Secretary, Deputy Secretary, First Assistant Secretary, Assistant Secretary, CIO, COO, CEO, etc. <b>Typically SES staff</b>

The fundamental distinction is that while the left column is characterised by multiple overlapping career pathways and market-derived salary scales, the right column is characterised by a single non-overlapping career progression pathway, with arbitrarily derived, monotonic salary scales. The result is (chiefly across levels A and B) low APS correlation between remuneration, capability and responsibility, particularly between functional occupational groups, and across APS departments.

It is now the right time to reset our linear, monotonic and departmentally inconsistent APS career pathways and pay scales. Doing so will be more respectful to all employees, achieve greater fiscal efficiency for taxpayers and will drive improved public sector performance and responsiveness.

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### **A process for reform**

Several steps are suggested below to manage the transition process:

1. **Two to three years from reclassification**, undertake independent research to establish pay scales for different skillsets
  - Pay scales for functional skills groups would not need to precisely align with market conditions, but would need to result in current pay rates converging to some extent with market rates
  - For example, corporate administration pay scales would need to decrease to align with market rates, but perhaps not entirely so as to retain an incentive for loyalty and broader policy knowledge
  - In contrast, specialist legal pay levels would not need to increase to exactly match market rates given intrinsic / reputational incentives and attractive APS workplace conditions
2. Broadcast intent to re-classify positions, and dates of major milestones at a suitably early stage
3. **Eighteen months from reclassification**, start ramping up external recruitment based on the new pay scales and classification system
4. Set an ambitious, non-negotiable span of control target for all departments, and reinforce measures to hold all employees accountable for underperformance where it occurs. Ensure 360 degree reviewing is universally established as a standard business practice for all departments, for all employees with managerial responsibilities
5. **Six months from reclassification**, provide all employees with the option to continue under the new pay scale and classification system, or accept a severance package
6. Provide options for employees looking for advancement, either technical or managerial, to apply for managerial or technical specialist rounds - e.g.:
  - A 45 year old EL officer with a postgraduate law qualifications seeking less staff management and specialization in privacy law could apply for a specialist APS position with equivalent remuneration
  - A 35 year old APS officer with a MBA, 10 years relevant non-government experience, and the right aptitude, skills and drive to manage a substantial team, could apply for an EL or SES managerial position with equivalent, or marginally higher remuneration.
7. **At reclassification**, enact the new classification system and through a well-sequenced APS-wide process, standardise remuneration for functional skills groups across all departments