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# Broader Market Comparison - SES Remuneration

Department of Employment, Workplace Relations and  
Small Business

Revised version May 2001

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# Executive Summary

Mercer Cullen Egan Dell has prepared this report based on broader market comparisons of APS SES remuneration for the Department of Employment, Workplace Relations and Small Business (DEWRSB).

This report covers the following:

- APS comparisons with State public service and the private sector at Base Salary (BS) and Total Remuneration Package (TRP) level
- APS incentive comparisons
- UK and US public sector pay practices

## Comparison with State SES

### Base Salary

- At the Base Salary level, APS SES are positioned slightly below State counterparts - except at SES 1
- Since 1999, APS SES have moved closer to their State counterparts at SES 2 & 3 and have moved further ahead of their State counterparts at SES 1
- Overall, APS SES are positioned above VIC, NT, QLD and SA SES, but below ACT and NSW SES at BS level

### Total Remuneration Package

- At the TRP level, APS SES are positioned slightly above their State counterparts except at SES 3
- Since 1999, APS SES remuneration movements are greater than State counterparts at all SES levels
- Overall, APS SES are positioned above VIC, QLD, SA and WA SES, but below ACT, NSW and NT SES at TRP level

### Overall summary

- The APS SES are better positioned comparatively at SES 1, than at SES 3

## Comparison with Private Sector Executives

### Base Salary

- At the Base Salary level, APS SES (median BS) are positioned slightly above the first quartile Q1 of private sector at SES 1, but below Q1 for SES 2 and 3.
- APS SES are positioned well below the private sector BS median at all SES levels.

### Total Remuneration Package

- At the TRP level, APS SES (median TRP) are positioned slightly above Q1 of private sector at SES 1, but below Q1 for SES 2 and 3.
- APS SES are positioned well below the private sector TRP median at all SES levels.

### Incentives

- The average incentive actually paid to APS SES employees is around 5% of TRP
- Incentive payments for executives in the private sector, are typically in the order of 10 – 25% of TRP (average 20%)
- APS SES employees are still significantly below their private sector counterparts

### Overall summary

The gap between the first quartile of private sector executives and the APS SES has decreased since 1999. However, the APS SES median BS and TRP remain significantly below the private sector median. This gap is even larger when looking at Total Reward (TR).

Table 1

Summary of remuneration comparisons (Base Salary)

|       | State PS          | Private Sector Q1 | Private Sector Median |
|-------|-------------------|-------------------|-----------------------|
|       | Difference to APS |                   |                       |
| SES 1 | +5%               | +2%               | -14%                  |
| SES 2 | 0%                | -7%               | -24%                  |
| SES 3 | -2%               | -24%              | -38%                  |

Table 2  
Summary of remuneration comparisons (TRP)

|       | State PS          | Private Sector<br>Q1 | Private Sector<br>Median |
|-------|-------------------|----------------------|--------------------------|
|       | Difference to APS |                      |                          |
| SES 1 | +8%               | +3%                  | -13%                     |
| SES 2 | +3%               | -11%                 | -27%                     |
| SES 3 | -2%               | -29%                 | -42%                     |

### UK public sector

- 2/3 of pay rises in 2000 between 2.5%-3.5%
- Large number of deals between 3 and 3.5%
- Major departments had rises of 4%
- Where attraction and retention problems exist, there is a trend of above average pay rises
- Figures from average earnings index show 3.7% increase in the public sector and 4.3% in private sector (to November 2000)
- Public Sector positioning relative to the private sector varies substantially

### US public sector

- An across the board increase of 2.7%
- Locality rates of between 6.8% to 15%
- Major departments had rises of 4%
- Special salary rates exist for:
  - ⇒ IT staff
  - ⇒ agencies within the financial services and the intelligence realm
- The public sector is implementing various initiatives such as “Demonstration Projects” to improve its positioning against the private sector
- In the private sector, executive base pay increased approx. 6% and variable pay 10%
- Variable pay is not very widespread in public sector – there are plans to increase its prevalence

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# Introduction

The Department of Employment, Workplace Relations and Small Business (DEWRSB) commissioned Mercer Cullen Egan Dell (MCED) to conduct a survey of remuneration within the Senior Executive Service (SES) on behalf of APS agencies.

This report makes up the second part of this survey, which was to conduct a wider market comparative study of executive remuneration, with particular emphasis on senior executive positions in the private sector and in State and Territory governments.

To do this we have conducted a “desk research approach” and drawn on our extensive remuneration databases and knowledge of senior executive service remuneration in the public sector.

Indicative paylines have been constructed for the APS using data obtained from the 2000 SES Remuneration Survey. These paylines are based on the following work value points for each grade:

Table 3  
SES Pay Band – Indicative Work value Points Ranges

| Band  | Minimum | Midpoint | Maximum |
|-------|---------|----------|---------|
| SES 1 | 685     | 817      | 949     |
| SES 2 | 950     | 1225     | 1499    |
| SES 3 | 1500    | 1840     | 2179    |

## Definition of Terms

|   |   |
|---|---|
| <b>Base Salary (BS)</b>                 | Base Salary represents the full time equivalent annualised PAYE salary. It <i>includes</i> post-tax employee superannuation contributions and any additional car post-tax salary sacrifice amount. It <i>excludes</i> all other cash components including bonus, commission, leave loading, allowances and other ‘sacrificed’ amounts.  |
| <b>Total Remuneration Package (TRP)</b> | Total Remuneration Package is defined as base salary plus the value of any benefits such as superannuation and motor vehicles, plus FBT on all benefit items. It does not include any incentive payments. Please note to enable us to compare public service pay rates with the private sector, we have adjusted the relevant TRP values by taking into consideration the differences which exist between the public and private sector, such as with vehicle costings. |
| <b>Total Reward (TR)</b>                | Total Reward is Total Remuneration Package plus short-term incentive payments.  |
| <b>Private Sector Market</b>            | Executive positions drawn from our Mercer Cullen Egan Dell General Market database, covering all industries across the Australian commercial sector.  |
| <b>Public Service Market</b>            | In this instance, public service market refers to positions defined as executives in public service jurisdictions in NSW, QLD, NT, ACT, SA and WA Public Services. It does not include Government Business Enterprises (GBE’s). <b>The public service market used for comparison in this report will be referred to as the <u>Combined State Public Services</u> (excluding the APS).</b>   |
| <b>Public Sector Market</b>             | The public sector market includes the public service market as referred to above and Government Business Enterprises.   |
| <b>Bonus Plans</b>                      | Bonus plans base reward on an organisation’s overall performance. They involve the distribution of an agreed pool of money, which is created as a result of a specific level of performance. Bonuses paid are often discretionary, although payment may be related in principle to organisation level or position impact. They are generally paid once a year, often at or around the end of the financial or calendar year.  |

## **Incentive Plans**

Incentive plans are reward programs to achieve a particular outcome. Payments are geared to defined performance parameters and are designed to bring about positive employee action. Short-term incentives (STI) are any non-guaranteed component of remuneration with a performance period of twelve months or less.

## **Statistical Terms**

The **Median** is the midpoint of a range of figures. It is calculated by sorting all the values into ascending order then locating the value above which 50% of the scores fall and below which 50% of the scores fall.

The **first quartile** (or 25th Percentile) is the mid-point of the lower half of the sample. That is, the first quartile is the score below which 25% of the cases fall and above which 75% fall.

The **Average** is calculated by summing all of the values of a range of figures and dividing this value by the number of observations.

A **Comparatio** is the ratio of actual remuneration to the market expressed as a percentage. The normal range of comparatios one might expect are between 0.90 and 1.10.

**Pay lines**, as referred to in this report, are regression lines derived from work value points and their corresponding published rates of pay, or in the case of the APS, actual data.

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# Report Outline

Specifically, this report presents two major comparative analyses, these broadly being:

- the APS and the Private Sector
- the APS and the Public Service/Sector

## APS vs Private Sector

### 1. **Relative Position of the APS SES 1-3 Bands with the Private Sector**

The relative position of the APS SES 1-3 bands (Base Salary and Total Remuneration Package) with the private sector using the median of each APS SES band for comparison purposes.

### 2. **Typical Pay Practices in the Private Sector**

A commentary of typical pay practices in private sector organisations, and the composition, value and incidence of remuneration benefits typically provided at work value levels equivalent to the APS SES 1-3 bands in the private sector.

### 3. **Private Sector Remuneration Movements**

Remuneration movements in the private sector across Australia over the last 12 months by comparable work value levels and job family.

## APS vs Public Service

### 4. **Relative Position of the APS SES 1-3 Bands with the Combined State Public Services**

The relative position of the APS SES 1-3 bands (Base Salary and Total Remuneration Package) with the Combined State Public Services, using the median of each APS SES band for comparison purposes.

### 5. **Relative Position of the APS SES 1-3 Bands with Individual Public Service Jurisdictions**

Relative Position of actual APS SES 1-3 bands (Base Salary and Total Remuneration Package) with **individual** public service jurisdictions using the median of each APS SES band for comparison purposes.

**6. Benefit Provision in the Public Sector**

The composition, value and incidence of remuneration benefits typically provided at work value levels equivalent to the APS SES 1-3 bands.

**7. Incentive Practices in the Individual Public Service Jurisdictions**

A commentary of incentive practices in other public service jurisdictions.

**8. APS Comparison with the Combined State Public Services and the Private Sector**

Positioning of APS and the Combined State Public Services against the Private Sector.

**9. International Public Sector Pay Practices**

Pay practices, pay movements and current issues in the US and UK federal and civil services (public sectors).

The following **data sources** have been used to conduct the comparative analyses:

- actual APS remuneration based on the 2000 APS SES Remuneration Survey
- published rates for public jurisdictions, which include ACT, NSW, NT, QLD, SA, VIC and WA
- Mercer Cullen Egan Dell General Market 25th Percentile and General Market Median
- Mercer Cullen Egan Dell remuneration databases
- William M. Mercer International databases

**Please note, unless otherwise indicated**, the APS SES median TRP values reported in the “*Broader Market Comparison*” will be different to those presented in the “*APS SES Remuneration Survey*”. The small differences arise because we have taken into consideration the differences that exist between the private sector and the public sector in calculating the value of motor vehicles (see TRP in definition of terms). The new calculations of TRP allows for an “apples with apples” comparison.

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## Relative Position of Bands APS SES 1-3 with the Private Sector

Comparative analyses have been prepared for DEWRSB on the basis of the median base salary and total remuneration package values for each of the APS SES bands to determine the relative position of the APS SES 1-3 bands to the private sector.

Each APS SES band has been compared to the private sector at the base salary and total remuneration package level, specifically:

- to the **General Market 25th Percentile** (the pay position at which 75% of organisations pay more for equivalent sized positions and 25% pay less);
- to the **General Market Median** (the pay position at which 50% of organisations pay more for equivalent sized positions and 50% pay less).

Whilst comparisons at the base salary level have been included, Mercer Cullen Egan Dell consider comparisons at the Total Remuneration Package level more useful when making remuneration decisions, especially at senior executive levels.

### Base Salary Comparison

Tables 4 - 5 and Figure 1 compare the **median base salary** of each APS SES band to the Private Sector 25th Percentile and Private Sector Median based on the midpoint (work value and pay) of each APS SES band.

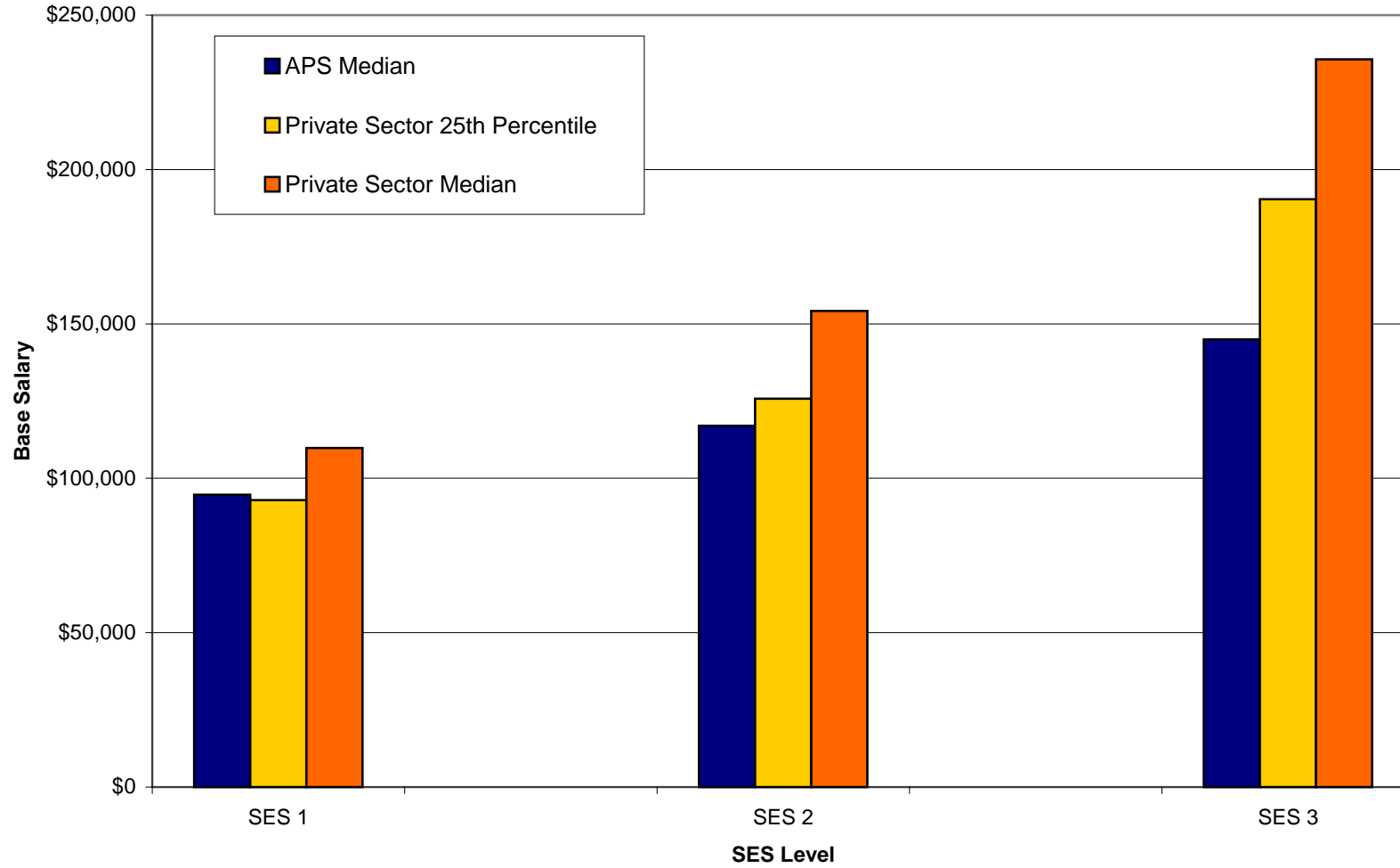
Table 4  
Base Salary Comparisons of each APS SES Pay Band with the Private Sector

| SES Pay Band | Work Value Points<br>(midpoint) | APS Median<br>Base Salary | Private Sector (as at January 2001) |           |
|--------------|---------------------------------|---------------------------|-------------------------------------|-----------|
|              |                                 |                           | 25th Percentile                     | Median    |
| SES 1        | 817                             | \$94,679                  | \$92,900                            | \$109,800 |
| SES 2        | 1225                            | \$117,000                 | \$125,800                           | \$154,200 |
| SES 3        | 1840                            | \$145,000                 | \$190,400                           | \$235,700 |

Table 5  
Base Salary Difference of each APS SES Pay Band with the Private Sector 25th Percentile

| SES Pay Band | Work Value Points<br>(midpoint) | APS Median<br>Base Salary | Private Sector<br>25th Percentile | Difference | Comparatio |
|--------------|---------------------------------|---------------------------|-----------------------------------|------------|------------|
|              |                                 |                           |                                   |            |            |
| SES 2        | 1225                            | \$117,000                 | \$125,800                         | - \$8,800  | 0.93       |
| SES 3        | 1840                            | \$145,000                 | \$190,400                         | - \$45,400 | 0.76       |

Figure 1  
Comparison of Median APS SES 1-3 Base Salary with the Private Sector



## 2000 Commentary

An inspection of the tables and figure pertaining to median base salary in this section reveal:

- At SES 1, the APS is marginally above the Private Sector 25th Percentile (2%)
- At SES 2, the APS is 7% below the Private Sector 25th Percentile
- At SES 3, the APS is significantly below the Private Sector 25th Percentile (24%)
- In all instances the APS is significantly below the Private Sector Median

## 1999 Comparison

- At SES 1, the APS have improved their relative position to the Private Sector 25th Percentile since 1999
- As in 1999, the APS were below the Private Sector 25th Percentile at SES 2 and SES 3, however the gap in 2000 has been reduced slightly

## Total Remuneration Package Comparison

Tables 6 - 7 and Figure 2 compare the **median Total Remuneration Package** of each APS SES band to the Private Sector 25th Percentile and Private Sector Median.

Table 6

Total Remuneration Package Remuneration Comparisons of each APS SES Pay Band with the Private Sector

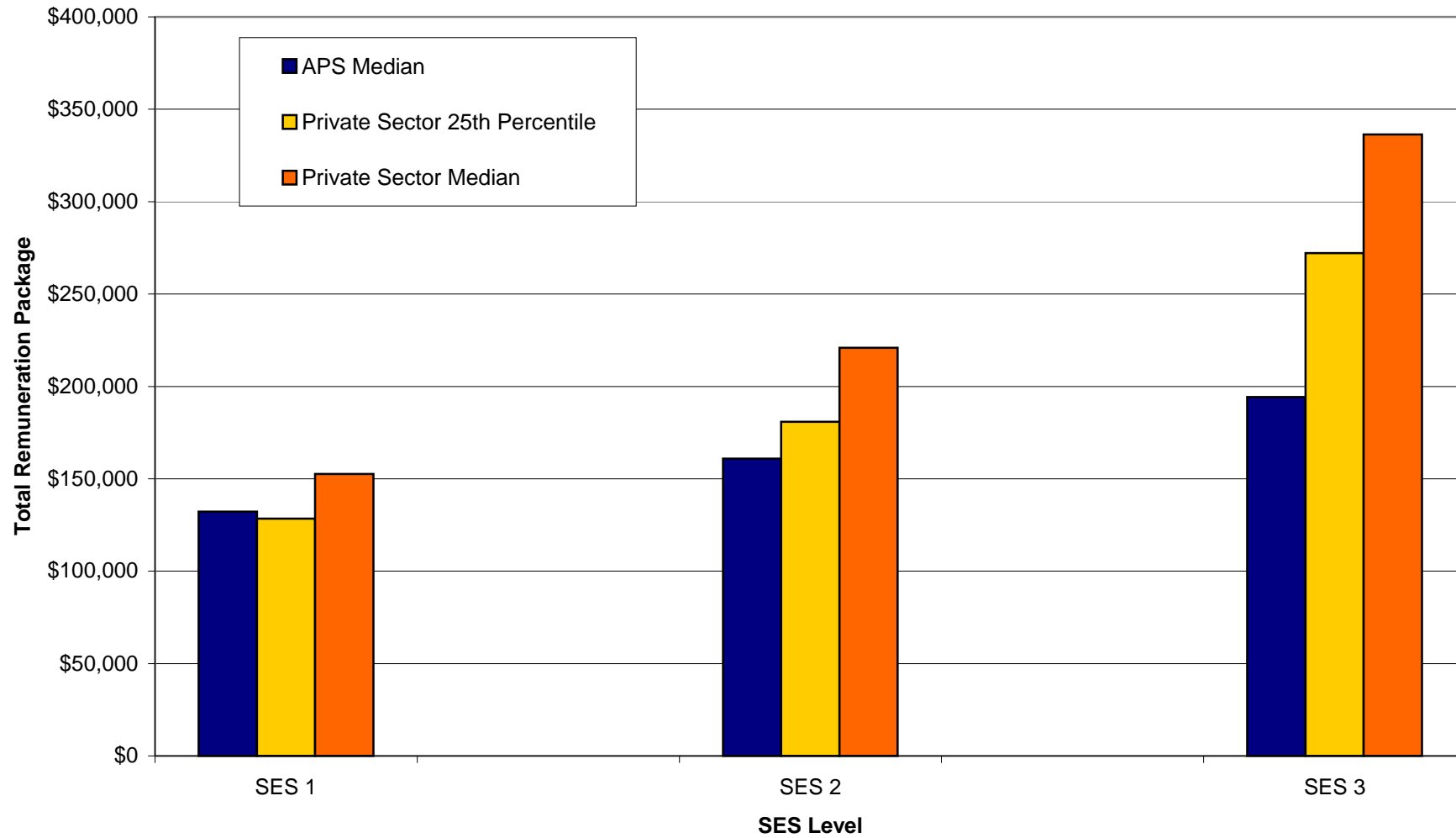
| SES Pay Band | Work Value Points<br>(midpoint) | APS TRP   | Private Sector (as at January 2001) |           |
|--------------|---------------------------------|-----------|-------------------------------------|-----------|
|              |                                 | Median    | 25th Percentile                     | Median    |
| SES 1        | 817                             | \$132,287 | \$128,500                           | \$152,600 |
| SES 2        | 1225                            | \$160,882 | \$180,900                           | \$220,900 |
| SES 3        | 1840                            | \$194,309 | \$272,200                           | \$336,300 |

Table 7

Total Remuneration Package of each APS SES Pay Band with the Private Sector 25th Percentile

| SES Pay Band | Work Value Points<br>(midpoint) | APS TRP<br>Median | Private Sector<br>25th Percentile | Difference | Comparatio |
|--------------|---------------------------------|-------------------|-----------------------------------|------------|------------|
| SES 1        | 817                             | \$132,287         | \$128,500                         | \$3,787    | 1.03       |
| SES 2        | 1225                            | \$160,882         | \$180,900                         | -\$20,018  | 0.89       |
| SES 3        | 1840                            | \$194,309         | \$272,200                         | \$77,891   | 0.71       |

**Figure 2**  
**Comparison of APS SES 1-3 Total Remuneration Package with Private Sector**



## 2000 Commentary

An inspection of the tables and figures pertaining to median Total Remuneration Package in this section reveal:

- At SES 1, the APS is slightly above the Private Sector 25th Percentile (3%) but 13% below the Private Sector Median
- At SES 2, the APS is 11% below the Private Sector 25th Percentile and 27% below the Private Sector Median
- At SES 3, the APS is 29% below the Private Sector 25th Percentile and 42% below the Private Sector Median

## 1999 Comparison

- At SES 1, the APS has maintained the same relative position to the Private Sector 25th Percentile
- At SES 2 and SES 3, the gap has slightly widened in 2000 between the APS and Private Sector 25th Percentile
- There is still a significant gap when compared to the Private Sector median

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# Typical Pay Practices in the Private Sector

The following section provides an overview of remuneration strategies, practices and policies occurring in private sector organisations. This will include:

- Average remuneration increases
- Remuneration packaging approach

## Average Remuneration Increases

The 2000 Mercer Cullen Egan Dell APS SES Remuneration Survey asked respondents to indicate the average remuneration increase are budgeted through to 2002.

A number of key trends were evident from the survey data:

- 3% - 4% is the projected remuneration increase over each of the next three years for all SES levels.
- The distribution of remuneration increases in the survey group as a whole is very narrow. However, the range of increases anticipated by individual agencies is wide, from a low of no increase to a high of 20%.

## Remuneration Packaging Approach

- Contemporary reward strategies include the concept of a remuneration package, where an organisation calculates the costs associated with employing an individual over and above base salary
- The percentage of organisations using a remuneration package approach for senior executives decreased for the first time in four years. In 2000, 77% of organisations reported using a remuneration package approach for senior executives, down from 80% in 1999. Remuneration packaging in 2000 also decreased at other levels in organisations
- Mercer Cullen Egan Dell's survey data shows a continuing trend of more organisations offering employees the flexibility to choose their own mix of benefits

- 89% of organisations which use a remuneration packaging approach, provide their senior executive staff with the flexibility to choose the make-up of their package
- The opportunity for employees to vary their package is primarily in the areas of superannuation and company vehicles. However, a substantial percentage of organisations extend this flexibility to all benefits provided
- In 2000, at least 40% of organisations surveyed require employees to take a minimum percentage of their remuneration package in cash. Those organisations who do have a cash minimum typically determine this minimum as a percentage of the employee's package. At the median, the minimum cash limit of the package is 50%
- In the APS in 2000, at least 50% of agencies surveyed require employees to take a minimum percentage of their remuneration package in cash. Those agencies that do have a cash minimum typically determine this minimum as a percentage of the employee's package. At the median, the minimum cash limit of the package is 50% for all levels of SES.

Table 8  
Provision of Remuneration Package Items for Senior Executives

| Package Item   | Percentage of Organisations Providing |           |           |           |
|--|---------------------------------------|-----------|-----------|-----------|
|  | Private Sector                        | APS SES 1 | APS SES 2 | APS SES 3 |
| Company vehicle  | 86                                    | 98        | 97        | 96        |
| Employee salary sacrifice superannuation                               | 80                                    | 44        | 35        | 29        |
| Employer superannuation contributions (over and above SGC commitments) | 76                                    | 31        | 29        | 38        |
| Second vehicle   | 45                                    | 31        | 32        | 38        |
| Professional association membership                                    | 41                                    | 52        | 47        | 46        |
| Laptop   | 40                                    | 58        | 62        | 58        |
| Variable reward payments   | 39                                    | 79        | 85        | 83        |
| Mobile phone   | 39                                    | 73        | 79        | 83        |
| Parking  | 28                                    | 48        | 47        | 46        |
| Self-education expenses  | 26                                    | 29        | 27        | 25        |
| Salary continuance insurance   | 24                                    | 21        | 21        | 21        |
| Total and permanent disablement insurance                              | 23                                    | 25        | 24        | 25        |
| Life insurance   | 22                                    | 19        | 24        | 25        |
| Payment of private telephone accounts                                  | 22                                    | 15        | 21        | 13        |
| Health insurance and expenses  | 22                                    | 19        | 21        | 21        |
| Club or gym subscriptions  | 15                                    | 23        | 29        | 25        |
| Financial planning   | 12                                    | 31        | 29        | 29        |
| Health evaluation or medical checks                                    | 12                                    | 8         | 12        | 8         |
| Dependants' education expenses   | 12                                    | 13        | 15        | 13        |

| Package Item                           | Percentage of Organisations Providing |           |           |           |
|--|---------------------------------------|-----------|-----------|-----------|
|  | Private Sector                        | APS SES 1 | APS SES 2 | APS SES 3 |
| Home, personal or investment loans     | 11                                    | 8         | 12        | 8         |
| Spouse travel                          | 9                                     | 31        | 38        | 38        |
| Reimbursement of non-business expenses | 8                                     | 2         | 3         | -         |
| Child care                             | 8                                     | 21        | 21        | 25        |
| Private travel                         | 8                                     | 2         | 3         | 4         |
| Mortgage subsidy                       | 7                                     | 6         | 9         | 8         |

## Superannuation

Superannuation is an important element of the APS approach to remuneration packaging. However, as the following table illustrates, the use of superannuation as a benefit in the private sector varies considerably against the APS. Private sector superannuation values have been derived from Mercer Cullen Egan Dell's databases.

Table 9  
APS Superannuation Comparisons with the Private Sector at Comparable SES 1-3 Levels

| SES Level | APS (Median) |          | Private Sector median |          |
|-----------|--------------|----------|-----------------------|----------|
|           | Dollars      | % of TRP | Dollars               | % of TRP |
| SES 1     | \$19,208     | 13       | \$8,928               | 7        |
| SES 2     | \$23,903     | 14       | \$12,001              | 8        |
| SES 3     | \$28,743     | 14       | \$16,944              | 8        |

Table 9 highlights that notable differences exist between the private sector and APS at all SES levels, with the APS SES receiving up to 50% more superannuation than their private sector counterparts (at similar levels of TRP).

Another point of comparison is the fact that in the private sector 28% of funds are defined benefit and 72% are accumulation funds. This is the converse of the APS where nearly all staff (99% of APS SES) are in defined benefit funds.

## Overall Benefit Provision

Tables 10 to 12 present an analysis of **actual** private sector benefit provision across our database by work value levels equivalent to the SES 1-3 bands.

Please note, whilst a dollar amount has been provided in the following tables for incentives, incentive payments for executives in the private sector are typically in the order of 10 – 25% of TRP (average 20%). Most organisations place a cap on the maximum incentive payment. This is generally twice the target incentive.

**Please note**, the “% Rep” figure is the proportion of individuals in the sample who receive a particular component of remuneration. Hence, if one company inputs data on three financial accountants, but only one of them receives a company car, this will count as 33%.

Table 10  
Benefit Provision in the Private Sector  
Work Value Equivalent to APS SES 1

| Sample Size = 2323                        | Q1       | Median   | APS SES 1<br>Median | Q3       | Average  | % Rep |
|---|----------|----------|---------------------|----------|----------|-------|
| Motor Vehicles (includes parking for APS) | \$18,831 | \$21,278 | \$17,934            | \$25,136 | \$22,355 | 56%   |
| Parking (Private Sector)                  | \$2,062  | \$3,900  |                     | \$5,031  | \$3,398  | 12%   |
| Superannuation                            | \$6,824  | \$8,928  | \$19,208            | \$12,232 | \$10,281 | 100%  |
| Actual Incentive                          | \$6,000  | \$10,006 | \$4,656             | \$19,670 | \$16,449 | 49%   |

Table 11  
Benefit Provision in the Private Sector  
Work Value Equivalent to APS SES 2

| Sample Size = 1501                        | Q1       | Median   | APS SES 2<br>Median | Q3       | Average  | % Rep |
|---|----------|----------|---------------------|----------|----------|-------|
| Motor Vehicles (includes parking for APS) | \$19,730 | \$23,179 | \$18,497            | \$27,524 | \$24,910 | 65%   |
| Parking (Private Sector)                  | \$2,080  | \$3,720  |                     | \$5,031  | \$3,554  | 13%   |
| Superannuation                            | \$8,138  | \$12,001 | \$23,903            | \$17,927 | \$14,145 | 100%  |
| Actual Incentive                          | \$10,000 | \$19,165 | \$6,316             | \$31,500 | \$27,291 | 52%   |

Table 12  
Benefit Provision in the Private Sector  
Work Value Equivalent to APS SES 3

| Sample Size = 412                        | Q1       | Median   | APS SES 3<br>Median | Q3       | Average  | % Rep |
|--|----------|----------|---------------------|----------|----------|-------|
| Motor Vehicle (includes parking for APS) | \$20,473 | \$25,136 | \$19,252            | \$32,194 | \$28,447 | 67%   |
| Parking (Private Sector)                 | \$2,290  | \$3,000  |                     | \$5,031  | \$3,376  | 11%   |
| Superannuation                           | \$12,086 | \$16,944 | \$28,743            | \$24,000 | \$20,878 | 100%  |
| Actual Incentive                         | \$14,678 | \$33,605 | \$15,889            | \$62,514 | \$67,563 | 50%   |

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# Private Sector Remuneration Movements

Actual and forecast movements are presented for:

- Economic indices (public sector economic indices are also included in this section)
- Private sector remuneration

## Economic Indices

- Consumer Price Index (CPI) rose 0.3% in the December 2000 quarter, down from 3.7% in the September 2000 quarter. Between the December quarters 1999 and 2000, the CPI rose 5.8%
- The September 2000 quarter CPI estimates were affected by the introduction of the goods and services tax, and the removal of wholesale sales taxes and some State and Territory taxes
- Full time ordinary time earnings (AWOTE) for the private and public sectors rose by 0.3% and 1.0% respectively in the November 2000 quarter, and 1.2% overall
- AWOTE for the private and public sectors rose by 6.5% and 4.6% respectively in the twelve months to November 2000, and 5.5% overall
- In the September 2000 quarter, Wage Cost Index (WCI) increases were 1.3% and 1.1% respectively, for the private and public sector, and 3.1% and 2.9% respectively for the private and public sector, between September 1999 and September 2000
- The WCI for all employee jobs in Australia, increased by 3.4% between December 1999 and December 2000 and 0.8% for the September to December 2000 quarter. Unlike the AWOTE, the WCI is unaffected by, for example, shifts in the distribution of employees across occupations and industries, and between full-time and part-time jobs. The WCI is a pure price index designed to measure changes over time in wage and salary rates of pay
- The WCI increased 0.8% for the December 2000 quarter for both the private and public sector and 3.5% and 3.1% respectively for the year ending December 2000

Table 13 presents actual same incumbent movements in base salary by particular job families for the year ending September 2000, in addition to Mercer Cullen Egan Dell's forecast for 2001/2002.

Table 13  
Base Salary Remuneration Movements\* - by Job Family

| Job Family             | Year Ending September 2000 | Forecast 2001/2002 |
|------------------------|----------------------------|--------------------|
| Senior Management      | 4.7%                       | 4.8%               |
| Finance                | 4.3%                       | 4.5%               |
| Information Technology | 4.9%                       | 5.1%               |
| Human Resources        | 4.4%                       | 4.5%               |
| Engineering            | 4.3%                       | 4.3%               |
| Scientific             | 4.5%                       | 4.5%               |
| Marketing              | 4.3%                       | 4.5%               |
| Sales                  | 4.3%                       | 4.3%               |
| Production             | 4.0%                       | 3.9%               |
| Supply/Distribution    | 4.1%                       | 4.1%               |
| Overall Trend          | 4.4%                       | 4.4%               |

\* Median increase same incumbent

Table 14 presents actual same incumbent movements in Total Remuneration Package by particular job families for the year ending September 2000, in addition to Mercer Cullen Egan Dell's forecast for 2001/2002.

Table 14  
Total Remuneration Package - Remuneration Movements\* by Job Family

| Job Family             | Year Ending September 2000 | Forecast 2001/2002 |
|------------------------|----------------------------|--------------------|
| Senior Management      | 4.8%                       | 4.8%               |
| Finance                | 4.5%                       | 4.6%               |
| Information Technology | 5.0%                       | 5.2%               |
| Human Resources        | 4.5%                       | 4.5%               |
| Engineering            | 4.4%                       | 4.3%               |
| Scientific             | 4.6%                       | 4.5%               |
| Marketing              | 4.5%                       | 4.5%               |
| Sales                  | 4.3%                       | 4.4%               |
| Production             | 4.2%                       | 4.0%               |
| Supply/Distribution    | 4.2%                       | 4.1%               |
| Overall Trend          | 4.5%                       | 4.4%               |

\* Median increase same incumbent

Tables 15 & 16 presents an analysis of the annual median movements to January 2001 from our database, by work value levels equivalent to the SES 1 to 3 bands.

Table 15

Median Movements in Base Salary at Work Value Levels Equivalent to SES 1 - 3 Bands

| SES Pay Band     | Annual Base Salary Movements |
|------------------|------------------------------|
|                  | Jan 00 - Jan 01              |
| SES 1 equivalent | 4.5%                         |
| SES 2 equivalent | 4.8%                         |
| SES 3 equivalent | 4.9%                         |

Table 16

Median Movements in Total Remuneration Package at Work Value Levels Equivalent to SES 1 - 3 Bands

| SES Pay Band     | Total Remuneration Package<br>Movements |
|------------------|---|
|                  | Jan 00 - Jan 01                         |
| SES 1 equivalent | 4.4%                                    |
| SES 2 equivalent | 4.6%                                    |
| SES 3 equivalent | 4.6%                                    |

---

## Relative Position of APS SES Bands 1-3 to the Combined State Public Services

Comparative analyses have been prepared for DEWRSB on the basis of median base salary and total remuneration package values for each of the APS SES bands, to determine the relative position of the SES bands to the State Public Services.

Each SES band has been compared to the public service, specifically:

- The **Combined State Public Services**, which comprises work value and remuneration data from the Queensland, Victoria, Northern Territory, Australian Capital Territory, New South Wales, South Australia and Western Australia public services
- **Individual public services**, as above

### Note:

- the remuneration data is that which is current for the respective public services jurisdictions
- pay lines have been constructed for both the **APS** and **Combined State Public Services** so that remuneration levels can be compared according to work value levels equivalent to the APS SES 1 to 3 bands
- consideration needs to be given to the fact that the APS payline was derived from actual data, as opposed to the paylines developed for other public jurisdictions which used published rates of pay. Therefore, **actual** State data could tell a different story, given the large broadbands which exist in some States (e.g. Victoria)

## Base Salary

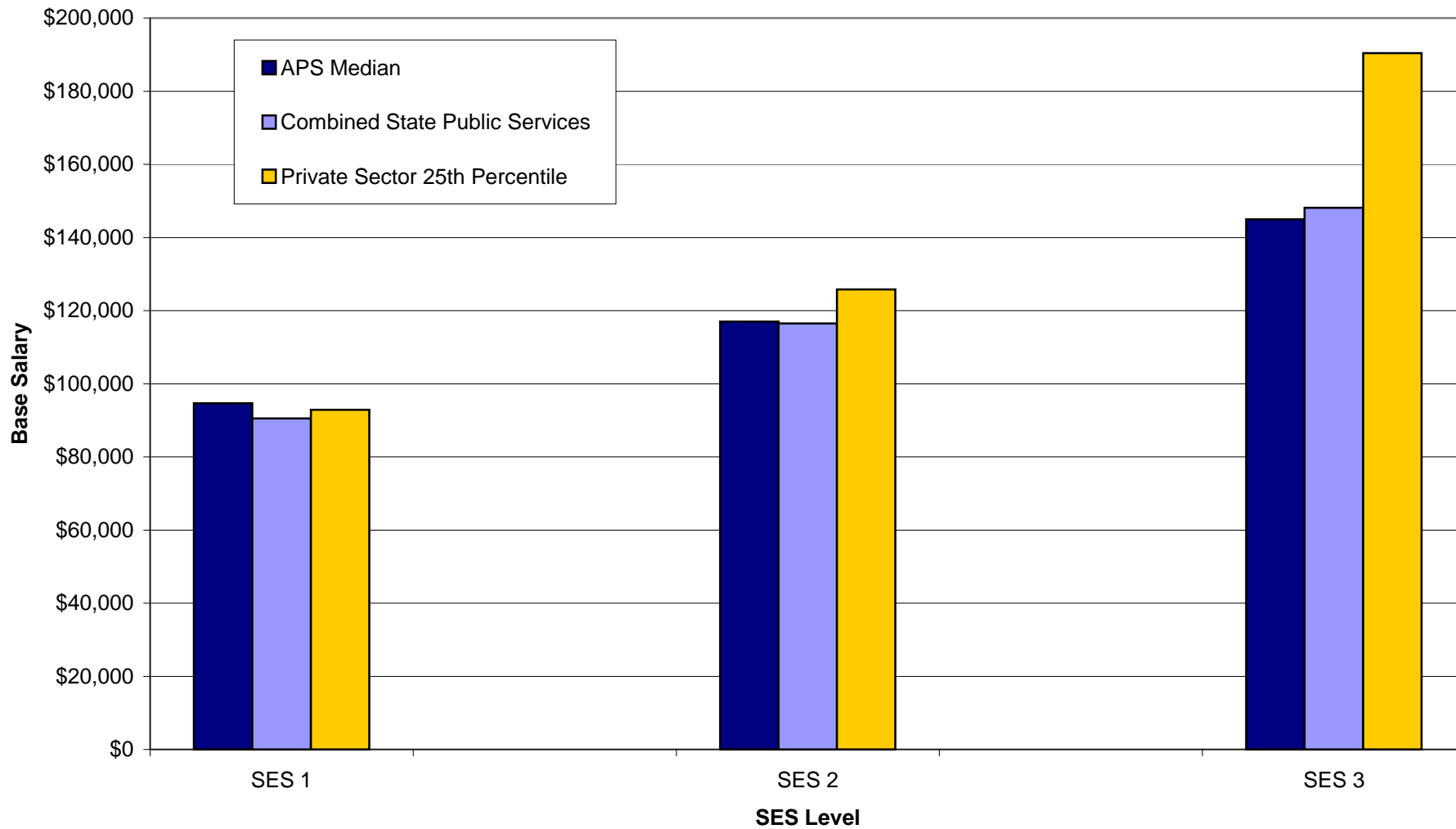
Table 17 and Figure 3 compare the **median base salary** of each APS SES band to that of the **Combined State Public Services**.

Table 17

Base Salary Comparisons of each SES Pay Band with the Combined State Public Services

| SES Pay Band | Work Value Points<br>(midpoint) | APS Base Salary<br>Median | Combined State<br>Public Services | Difference | Comparatio |
|--------------|---------------------------------|---------------------------|-----------------------------------|------------|------------|
| SES 1        | 817                             | \$94,679                  | \$90,502                          | \$4,177    | 1.05       |
| SES 2        | 1225                            | \$117,000                 | \$116,509                         | \$491      | 1.00       |
| SES 3        | 1840                            | \$145,000                 | \$148,147                         | -\$3,147   | 0.98       |

**Figure 3**  
**Comparison of Median APS SES 1 - 3 Base Salary with Combined State Public Services**



## 2000 Commentary

An inspection of Table 17 and Figure 3 pertaining to median base salary in this section reveals:

- At SES 1, the APS is 5% above the Combined State Public Services
- At SES 2, the APS on a par with the Combined State Public Services
- At SES 3, the APS is 2% below the Combined State Public Services
- That overall, the APS is comparable to the Combined State Public Services at all SES levels

## 1999 Comparison

- Compared with 1999, the APS has moved slightly above the Combined State Public Services at SES 1
- The APS has improved its position at SES 2 from 1999 (2% below), to be on an equal par with the Combined State Public Services in 2000
- Whilst the APS is still marginally below the Combined State Public Services at SES 3, the gap has narrowed since 1999

## Total Remuneration Package

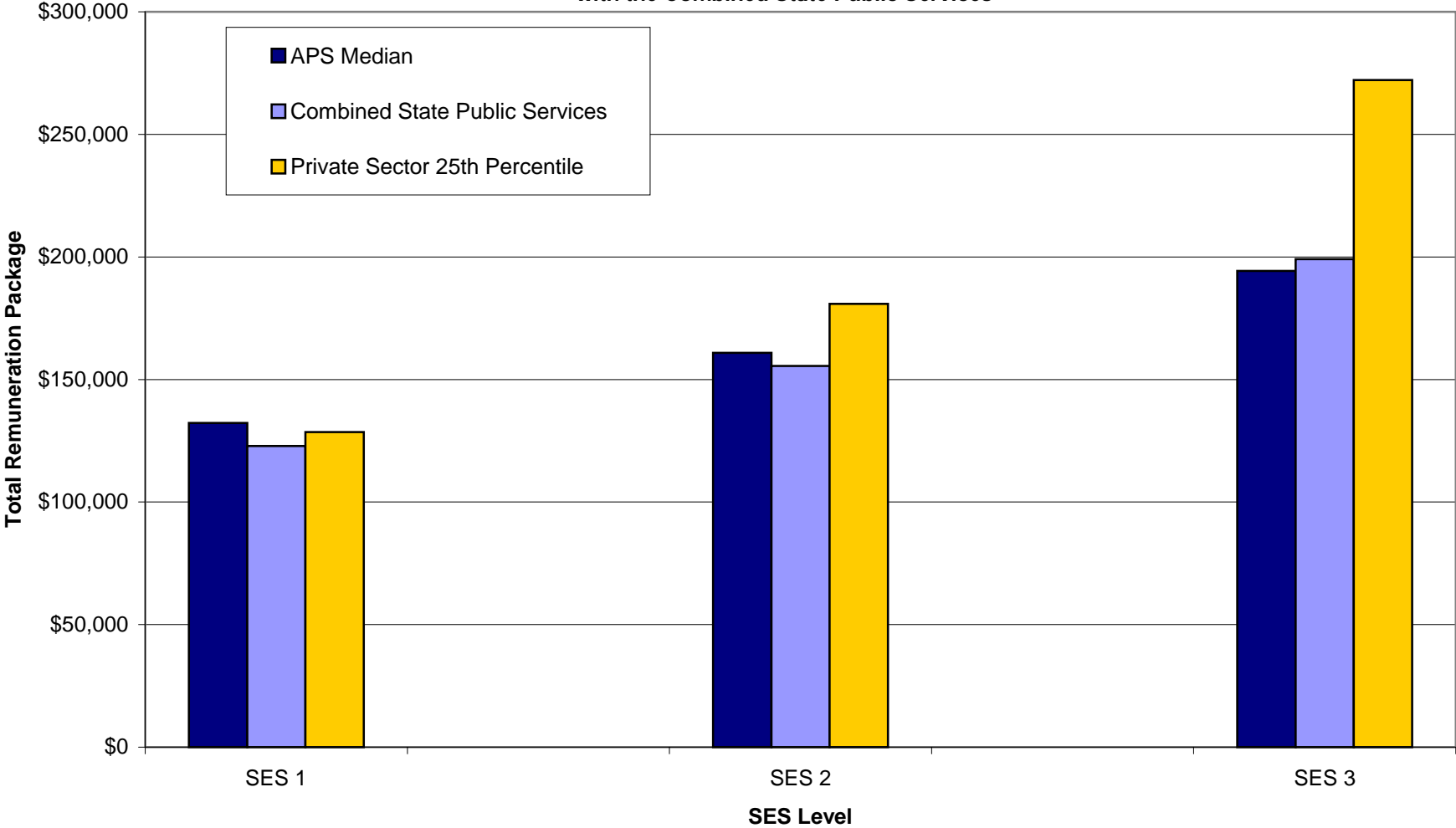
Table 18 and Figure 4 compare the **Median Total Remuneration Package** of each APS SES band (based on work value points), with the **Combined State Public Services**.

Table 18

Total Remuneration Package Remuneration Comparisons with the Combined State Public Services

| SES band | Work Value Points<br>(midpoint) | APS TRP<br>Median | Combined State<br>Public Services | Difference | Comparatio |
|----------|---------------------------------|-------------------|-----------------------------------|------------|------------|
| SES 1    | 817                             | \$132,287         | \$122,911                         | \$9,376    | 1.08       |
| SES 2    | 1225                            | \$160,882         | \$155,488                         | \$5,394    | 1.03       |
| SES 3    | 1840                            | \$194,309         | \$199,129                         | -\$4,820   | 0.98       |

**Figure 4**  
**Comparison of Median APS SES 1 - 3 Total Remuneration Package**  
**with the Combined State Public Services**



## 2000 Commentary

An inspection of the table and figures pertaining to median Total Remuneration Package in this section reveals:

- At SES 1, the APS is 8% above the Combined State Public Services
- At SES 2, the APS is 3% above the Combined State Public Services
- At SES 3, APS is 2% below the Combined State Public Services

## 1999 Comparison

- Compared with 1999, the APS has moved further above the Combined State Public Services at SES 1
- The APS has improved its relative position at SES 2 in 2000, given that in 1999 the APS were below the Combined State Public Services
- Whilst the APS is still below the Combined State Public Services at SES 3, the APS has reduced the gap

---

## Relative Position of APS SES Bands 1 to 3 with Individual Public Service Jurisdictions

Whilst the previous section compared the APS against the Combined State Public Services, here we will look at each public service jurisdiction individually.

Paylines have been constructed for the Queensland, Victorian, Northern Territory, ACT, New South Wales, South Australia and Western Australia public services, so that remuneration levels in each State can be compared according to work value levels equivalent to the APS SES bands. Please note that Tasmania was not included in this comparison.

### Base Salary

Figure 5 compares the **median** of each APS SES band with each individual State (based on SES midpoint work value points).

Figure 6 depicts the APS SES payline against the paylines of other Australian public service jurisdictions, up to 2000 work value points

Table 19 shows the percentage variation of the APS SES 1-3 bands at the median level against the midpoint (based on APS SES work value points) of individual public service jurisdictions.

**Figure 5**  
**Comparison of Median APS SES 1 - 3 Base Salary with the midpoint (based on SES work value)**  
**of other Public Service Jurisdictions**

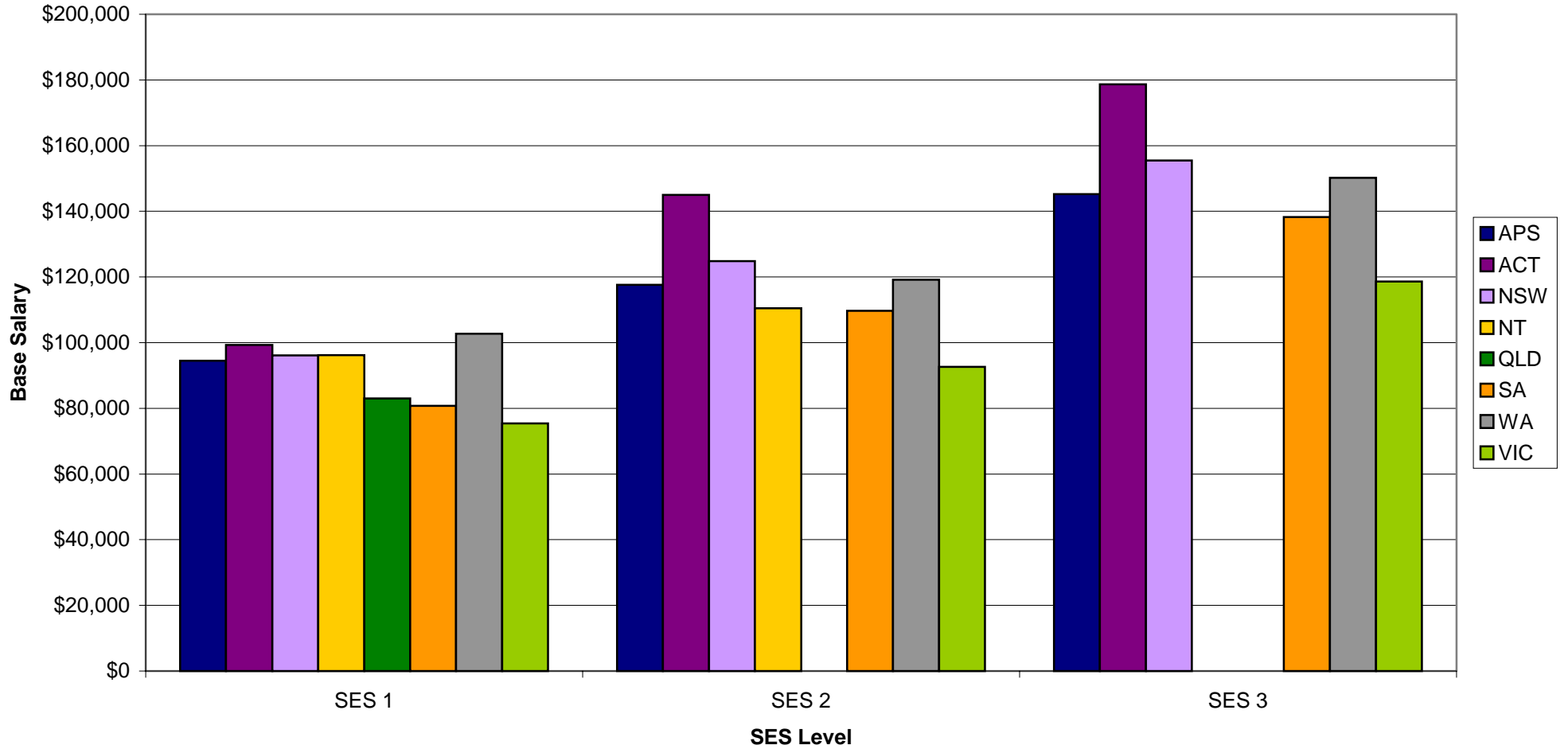


Figure 6  
 Comparison of the APS Base Salary with other Public Service Jurisdictions based on MCED work value points

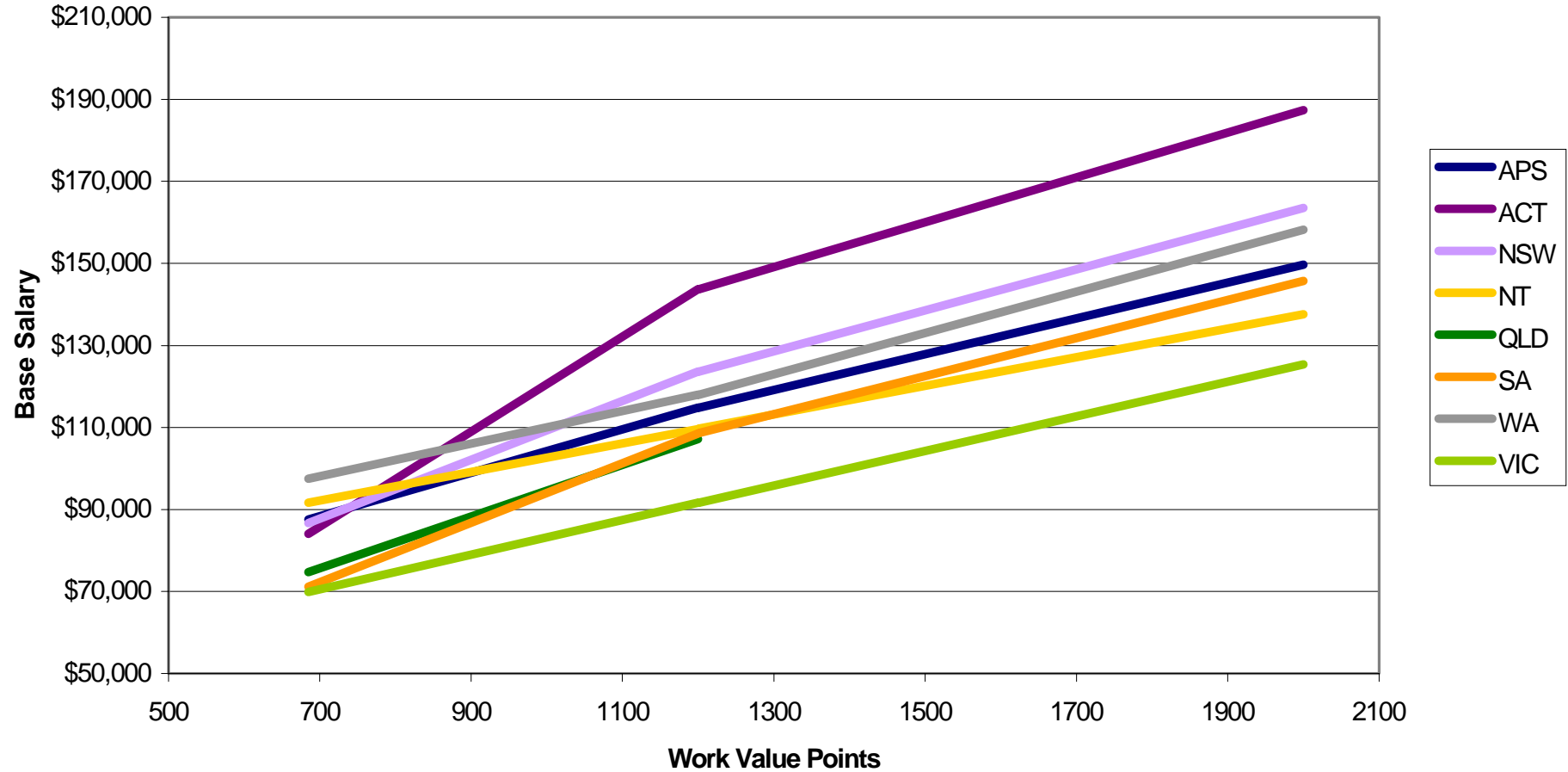


Table 19

Base Salary Comparatios: APS SES 1-3 Bands versus other State Public Service Jurisdictions

| SES Level | ACT  | NSW  | NT   | QLD  | SA   | VIC  | WA   |
|-----------|------|------|------|------|------|------|------|
| SES 1     | 0.95 | 0.98 | 0.98 | 1.14 | 1.17 | 1.25 | 0.92 |
| SES 2     | 0.80 | 0.93 | 1.05 |      | 1.06 | 1.25 | 0.97 |
| SES 3     | 0.81 | 0.93 |      |      | 1.05 | 1.22 | 0.96 |

## 2000 Commentary

An inspection of the table and figures pertaining to APS median base salary in this section reveals:

- SES 1 is above the QLD, SA and VIC public services but below the ACT, NSW, NT and WA public services.
- SES 2 is above the NT, SA and VIC public services but behind the ACT, NSW and WA public services (Note that QLD is not applicable here)
- SES 3 is above the SA and VIC public services but behind the ACT, NSW and WA public services (Note that NT and QLD are not applicable here)

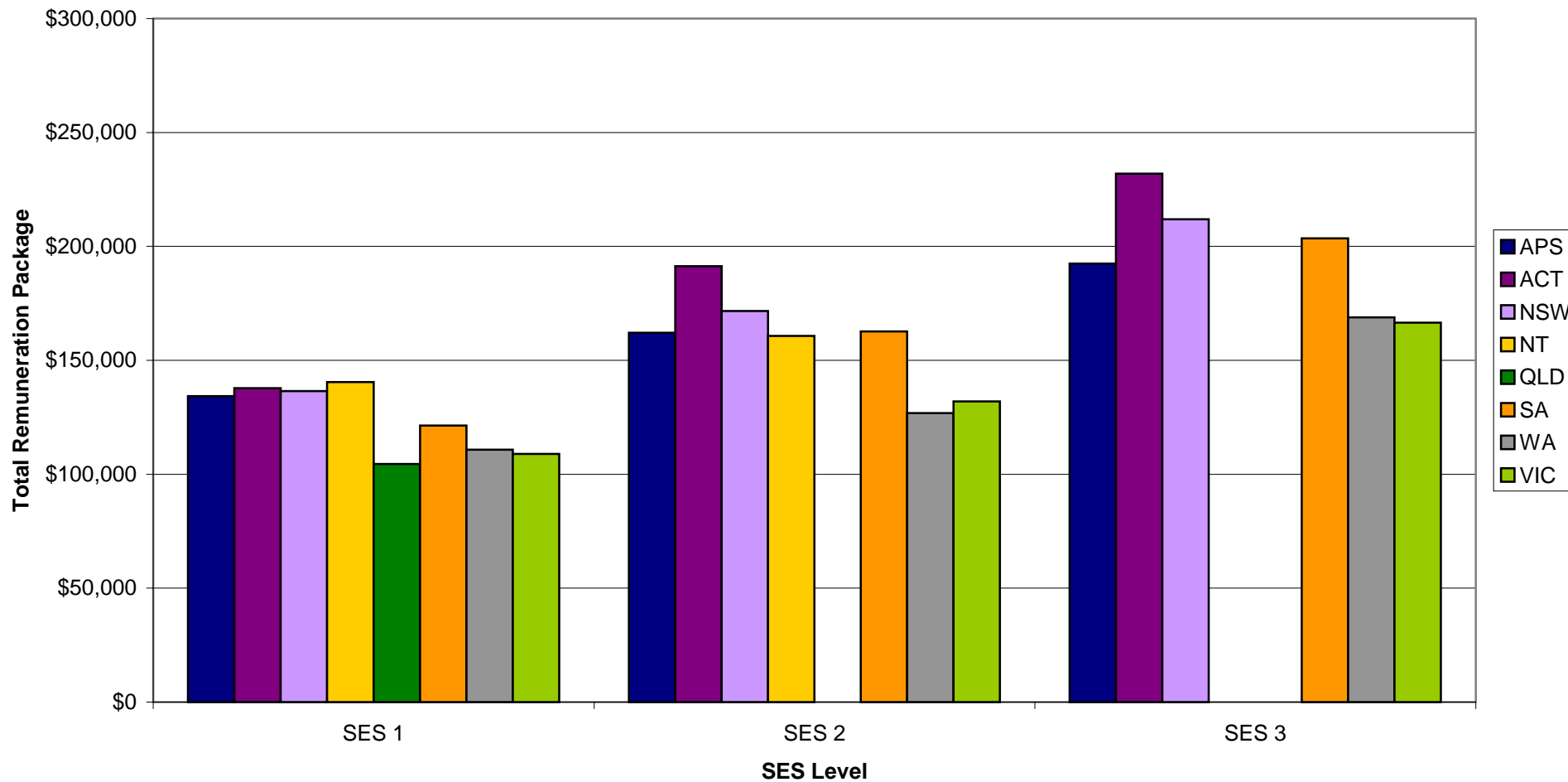
## Total Remuneration Package

Figure 7 compares the **median** of each APS SES band with each State (based on APS SES midpoint work value points).

Figure 8 depicts the APS SES payline against the paylines of other Australian public service jurisdictions, up to 2000 work value points

Table 20 shows the percentage variation of the APS SES 1-3 bands at the median level against the midpoints (based on APS SES work value points) of individual public service jurisdictions.

**Figure 7**  
**Comparison of Median SES 1 - 3 Total Remuneration Package with the midpoint (based on SES work value) with other Public Service Jurisdictions**



**Figure 8**  
**Comparison of APS Employment with other Public Service Jurisdictions based on MCEC work value points**

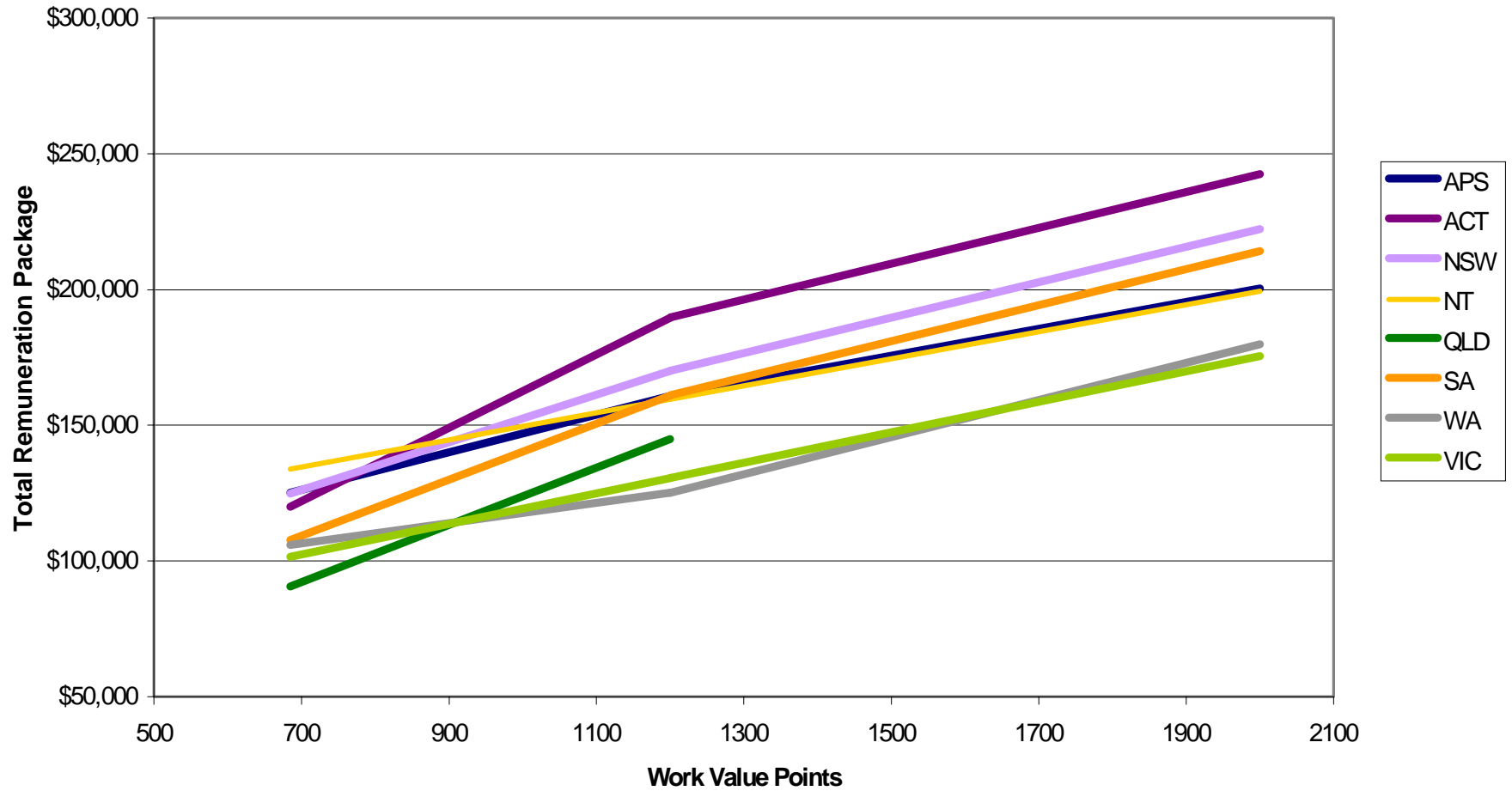


Table 20

Total Remuneration Package Comparatios: SES 1-3 Bands versus other Public Jurisdictions

| SES Level | ACT  | NSW  | NT   | QLD  | SA   | VIC  | WA   |
|-----------|------|------|------|------|------|------|------|
| SES 1     | 0.98 | 0.99 | 0.97 | 1.29 | 1.12 | 1.24 | 1.22 |
| SES 2     | 0.86 | 0.95 | 1.02 |      | 1.01 | 1.24 | 1.29 |
| SES 3     | 0.85 | 0.93 |      |      | 0.97 | 1.18 | 1.16 |

## 2000 Commentary

An inspection of the table and figures pertaining to median total remuneration package at the midpoint (work value) in this section reveals:

- SES 1 is above the, QLD, SA, VIC and WA public services but below the ACT, NSW and NT public services.
- SES 2 is above the NT, VIC, SA and WA public services but behind the ACT and NSW public services (Note that QLD is not applicable here)
- SES 3 is above the VIC and WA public services but behind the ACT, NSW and SA public services (Note that NT and QLD are not applicable here)

## Benefit Provision in the Public Sector

Tables 21 to 23 present an analysis of benefit provision in the **public sector (including GBE's)** based on **actual** data from Mercer Cullen Egan Dell's database. This is different from the comparison with the Combined State Public Services which does not include GBE's and is not based on actual data.

Please note, the motor vehicle values for the public sector have been calculated using the Mercer Cullen Egan Dell car formula.

Table 21  
Benefit Provision in the Public Sector  
Work Value Equivalent to APS SES 1

| Sample Size = 43                         | Q1       | Median   | APS SES 1<br>Median | Q3       | Average  | % Rep |
|--|----------|----------|---------------------|----------|----------|-------|
| Motor Vehicle (includes parking for APS) | \$19,255 | \$19,881 | \$17,934            | \$23,185 | \$20,657 | 35%   |
| Parking (Public Sector)                  | \$1,500  | \$1,992  |                     | \$1,992  | \$2,031  | 16%   |
| Superannuation                           | \$8,404  | \$12,033 | \$19,208            | \$14,325 | \$12,374 | 100%  |
| Actual Incentive                         | \$10,000 | \$10,000 | \$4,656             | \$15,151 | \$12,893 | 26%   |

Table 22  
Benefit Provision in the Public Sector  
Work Value Equivalent to APS SES 2

| Sample Size = 33                         | Q1       | Median   | APS SES 2<br>Median | Q3       | Average  | % Rep |
|--|----------|----------|---------------------|----------|----------|-------|
| Motor Vehicle (includes parking for APS) | \$18,627 | \$19,255 | \$18,497            | \$19,952 | \$19,676 | 45%   |
| Parking (Public Sector)                  | \$1,335  | \$1,992  |                     | \$4,380  | \$2,462  | 18%   |
| Superannuation                           | \$14,675 | \$19,611 | \$23,903            | \$21,109 | \$17,595 | 100%  |
| Actual Incentive                         | \$10,000 | \$10,000 | \$6,316             | \$17,500 | \$17,138 | 52%   |

Table 23  
Benefit Provision in the Public Sector  
Work Value Equivalent to APS SES 3

| Sample Size = 9                      | Q1       | Median   | APS SES 3<br>Median | Q3       | Average  | %Rep |
|--------------------------------------|----------|----------|---------------------|----------|----------|------|
| Motor Vehicle (APS includes parking) | \$17,513 | \$22,334 | \$19,252            | \$26,724 | \$22,187 | 89%  |
| Superannuation                       | \$9,821  | \$11,818 | \$28,743            | \$26,595 | \$17,412 | 100% |
| Actual Incentive/Bonus               |          |          | \$15,889            |          |          | 11%  |

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# Incentive Practices in Individual Public Service Jurisdictions

The lack of formal incentive pay structures currently within the individual public service jurisdictions, make comparison at the Total Reward level difficult. Following is a brief commentary of current incentive practices in other public service jurisdictions.

## New South Wales

Following the annual review by the Statutory and Other Offices Remuneration Tribunal a number of changes were made to the NSW Senior Executive Service. Among them was the abolishment of performance pay for SES officers.

## Northern Territory

No formal incentive pay offered. However, if superior performance demands it, an individual can enter into a new contract to increase pay.

## South Australia

No formal incentive pay offered.

## Western Australia

No formal incentive pay offered.

## Victoria

Maximum incentive is 20% of TRP for all VPS executive levels. Incentives are dependent on individual performance.

## Queensland

No formal incentives offered.

## ACT

No formal incentives offered.

# APS Comparison with the Public Service and the Private Sector

Figures 9 and 10 present an overall picture of where the APS is positioned relative to the State Public Services and the Private Sector at the base salary and total remuneration package level.

Figure 9  
Comparison of APS Base Salary with the Combined State Public Services  
and Private Sector 25th Percentile and Private Sector Median

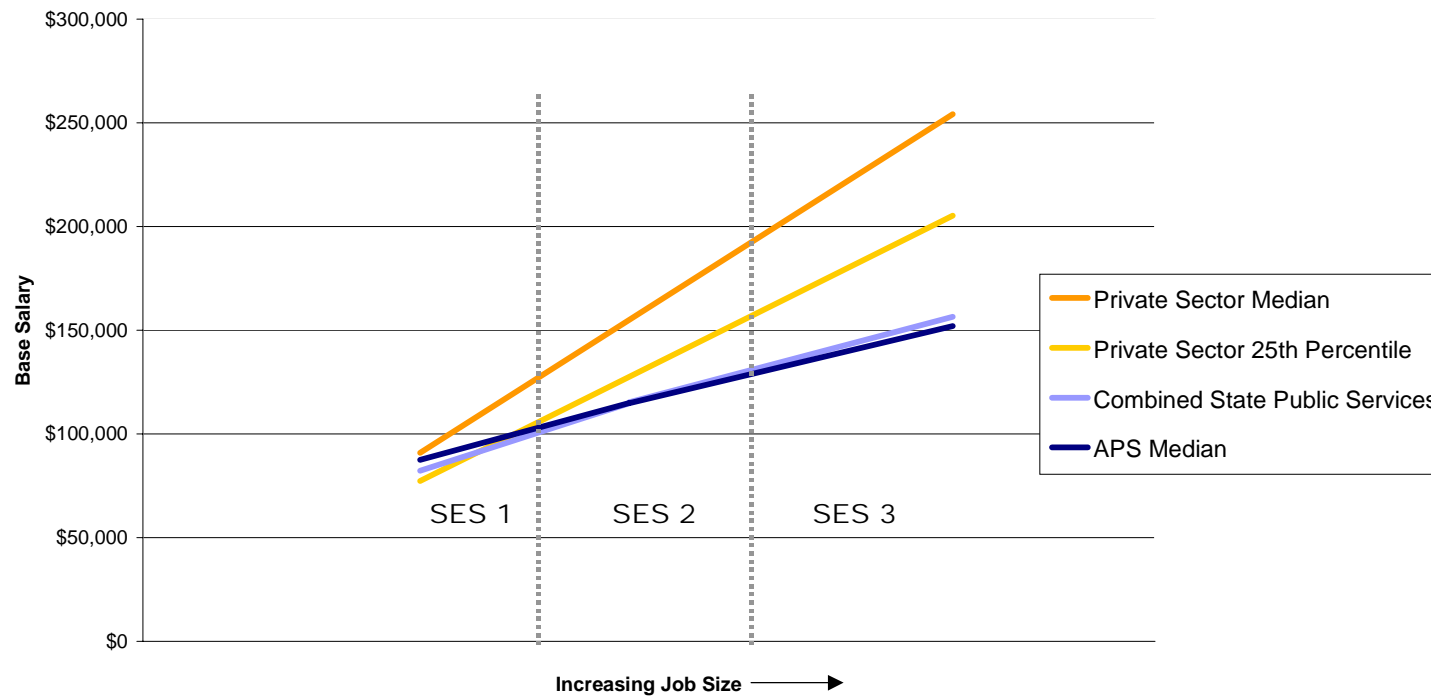
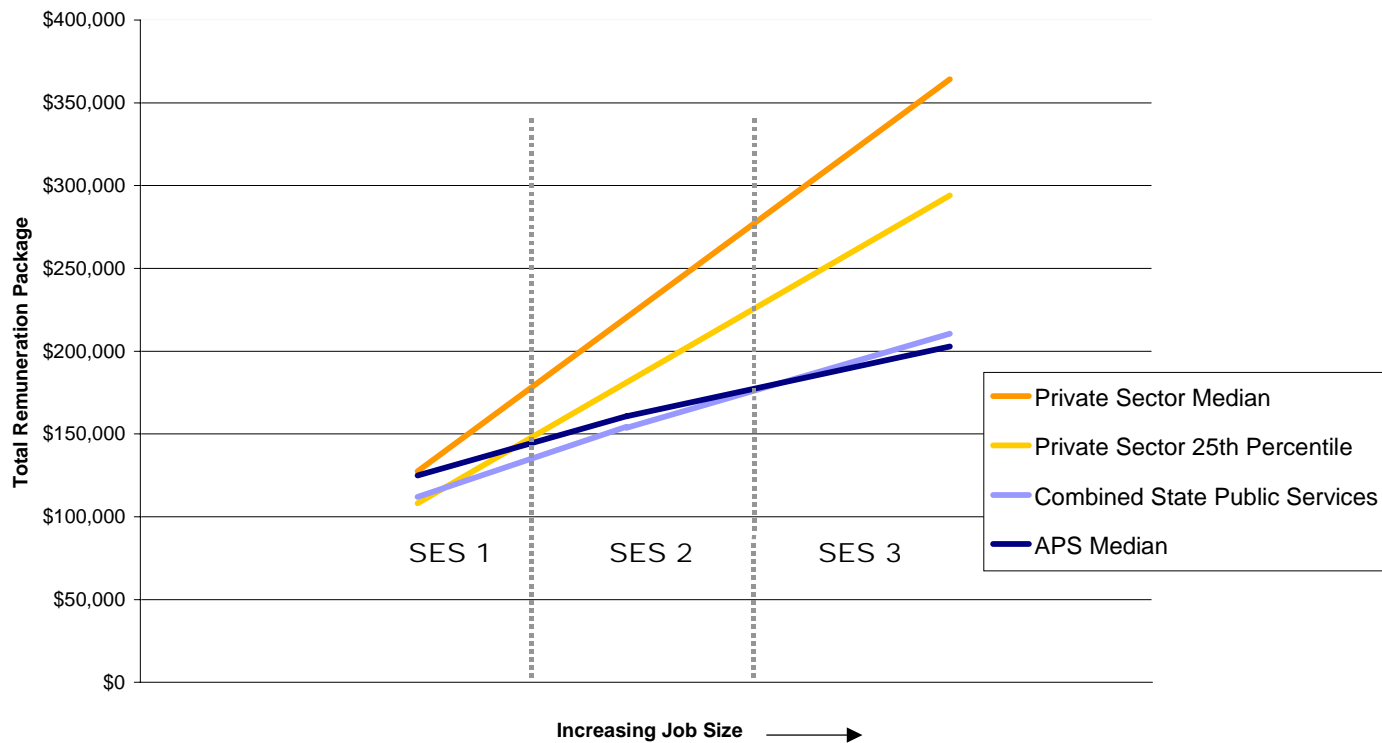


Figure 10  
 Comparison of APS Total Remuneration Package with the Combined State Public Services  
 and Private Sector 25th Percentile and Private Sector Median



Figures 9 and 10 show that as job size increases:

- So too does the gap between the APS and the private sector
- The APS starts to fall below the Combined State Public Service at the upper end of SES 2

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# International Public Sector Pay Practices

This section outlines pay practices and market movements in both the US and UK federal and civil services.

## US Federal Civil Service

### Current Federal Service Pay Systems

The constitution of the United States assigns fiscal control to the Congress. This control is exercised through appropriation acts and, in the case of Federal salaries, by enacting laws, policies, principles, and procedures to establish pay rates for Federal employees. Federal employees are covered by a number of different pay systems, some established by individual laws, some by administrative determination.

The three statutory pay systems for Federal white-collar employees are the **General Schedule**, the Foreign Service, and certain employees in the Veterans Health Administration in the Department of Veterans Affairs.

The General Schedule pay system covers, with specific exemptions, most “white-collar” positions in the executive branch and certain legislative branches. The General Schedule consists of 15 grades, each broadly defined in law in terms of work difficulty, responsibility, and the qualifications required for performance. A salary range of 10 steps is provided for each grade. To qualify for advancement to the next higher step, an employee must demonstrate work at an acceptable level of competence.

The **Executive Schedule** was established by congress to cover top officials in the executive branch. This schedule has five levels, each with a single rate.

The **Senior Executive Service** covers most managerial, supervisory and policy positions in the executive branch which are classified above GS-15. There are currently six salary levels in the SES.

## Federal Service Pay Increases

- The Executive order implements an across the board increase of 2.7% in the rates of basic pay for the statutory pay systems – the General Schedule (GS), the Foreign Service Schedule, and certain schedules for the Veterans Health Administration of the Department of Veterans Affairs. The 2.7% pay increase is current as at January 2001.
- In 1989, the Ethics Reform Act linked Executive Schedule increases to increases in the Total Remuneration Package Index.
- Senior Executive Service pay increases are set by the President at the same time as the annual increases are authorised by the General Schedule (approximately 2.7% as at January 2001)
- Congress authorises agency heads to set salaries for those in Administratively Determined pay systems. These salaries may apply to the entire agency or to particular groups of positions without regard to the General Schedule. Some agencies under this pay system establish their own schedules of rates.

## Current Market Competitiveness with General Market

In regards to the General Schedule, at the GS 15 grade, Federal Service pay starts to fall away from the General Market. This can vary however, depending on the job at this level. For instance, Senior Managers or Division Chiefs are paid close to the competitive market rate at this level, whilst other executive jobs with a smaller scope can be paid significantly below the market rate.

The Executive order reflects a decision by the President to increase the rates of basic pay for members of the Senior Executive Service by 2.7% as at January 2001. The Executive Order also includes the new Executive Schedule pay rates, which reflect increases of approximately 2.7%. Despite these increases, pay rates for the Senior Executive Service and Executive Order are below the competitive General Market rate. In some instances, these rates are half that of the competitive rate, excluding short term or long term incentives. However, given this, the variability in pay is quite significant, thus it is quite easy to find exceptions to these generalisations.

Whilst across the board (executive and non-executive) Federal Service employees have been granted a 2.7% base pay increase, executive base pay levels increased approximately 6% in the General Market, with an additional 10% increase in variable pay. Hence, as is traditionally the case, Federal pay adjustments are not competitive with General Market pay movements.

Whilst, the use of variable pay in the Federal Service is still not very widespread, the Federal Service is aware of the prevalence of variable pay in the General Market, and has therefore taken steps to increase the use of variable pay as part of total remuneration. Federal Service incentive opportunities are far below those of the for-profit private sector, better resembling those being offered in the not-for-profit private sector (topping out at about 25%). Aside from variable pay, the Federal Service can offer retention allowances, recruitment bonuses and relocation bonuses of up to 25% of basic pay, conditional upon certain criteria.

## Federal Service Initiatives and Responses to Market Forces

In response to the growing need for pay reform in the Federal Government, Congress enacted the Federal Pay Comparability Act of 1990 (FEPCA). FEPCA provides guidelines to achieve pay comparability between Federal and non-Federal jobs. A major feature of the Act is **locality pay**. Employees receiving special rates for hard to fill positions receive the higher of their special salary rate or locality pay.

For 2000, the nationwide adjustment was 3.8%. Locality adjustments were granted in 31 Metropolitan Statistical Areas. The locality rates ranged from 6.78% to 15.01%. On the average, locality rates increased by 1.12 percentage points in 2000 to 8.62.

Currently there are special salary rates for certain information technology (IT) workers. The new IT special rates will cover all computer specialist, computer engineer and computer scientist positions. The special rates are designed to help agencies address significant problems in recruiting IT workers in today's highly competitive IT labour market. The combined effect of the new IT special salary rates and the across the board GS pay increase as at January 1, 2001 will produce overall net pay increases ranging from about 7 to 33%. The overall net pay increase at any given level will be about the same in all geographic areas, but the actual special rates will be higher in locations with higher locality pay rates.

Agencies are also being encouraged to use other human resource management flexibilities and strategies, such as recruitment and relocation bonuses, retention allowances, and incentive awards, to address IT staffing problems.

Many agencies within the intelligence realm (e.g. Protective Services) and financial services areas (eg Federal Reserve) do not have to follow the Federal Civil Service regulations. These agencies tend to work with modified versions of these regulations. Whilst their pay increase budgets tend to mimic the 2.7% increase followed by other agencies, they have the flexibility to deviate considerably where it is necessary to attract and retain particular job families.

The US also currently has a number of demonstration projects running, which are projects designed to provide a means for testing and introducing beneficial change in Government wide human resources management systems, and ultimately shape the future of Federal human resource management. There are approximately 20 active projects with some of the common features being as follows:

- Simplified classification system which consolidates GS grades into broader bands
- Performance based pay system or Contribution Based Compensation System (CCCS)
- Increased flexibility for starting salaries
- Recruitment and retention bonuses

- Incentive pay system

Those who have recently undergone demonstration projects, have retained the use of a broadbanding structure and a performance based pay system.

Overall, the US Government is quite flexible when it comes to pay policy and practice in the Federal Civil service, with a patchwork of adaptations that allows for significant local level interpretation of what the “rules” really are. This patchwork has led to many problems around equity. Therefore, the demonstration projects are the best window to the future of the US Federal Service beyond 2001.

## UK Civil Service

### Average Salary Movements

#### *Public Sector Pay Settlements in 2000*

Two thirds of the pay rises agreed in the public and voluntary sectors in 2000 were in the 2.5% – 3.5% range, with a large number of deals between 3% and 3.5%. More than a dozen deals in major civil service departments and agencies gave average performance and progression rises of more than 4%.

Many departments and agencies passed on significant increases during 2000. With performance increases given less of a priority, the emphasis was on pay progression, with some organisations experimenting with team and individual bonuses, while all departments needed to reassess their approach to performance management.

#### *Pay Increases April 2001*

Following severe problems of attracting and retaining staff across the public services, the trend of strong pay rises is set to continue. Currently, there are large-scale pay negotiations under way which should impact on the remuneration levels of Civil Service employees this year or next. These pay increases are following the pay practice changes that are becoming increasingly widespread across the Services. However, there are pressures against this trend.

The issue of funding is intensified through the downward pressure on pay exerted by the Treasury in a bid to maintain inflation at its target level of 2.5%. Many employers may not have the cash to fulfil planned pay increases, although this may change as extra expenditure is invested in the public sector over the next few years.

Pay determination in the public sector is going through a period of intense change. Many areas of the public sector are introducing long-term deals. They appear to be aimed at introducing large pay increases in stages, to aid recruitment, retention and motivation. For example, a slow but substantial change is being negotiated throughout local government on the implementation of new grading arrangements in local authorities based on single status and equal value.

Throughout central government, payment systems have been, and continue to be, in permanent evolution, as individual performance pay and broad banding give way to team bonuses and clearly defined progression steps up to market salaries. In addition, economic growth, shrinking

unemployment and rising house price inflation in many parts of the country have combined to bring very substantial recruitment and retention problems across the public services. A variety of initiatives are being introduced, such as market/cost of living allowances and loyalty bonuses for 'hard-to-fill' positions.

### Positioning against the General Market

Public sector positioning, relative to the general market, varies substantially. For instance, following are examples of sector pay differentials for **top management** in the public sector, based on 2000 data:

- Charity/Voluntary - 16% lower than General Market
- Government - 5% lower than General Market
- Education - 9% lower than General Market

The UK General Market data is sourced from a range of companies from all sectors (building and construction, hi-tech, financial and retail) in the private sector.

Figures from the average earnings index show that average earnings in the public sector grew by 3.7% in the year to November 2000, compared to 4.3% in the private sector. Public sector average earnings growth has been below that of the private sector for the last 18 months.

### Civil Service Initiatives and Responses to Market Forces

Whilst pay practices currently vary across the public sector, the Government is now pushing for widespread change. The modernisation of pay and conditions and the focus on 'work-life balance' are at the forefront of this drive for change. Following are some of the proposed changes:

- New simplified grading structures
- The phasing out of automatic increments
- Team-based incentives, where appropriate
- Pay linked more closely to job 'size'
- Initiatives to remove gender bias in pay
- Pay to reflect output, results, and performance
- Competence-based progression where appropriate