

Chapter

6

Reform of Classification and Job
Evaluation in the Federal Public Service

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Reform of Classification and Job Evaluation in the Federal Public Service

Main Points

6.1 The government has been trying since 1991 to reform the classification and job evaluation system in the federal public service in an effort to resolve long-standing problems. In May 2002 it announced that its second attempt at reform, the Universal Classification Standard, could not be implemented. In the work to convert positions from the old classification system to a new compensation structure using the new Standard, a single pay structure for all positions in the public service could not be achieved without causing unmanageable disruption to the federal workforce. The Treasury Board Secretariat could not find a way within the existing salary protection policy to reconcile the funds available for the conversion with a manageable rate of salary protection that management and unions would accept.

6.2 Thus, in April 2001 the Secretariat decided not to implement the Standard government-wide. This planned universal approach has now been abandoned, despite a large investment of time and effort by tens of thousands of employees and an estimated investment of about \$200 million in incremental costs between 1998 and 2001.

6.3 The Secretariat has since embarked on a third attempt to reform classification. The new approach is a modification of the old classification system. Like the old system, it will use separate standards for each occupational group, making it difficult to compare the value of the work of different groups and related differences in pay.

New issues

6.4 The President of the Treasury Board announced in May 2002 that the government would begin developing a new step-by-step approach to classification reform, tailored to specific occupational groups. The Secretariat is committed to using some of the work completed under the Universal Classification Standard project as a basis for developing the new group-specific standards, thereby recouping part of the investment made in developing the Standard. Our follow-up found the Treasury Board Secretariat still at the planning stage of the new approach.

6.5 The Secretariat will have to manage a number of challenges to succeed in this third attempt. We have concerns about the new approach:

- The Secretariat has not defined an overall vision of what classification reform will entail and has not articulated a comprehensive plan and timetable for completing the reform.

- Through the new approach, the Secretariat aims to develop classification standards that meet the specific needs of each occupational group across the public service while also meeting the business needs of departments and agencies. However, the business needs of some 60 entities are varied and diverse.

6.6 Some long-standing and intractable issues will need to be resolved:

- There are no objectives and no formal policy for compensation in the public service to guide the new approach to classification and compensation reform.
- There is still a need to align the current pay structures—mainly the products of separate negotiations with 16 unions over the past 35 years—with new classification structures to be developed that are intended to reflect the value of the work employees are doing today. This alignment is needed to ensure that the reform will succeed this time.
- The Secretariat is still developing a strategy for meeting the pay equity requirements of the *Canadian Human Rights Act*.

6.7 Over the past 10 years, the Secretariat did not exercise sufficient control over the classification of positions in the public service to ensure that positions were classified accurately. Between 1993 and 1999, about 28,000 promotions—almost one third of all promotions—were awarded through the reclassification of positions. The Secretariat does not know how many of these positions may have been overclassified. Since classification is directly linked with compensation, there is a risk that the government is overpaying some of its employees.

6.8 In our interviews, we found that although there had been no formal post mortem, each senior official of the Secretariat we met with had learned lessons based on the scope of his or her responsibilities. A key change made was the reorganization of the Secretariat's Human Resources Branch.

The Treasury Board Secretariat has responded. The Secretariat has accepted two of our recommendations and indicates in its responses the action it intends to take. In its response to our third recommendation, it is not clear whether the Secretariat agrees or disagrees with the recommendation.

Introduction

6.9 The reform of classification and job evaluation in the public service was one of the most important changes to come out of the November 1990 White Paper, *Public Service 2000: The Renewal of the Public Service of Canada*—the initiative that was known as PS 2000. As part of service renewal, the government wanted to simplify employment and personnel management in order to redirect resources toward services to the public.

6.10 A PS 2000 task force was set up in 1990 with a mandate to examine the design and administration of the classification and job evaluation systems, taking into account the values and objectives desired for a renewed public service.

6.11 From 1991 until early 2001 the Treasury Board Secretariat, as the task force recommended, worked to reduce the number of occupational groups and simplify the practice and administration of job evaluation. The task force suggested developing a single job evaluation plan that would reflect the requirements of the *Canadian Human Rights Act*.

Why robust classification and job evaluation systems are needed

6.12 In the federal public service, the classification and job evaluation systems are considered the cornerstone of human resources management. Because collective bargaining is based on occupational groups, there are important links between classification and job evaluation and other aspects of human resources management such as staffing, organizational design, and bargaining unit structure. As of March 2002, the federal public service employed some 168,000 people and had a payroll of about \$9 billion. In an organization of this size, any change to classification and job evaluation can have significant multiple effects on the rest of human resources management. (Our May 1996 Report, Chapter 5, Exhibit 5.4 describes some key links between classification and job evaluation and other aspects of human resources management.)

6.13 What is more important, since job evaluation is primarily a way to establish internal equity in an organization, the evaluation results serve as a foundation for determining basic pay. Other variables such as the external market, collective bargaining, and how much the organization can afford to pay will also affect basic pay. Together, these factors contribute to ensuring that the organization provides equitable pay for all of its employees and that it can attract, retain, and motivate skilled employees.

Why the classification and job evaluation systems needed reform

6.14 In 1990, positions in the federal public service were classified into 72 occupational groups and 106 sub-groups and into a number of levels in each of these groups. This occupational group structure had been created over 35 years ago, mainly as a basis for collective bargaining, and there were close to 80 bargaining units. As a result of this complex occupational group and bargaining structure, the public service had some 840 pay rates and 70,000 rules governing pay and allowances when PS 2000 began.

6.15 In the federal public service, classification and job evaluation are intertwined. Classification assigns positions to the appropriate occupational group. Job evaluation determines the relative value of jobs, based on the content and requirements of each job. The evaluation results are then used to determine which positions in each occupational group should receive the same rates of pay, using a classification standard for each occupational group with a series of factors and a rating guide as well reference positions.

6.16 As the task force pointed out in 1990, both the classification and the job evaluation systems were cumbersome, too complex, very time-consuming, and too costly to operate—to say nothing of their impact on costs in other areas of human resources management. The task force further recognized that the two systems presented many obstacles to the redeployment of resources and, in many cases, changes in technology and work organization had made them obsolete. They were highly susceptible to manipulation, in the view of the task force. It also found that the job evaluation system was not responsive to pay equity concerns.

6.17 A long history of attempts to reform classification. In fall 1993 we audited the “final draft” of a new job evaluation system developed by the Treasury Board Secretariat, the Universal Classification Standard. We audited it before it was fully implemented, to see whether it would achieve the Secretariat’s objectives—one of which was to simplify the occupational group structure by reducing the 72 occupational groups to 23, as the PS 2000 task force had recommended. We also wanted to examine a number of concerns that stakeholders had raised about the design and development of the Standard.

6.18 We reported on that audit in our May 1996 Report, Chapter 5. We concluded that the Standard was a step in the right direction but would have to be improved substantially to be workable. We noted that the Treasury Board Secretariat had already acknowledged the Standard’s shortcomings and had begun to redesign it.

6.19 In 1999, the government simplified the occupational group structure by reducing it from 72 to 29 occupational groups, with a new legal definition of each group. As a result, however, not all occupational groups had a distinct classification standard. New occupational groups that had merged a number of former occupational groups continued to use the old groups’ classification standards and designations (such as CR for the clerical group and PM for the program management group, which are now within the program and administrative services or PA group). Twenty-five groups retained their union affiliations; the four others were exempted from union representation and collective bargaining.

6.20 In 2000 we followed up on the development of the Standard, and in our December 2000 Report, Chapter 22, we concluded that significant issues still had to be addressed:

- Before converting to the new Standard, the Secretariat needed to ensure that departments were applying it appropriately.

- Departments needed to ensure that their work descriptions and position evaluation results were valid and reliable.
- The Secretariat needed to test the Standard further to determine to what extent it was universal and gender-neutral.
- The government needed to ensure that a reasonable and realistic level of financial resources would be available to convert positions to the new Standard.

6.21 A change in direction: An end to the universal approach. In May 2002, the President of the Treasury Board declared that a universal approach to the classification system—applying a single classification standard and a single pay structure to all public service positions—was not workable. She announced that classification reform was moving ahead but in a substantially different direction—from a universal approach to one tailored to each occupational group.

Focus of the follow-up

6.22 The government has identified the importance of and need for classification reform for some time. We have audited it and will continue to give it attention.

6.23 In our new approach to following up on previous audits, we re-audit the most significant areas—those that are systemic and current and that carry higher risk. In some cases, we extend our work to new issues that are related to the original audit. Normally, we would follow up on our previous recommendations, but since the government has significantly changed its approach to classification reform, we focussed on its progress from 2000 to 2002 and the challenges that remain.

6.24 Our follow-up looked at the continuing need for reform, the status of the new approach, lessons learned in the reform efforts to date, and corrective action identified and incorporated into planning the new approach. We also looked at how the Secretariat is ensuring in the meantime that it gives departments and agencies the clear direction and support they need to classify positions accurately under the old classification system.

6.25 Our follow-up scope and criteria are set out in About the Follow-up at the end of the chapter.

Observations and Recommendations

The Standard was not the problem

The Standard is still recognized as a reasonable tool for job evaluation

6.26 By the end of our first follow-up in 2000, the Treasury Board Secretariat had finished designing the Universal Classification Standard, except for confirming the final weighting of the elements and the number and point ranges of levels. In December 2000 we reported that the majority of departments we had consulted considered the Standard a promising tool for job evaluation.

6.27 A key part of developing the Standard was establishing the relative importance of its elements to the objectives and values of the public service. In collaboration with all stakeholders, the Secretariat produced a reasonable ranking of job levels (from novice to expert) that reflected the values of the public service and incorporated the factors required by the *Canadian Human Rights Act* and Equal Wage Guidelines.

6.28 In May 2001, the Canadian Human Rights Commission reported on the gender-neutrality of the Standard. It concluded that while some improvement was needed, the Standard was meeting the mark reasonably well.

6.29 In our current follow-up we found that the Secretariat had made significant progress on our December 2000 recommendation—to ensure that departments were implementing the Universal Classification Standard appropriately. For example, it intervened with departments in many targeted areas in an effort to make position evaluation results more consistent. It audited the quality of work descriptions as part of its quality assurance efforts and found that over 97 percent of the 966 work descriptions sampled were of medium to high quality.

6.30 In consultation with departments, the Secretariat also put in place the Web-based Conversion Monitoring System to follow departments' progress and determine how ready they were to convert their positions to the Standard. In July 2001, the Secretariat concluded that an average of 77 percent of position evaluation results in departments were good enough to meet the requirements for conversion. However, departments still needed more time to reach the 95 percent expected by the Secretariat.

6.31 During our current follow-up, senior officials of the Secretariat still asserted that the Standard could reasonably measure the full range of work in departments and was flexible enough to adapt to the evolving nature of work in the public service. They told us that the Standard is a useful tool. The Secretariat is committed to using some of the work already completed as a basis for developing new, group-specific standards and thereby recouping part of the investment made in developing the Standard.

6.32 Secretariat officials noted a number of other residual benefits. Some organizations took advantage of the application of the Standard to streamline their organizational structures and move to more generic position descriptions, thus reducing administrative burden.

A large investment in classification reform over the last 12 years

6.33 More than 12 years have passed since the Public Service 2000 task force and the White Paper initiated the first attempt to reform classification in the public service. During those years, tens of thousands of employees from some 60 departments and agencies devoted significant amounts of time and energy to writing, evaluating, and revising work descriptions for some 150,000 employees—more than once. Representatives of the 16 unions also participated actively in the many activities generated by the Universal Classification Standard project.

6.34 Since there was no mechanism in place to track the costs of this major project in departments or in the Secretariat, in 2001 the Secretariat asked a third party to design a costing methodology and to estimate the size of the departmental investments in the Standard project between 1998 and 2001. The study was to estimate only incremental costs, defined as “costs that would not have been incurred in the absence of the Universal Classification Standard project”—in other words, only the costs of additional salaries for new positions or of replacements for employees seconded to the project, overtime, infrastructure, training of managers and employees in the use of the new Standard, contracts, and system development directly related to the project. They did not include the ongoing costs of salaries for classification staff or for employees and managers involved in writing work descriptions or participating in evaluation committees.

6.35 The study looked at five large departments, and in 2001 it reported on their incremental cost for the Standard project as a basis for estimating the incremental costs government-wide. The study estimated the total incremental cost of the Universal Classification Standard project at about \$200 million from 1998-99 to 2000-01. The study report noted that while the estimate was not perfect, it was reliable enough to provide global indicators of incremental cost. We could not audit the estimate, but we reviewed the work it was based on and we believe it is a reasonable estimate of incremental costs; there is no good estimate of total costs for the 12 year period. According to the Secretariat, new funding accounted for only \$25 million; other costs were absorbed by reallocations within departmental budgets.

Challenges encountered

The development of a single pay structure could not be achieved

6.36 Developing a universal approach to compensation that would fit a universal approach to classification represented a significant change in direction from the last 35 years.

6.37 The PS 2000 task force assumed that with the implementation of the Standard, a common job evaluation plan would support the concept of “equal pay for work of equal value” and would rely on internal relativity as the underlying principle of compensation in the public service. The focus of the Treasury Board Secretariat’s Universal Classification Standard Division was on internal relativity as a basis for pay.

6.38 To implement the Universal Classification Standard as planned, the Secretariat had to develop a single pay structure that the government could afford and that key stakeholders would accept, particularly senior management and unions.

6.39 In developing such a pay structure, the Secretariat had to work with the following constraints:

- Costs needed to be kept within the available funds.
- The salary protection policy could not be changed (no employee was to suffer a financial loss as a result of the conversion).
- Salary protection rates had to be acceptable.

- The rates of pay in the new pay structure resulting from the conversion had to be negotiated with unions.
- The compensation solution could not increase the government's pay equity liability.

6.40 From 2000 to 2001, the Secretariat worked to develop a single pay structure for all occupational groups (except the executive group) by consolidating the 72 existing pay structures.

6.41 In 2001, based on data from the December 2000 results of applying the Standard, the conversion of all positions to a single pay structure was deemed unfeasible with the \$400 million available to fund the conversion. The new pay structure could be achieved within approved funding only by assuming a salary protection rate of about 50 percent. This would mean that about 50 percent of employees would have seen their classification levels lowered upon conversion to the Standard but not their pay. The classification levels of a significant number of employees would have been raised as well as the maximum pay rates. Furthermore, the difference between some pay levels was found to be not a meaningful enough incentive to take on more responsibilities. According to the Secretariat, the single pay structure would have been counterproductive and would have significantly affected the satisfaction and motivation of public service employees.

6.42 Senior officials told us they were particularly concerned in 2001 about several other difficulties that a single pay structure presented. Given the market forces, there was a strong probability that many exceptions to the single pay structure would have to be made to compete with the outside labour market for certain skill sets that were in high demand. This would quickly move the public service away from a single pay structure. Other concerns were that a single pay structure might compromise the right of unions to bargain; it could lead to a larger union or a critical occupational group setting a pay structure that was not appropriate for others; and it could be seen as a constraint on the employee's freedom of association. In our opinion, these are concerns that existed from the beginning of the Universal Classification Standard project and should have been dealt with while the Standard was being developed.

Collective bargaining, affordability, and market forces have shaped existing pay structures

6.43 In our December 2000 Report we noted that the Treasury Board Secretariat had to work to find an acceptable approach to compensation that took into account pay equity requirements, internal relativity, market forces, and affordability—difficult challenges to reconcile.

6.44 Since 1967, pay rates for unionized occupational groups have been established separately through collective bargaining for each group. Until recently, the process of establishing pay rates focussed on balancing affordability against parity with the outside labour market. Internal equity among all employees in the public service was not given the same emphasis.

6.45 The collective bargaining process for the 72 occupational groups, now in some 24 bargaining units, has produced 72 pay structures over time that each reflected the cumulative trade-offs in bargaining. Furthermore, the bargaining power of some unions, given their size and/or the critical skills they represented, had an impact on settlements. The established patterns of collective bargaining were among the factors that contributed to the difficulty of arriving at a single pay structure.

6.46 Before the development of the Universal Classification Standard, the federal public service did not have a good basis for assessing the internal equity of its occupational groups. Once the Standard was applied, the Secretariat plotted departments' position evaluation results according to the present salaries of the positions on a pay structure that fit the available funding. It found that the majority of positions were outside the desired pay structure, either higher or lower than the pay that was proposed.

Decisions on external and internal relativity affected compensation

6.47 Over the years, several decisions on compensation have had an impact on internal relativity among occupational groups and on parity with the outside labour market. These decisions include the following:

- A freeze on salaries from 1991 to 1997, causing some salaries in the public service to fall behind those of comparable jobs in the private sector.
- The settlement in 1999 by a Canadian Human Rights Tribunal of pay equity complaints for six occupational groups.
- The payment of special allowances through collective bargaining to 13 occupational groups to help attract and retain people with skills that were in high demand on the labour market—for example, computer scientists and engineers. Intended to be temporary, these allowances have in effect become part of the pay structure for these groups, whether or not the competitive demand has since disappeared.
- Compensation adjustments negotiated by each bargaining unit between 1997 and 2002 that led to significant variability in wage increases.

No corporate policy on compensation

6.48 To maintain a balance between affordability and internal and external equity, an organization generally needs a sound corporate policy on compensation for all occupational groups, including executives. A compensation policy is designed to support the organization's achievement of its strategic objectives for human resources management as well as its business objectives.

6.49 The federal government has not had a formally approved compensation policy to guide its compensation decisions, and the impact can be seen in the many salary structures it has to deal with. Although the principles of a compensation policy were discussed over the years by various officials of the Treasury Board Secretariat, there was no formal framework in place to balance competing objectives and to review the impact of collective

bargaining decisions for one group on negotiations for the others. In some cases, compensation issues discussed in collective bargaining were assessed for their potential impact on the government's pay equity liability or internal relativity. However, we saw no evidence of a concerted, structured approach within the Secretariat and with stakeholders during the Standard's development that led to significant changes in its approach to collective bargaining that might have smoothed the path for a single pay structure, allowing for conversion to the Universal Classification Standard.

6.50 Although the Secretariat has done considerable work recently to develop a compensation policy for the public service, no such policy has yet been finalized.

6.51 Recommendation. The Treasury Board Secretariat should complete its development of a coherent corporate compensation policy. The Secretariat should monitor and evaluate the effects of the policy's implementation on compensation.

Treasury Board Secretariat's response. The Human Resources Management Office (HRMO) is currently developing a comprehensive policy, which will assist in shaping the federal government's approach to compensation, including the development of collective bargaining mandates. A discussion paper is expected to be released this spring with the intent of having a policy approved in autumn 2003.

Federal public service compensation should serve, within an all overall human resources policy framework, to attract, retain, motivate, and renew the workforce required to deliver business results to Canadians. There are several factors that influence compensation, including the private sector labour markets, internal relativity among groups, macro-economic policy, social policy, relevant legislation, union leverage, public opinion, economic conditions, and the state of government finances. The policy will provide guidance on how to balance these factors and the risks associated with them. Indicators will be developed to monitor the implementation of the policy as it affects compensation outcomes.

Unrealistic assumptions used in establishing costs

6.52 The conversion of some 150,000 positions to a single pay structure had to be done with the funds that were available. Making solid cost estimates was critical.

6.53 In 1991, the Secretariat committed to achieving cost neutrality in converting public service positions to the Universal Classification Standard. That is, it assumed that in the long run, the costs of salaries for positions converted to the new pay structure would be balanced by the savings—making the exercise cost-neutral.

6.54 In 1997, the Secretariat produced a first estimate of the conversion costs. Since actual evaluation results were not available at the time, it based its estimate on previous experience with classification conversions and other historical data and arrived at an estimate of \$400 million over four years as

the total cost of conversion. The Treasury Board gave it Preliminary Project Approval, even though this was a very rough estimate.

6.55 We note that the \$400 million cost estimate represented 1.5 percent of the payroll. However, our audit experience and the academic literature indicate that conversion costs might range around 3 percent of payroll—and more, when adjustments for pay equity are required.

6.56 By 1999, the Secretariat recognized that given the changing nature of work in the public service, cost neutrality was not achievable; it was dropped as an objective. The Secretariat refined the cost estimate to \$434 million over four years, assuming a salary protection rate of 40 percent.

6.57 In January 2000, the Secretariat reviewed the funding required for the conversion, based on a sample of actual position evaluation results in departments using the Universal Classification Standard. This review too, had to assume a salary protection rate of 40 percent in order to stay within the approved funding limit.

6.58 There was no support among deputy ministers for a salary protection rate of 40 percent. They were concerned about the disruptive impact on workforce morale at a time when competition for staff was starting to grow. Although the existing salary protection policy stipulated that no employees would lose income as a result of the conversion, employees with salary protection tend to feel that their work is undervalued; other employees may consider them overpaid.

6.59 The Secretary of the Treasury Board asked officials to work with a salary protection rate of five percent instead, a rate that the deputy ministers did support. Further cost analyses suggested that the cost of converting 150,000 positions using a salary protection rate of five percent would be about \$1.1 billion over a number of years.

6.60 In January 2001, based on several compensation scenarios using the December 2000 results of position evaluations in departments, the Secretariat found that to convert the 150,000 jobs and stay within the funding limit of \$434 million, it would have to use a salary protection rate of about 50 percent to 60 percent. In February 2001, the Secretariat concluded that a single pay structure did not appear viable. It could not find a way within the current salary protection policy to reconcile available funding with a salary protection rate that was manageable and acceptable to management and unions.

Other compensation approaches explored

6.61 The Secretariat considered two other approaches to compensation. The first would use one classification standard with several pay structures, based on the position evaluation results using the Standard. However, the Secretariat concluded that this option would offer little defence against supporting differences in pay in the collective bargaining process or against pay equity complaints.

6.62 The second approach was essentially the same as the old approach to classification and compensation, that is, a different classification standard and pay structure for each occupational group. The Secretariat believed that this approach would be less costly and less disruptive than either the first approach or a single pay structure. It recognized, however, that this approach to compensation risked increasing the government's pay equity liability. It noted that if the reform were substantial, it would support the reform and the initiative to modernize the management of human resources functions across the public service. If the majority of the public service were left untouched, the ability to support broader human resources reforms would be similarly limited.

6.63 The Secretariat established a consultation and decision-making process to validate the analysis and conclusions of its staff. In February 2001, a committee of assistant deputy ministers was formed to assess the full potential implications of not implementing the Standard as originally envisioned. The committee examined several options, including putting a halt to all classification reform, and reviewed the two options developed by the Secretariat.

6.64 The committee concluded that classification reform was still needed. It developed a proposal for a step-by-step, tailored approach to classification reform, beginning with the program administration (PA) group, to recoup some of the investment in the Standard project. The PA group embraced nine occupational groups with the oldest standards and over 45 percent of public service employees. It is represented in every department and includes positions from the lowest to the highest levels of the classification structure (excluding executive levels). Two of the former groups were involved in the major pay equity complaint against the federal government.

6.65 In April 2001 the committee of assistant deputy ministers presented its recommendations to the Treasury Board Secretariat Advisory Committee (an executive committee of deputy ministers), which accepted the need to continue with classification reform and endorsed the tailored approach.

6.66 Early in 2001, deputy ministers and some assistant deputy ministers were aware that the Universal Classification Standard project was unlikely to proceed as initially planned. However, they agreed to continue improving the quality of work descriptions and position evaluation results while new alternatives were explored and a new approach approved.

6.67 From April 2001 through April 2002, the Secretariat engaged in intense education, consultation, and briefings of senior government officials, recognizing that these areas had not received enough attention during the project. It examined the feasibility of proceeding with the PA group, testing options with the largest departments. It worked on a submission to Treasury Board ministers that outlined options and its proposed new tailored approach.

Little communication for twelve months

No information was provided to stakeholders until May 2002

6.68 From April 2001 to May 2002, the Secretariat made no new public announcements on the status of the Universal Classification Standard project—not on its Web site, in letters, or other announcements to departments. As of April 2001, the Secretariat no longer referred to the Universal Classification Standard project, and talked instead about “classification reform,” with no explanation.

6.69 Secretariat officials told us that unions participated in some off-the-record discussions that explored solutions to implementing the universal approach, including what other options might be appropriate. However, in April 2001 and again in November 2001, the Public Service Alliance of Canada (PSAC) requested an update from the Secretariat on the status of the Universal Classification Standard project. According to PSAC records, in each case the Secretariat responded only that work was continuing.

6.70 Following consultations with executives across the country in summer 2002, the Association of Public Executives (APEX) reported that public service executives showed a “definite hint of disengagement” from major reforms of human resource management and linked it directly to the failure to proceed with the Universal Classification Standard. Executives noted that they had invested considerable time and money and their personal reputations in projects that had not materialized.

6.71 Furthermore, the performance information reported to Parliament on the Universal Classification Standard project did not adequately reflect the evolving state of classification reform. In its reports on plans and priorities for 1998-99, 1999-2000, and 2000-01, the Secretariat said that it planned to implement the Universal Classification Standard (Exhibit 6.1). In its 1998-99 Departmental Performance Report, it said it would implement the Universal Classification Standard as the cornerstone of other reforms. The Secretariat said also that conversion of the public service would be administered on a staggered basis throughout 1999. In its departmental performance report for 1999-2000, it said it was implementing the Universal Classification Standard when in fact it was still testing the Standard’s application, and indicated that conversion would not be completed until 2000-01. However, its departmental performance report for 2000-01 dropped all direct reference to the Universal Classification Standard. Instead, the Secretariat began referring to “classification modernization.” There was no explanation for why the terminology had changed and what it meant, or its implications for human resources management modernization.

6.72 Officials of the Secretariat told us that the announcement of a new approach was delayed for a number of reasons. They wanted to develop an alternative to classification reform, and that would require the approval of Treasury Board ministers before it could be announced. A tense labour relations climate, the events of September 11, 2001, and changes in the Secretariat’s senior management also contributed to the delay.

Exhibit 6.1 The Treasury Board Secretariat's reporting on classification reform

What the Secretariat planned in Report on Plans and Priorities	What the Secretariat reported in Departmental Performance Report
<p>1998–99</p> <p>Implement the Universal Classification Standard (UCS), a modern, universal and gender-neutral job evaluation tool that serves as the critical underpinning of other human resources management reforms in collective bargaining, compensation and staffing.</p>	<p>1998–99</p> <p>The Universal Classification Standard will serve as the cornerstone of human resources management reforms including collective bargaining, compensation and staffing...the government published the new Universal Classification standard occupational group definitions...reducing the number...from 72 to 29, thereby allowing for more effective human resource management and greater employee mobility. Conversion of the Public Service will be administered on a staggered basis throughout 1999 as collective agreements expire.</p>
<p>1999–2000</p> <p>Implement the Universal Classification Standard</p> <p>Use the potential of Universal Classification Standard, post-conversion, to facilitate human resource management reforms in collective bargaining, compensation, staffing and organizational development. Negotiate the new compensation structure for the implementation of Universal Classification Standard.</p>	<p>1999–2000</p> <p>Implementation of the new gender-neutral occupational group structure—the Universal Classification Standard (UCS)—continued during 1999-2000. Following some delays, the conversion is expected to be completed during the 2000-01 fiscal year. Gender neutrality, simplicity and universality in job classification are the goals of the new standard. UCS is also an integral part of a modern human resources framework that will make the public service more flexible in serving Canadians in the 21st century. Further details on the progress of implementation are available on the Secretariat's Web site.</p>
<p>2000–01</p> <p>Begin using the Universal Classification Standard as a key corporate tool to stimulate change</p>	<p>2000–01</p> <p>Work continued on preparing for classification modernization</p>
<p>2001–02</p> <p>Modernization of the classification plan</p>	<p>2001–02</p> <p>The Secretariat...implemented a number of reforms that...addressed challenging issues such as...the improvement of the classification system...The Secretariat has identified viable options for a tailored classification reform program. It will be flexible, gender neutral, and conducive to recruiting and retaining the diverse workforce needed in the Public Service.</p>

Source: Treasury Board Secretariat Reports on Plans and Priorities and Departmental Performance Report

Poor oversight of classification

Old classification standards are obsolete

6.73 One of the Secretariat's responsibilities is to establish adequate classification standards and the controls to ensure that positions are classified according to those standards. We expected that given that responsibility, it would take steps to ensure that positions would be classified adequately throughout the development of the Universal Classification Standard and until the Standard was fully in place.

6.74 Thirteen years after the PS 2000 classification task force made its recommendations, departments are still using the 72 old classification standards. Numerous problems with these standards have been identified over the years:

- Many of the old standards do not include the four factors listed in the *Canadian Human Rights Act* and Equal Wage Guidelines and therefore cannot be used for analysis of equal pay for work of equal value.
- Some are obsolete.
- Some refer to work no longer performed and equipment no longer used in the public service.
- Some exclude important dimensions of work today and do not distinguish meaningfully between degrees of job complexity.
- Some classification standards do not measure unique aspects of work and consequently credit the same job content more than once. For instance, in some standards we find that the larger the budget to be managed or the higher the number of people to be supervised, the higher the value of the position. Since the budget to be managed increases with the number of people supervised, in effect the same aspect of work is credited twice. Furthermore, these classification standards support values no longer relevant to achieving efficient delivery of services and programs.

No mechanisms for monitoring or controlling classification

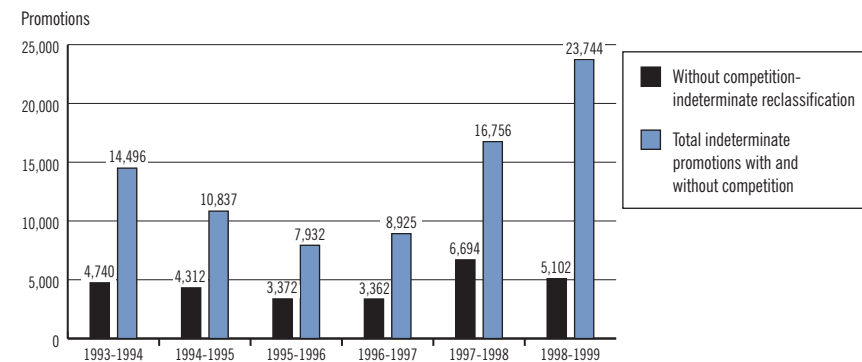
6.75 Departments have been delegated the authority to classify and also reclassify positions. A reclassification is the appointment of an employee, without competition, to a position whose occupational group, subgroup, or level has changed as the result of the position's re-evaluation.

6.76 Leading up to the planned conversion to the Standard, the Treasury Board Secretariat suspended its central monitoring of classification and conducted its last audit of classification in 1991-92. In the years when the Secretariat still controlled classification, about six percent of public service positions were either overclassified or underclassified.

6.77 Reclassifications as a percentage of total promotions have remained relatively constant—around 30 percent—over the past 10 years, according to the Public Service Commission's records. From 1993 to 1999, the Treasury Board Secretariat has had no mechanisms for controlling or monitoring classification. It thus has had no way of knowing whether any of the roughly 28,000 positions whose reclassification resulted in promotions were

misclassified or the magnitude of the cost of any such misclassifications (Exhibit 6.2). In 1990, we reported that the Secretariat had estimated that a 6.4 percent rate of misclassification in 1988-89 resulted in an unwarranted annual net cost of \$5.3 million.

Exhibit 6.2 Reclassifications resulting in promotions, 1993 to 1999



Source: PSC annual reports - Not audited

6.78 In our 2000 follow-up we found that when the Secretariat began to apply the Universal Classification Standard in 1998, some departments and agencies had not reviewed the old classifications of their positions to determine whether they were accurate and up-to-date. We noted that no one had any idea how many positions at that time had been misclassified.

6.79 In fall 2002, the Secretariat conducted a survey to capture an accurate overview of classification practices and capabilities across the public service. Preliminary results showed that nearly 35 percent of positions classified under the old standards over the past few years had been evaluated using the work description elements of the Universal Classification Standard, but without guidance from the Secretariat. The Secretariat recognizes that in the absence of appropriate guidelines, departments may have evaluated the Standard-style work descriptions against old standards in different ways and arrived at different results.

6.80 Recommendation. The Treasury Board Secretariat should ensure that timely audits of classification are conducted and take all the necessary measures to restore and sustain the integrity of the classification of positions in the public service.

Treasury Board Secretariat’s response. The Secretariat agrees on the importance of ensuring the integrity of the classification system. In line with the Treasury Board Policy on Active Monitoring, the Secretariat uses the term “active monitoring” rather than “audit.” This approach is well suited to the classification system because deputy heads are delegated the authority by the Treasury Board to make classification decisions. Departments are responsible for monitoring how positions are classified within their organizations and the Treasury Board Secretariat is responsible for supporting departments and monitoring the overall situation across all departments.

The Secretariat has reminded deputy heads of their responsibility for systematic monitoring to ensure integrity of classification in the public service. The Secretariat is implementing its active monitoring program in 2003–04 on two levels. At the departmental level, it will assist classification managers to build their own active monitoring program or to align their current program with the active monitoring approach. At the corporate level, it will undertake a comparative study of how a classification standard that is commonly used by departments is being applied. Working with a selected department, the Secretariat will also test its active monitoring methodology and report on the results. New electronic, Web-based tools are under development to assist departments in the consistent application of the existing standards. The Secretariat will continue to advise departments on applying the classification standards and will deal with grievances and dispute resolution. All classification monitoring initiatives will be synchronized with other Secretariat review mechanisms to ease the burden on departments.

The Secretariat is developing tools to work with the old system

6.81 The Secretariat is working to make old classification standards usable; to bring all standards into conformity with the occupational group structure at a minimum; and to maximize the use of the work descriptions developed under the now ended Universal Classification Standard project. Documents from the Secretariat indicate that all these activities are taking longer than originally forecast.

6.82 Over the last year, the Secretariat has started developing a number of measures to provide departments with direction and support for classifying positions using the old classification standards.

6.83 The demise of the Universal Classification Standard project has increased the demand for reviewing classification levels using the old standards, much of which was deferred because the new Standard was soon to be implemented. Hard copies of the old standards are in short supply across the public service. At the time of our follow-up, the Secretariat was scanning its 72 old classification standards into electronic format and had informed departments that it would post them on its Web site early in 2003.

6.84 The Secretariat is developing some monitoring tools for its own use and for use by departments, such as databases and report-generating tools that would allow departments to do peer reviews, update their data, and improve job relativity ratings among departments. The Secretariat is developing a classification monitoring framework that, in line with the Treasury Board policy on active monitoring, allows departments to monitor their management practices and controls. It expects to implement these initiatives in 2002-03 and to be actively monitoring the overall state of classification by 2003-04.

6.85 As noted earlier, during the Universal Classification Standard project the majority of departments rewrote their work descriptions in the style of the Standard. The Secretariat is developing a tool to match the work described in the Standard-style work description format to the requirements of the old

classification standards. The tool is designed to assist departments in collecting information that may be missing from Standard-style work descriptions (such as number of people supervised, or size of budget) but that is needed to evaluate positions by the old standards. It plans to provide guidelines for evaluating the new work descriptions against old standards in a consistent way to ensure relativity throughout the public service.

6.86 In our opinion, besides the other problems we have set out that are inherent in the old standards, they will not value or assess much of the job content captured in the Standard-style work descriptions.

The end of the universal approach was announced

6.87 On 8 May 2002, the President of the Treasury Board announced that while classification reform was still a priority, a universal approach to classification was not workable in the current environment. The government would begin a new program of step-by-step, targeted, and tailored reforms. Exhibit 6.3 summarizes the key features of this new approach.

6.88 The new approach will begin with occupational groups whose standards require fundamental changes. As of March 2003, the Treasury Board Secretariat had not finalized the identification of those groups or determined which classification standards would require only updates or no change. In the interim, the Secretariat has given priority to the rebuilding of capacity in departments and agencies to classify their positions using the 72 old classification standards.

Exhibit 6.3 A new direction for classification reform

Key aspects of the new approach include the following:

Standards will be tailored to respond to the specific needs of each occupational group.

The government will continue to subscribe to the pay equity principle and awaits a proposal from the Pay Equity Task Force for an improved approach to achieving and maintaining pay equity.

Tailored standards will reduce the need for the large number of standards currently used.

Reforms will be carried out only for occupational groups that require major changes to their standards.

Classification reform will be implemented on a three-year rolling plan.

Classification reform will be carried out in co-operation with departments and unions.

The reform of selected occupational groups will use, where possible, work already done under the Universal Classification Standard project such as the work description format.

The new approach will support the modernization of human resources management, an initiative now under way.

Source: Treasury Board Secretariat http://publiservice.tbs-sct.gc.ca/media/nr-cp/2002/0508_e.asp

Issues yet to be resolved

The new tailored approach faces significant challenges

6.89 Classification reform is part of the government's initiative to modernize human resources management in the public service. However, it is not clear how classification reform will be aligned with the broader modernization initiative and its reform strategy and objectives. Further, the government has defined no clear vision of the overall results it expects to achieve with its incremental and tailored approach. Nor has it established a timeline for managing its classification reform.

6.90 Classification is an essential component supporting many human resources management policies and systems in the public service. Therefore, it is particularly important to ensure that any reform of classification be based on a solid foundation. During our audit, the Secretariat told us that it was at an early stage of developing a framework for human resources management.

6.91 The Secretariat has made a deliberate decision to correct problems as the reform of classification moves forward. This represents significant risks when the overall end results are not defined. For instance, a new classification standard to meet the specific needs of one group could be implemented without knowing the potential impact on other occupational groups slated for attention later.

6.92 Similarly, the Secretariat intends to meet the specific needs of occupational groups across the public service while still responding to the business needs of departments. The mandate, organizational structure, programs, and services of some 60 departments and agencies are unique; attempting to reconcile the very diverse needs of all these organizations while developing a government-wide classification standard for each occupational group will be a significant challenge.

6.93 One concern for the Secretariat is aligning the new classification structure with a new pay structure for each of the occupational groups selected for reform. In our opinion, since the constraints and conditions that hampered the universal approach still exist, the Secretariat faces the same challenges it encountered in the conversion to the Universal Classification Standard, albeit on a smaller scale. The biggest challenge will be to develop a classification standard for the PA group, a high priority and one of the three groups identified as candidates for the first wave of reform. The Secretariat is still assessing whether the PA group can feasibly be one of the first groups converted to a new standard, and it has indicated that conversion is some years ahead.

6.94 Further, the tailored approach to classification may not address the *Canadian Human Rights Act* requirements. The new approach continues the old system's use of separate standards for each occupational group, which makes it difficult to compare the work of different groups and thereby to justify differences in pay. The new approach risks incurring pay equity complaints and the associated potential liability. The Treasury Board Secretariat has recognized this risk and is developing a pay equity risk management strategy as part of its larger risk management framework in its Human Resources Branch.

6.95 Moreover, the tailored, group-specific classification standards will have to be gender-neutral to comply with the *Canadian Human Rights Act* and Equal Wage Guidelines. The Secretariat intends to use the Act's four provisions (skill, effort, responsibility, and working conditions) in order to recoup part of the work completed in the Standard project. It recognizes that modifying any part of the Standard without ensuring that appropriate safeguards are in place for gender neutrality could increase the risk of pay equity complaints.

6.96 Finally, the long-term plan and funding for classification reform are still uncertain. In February 2002 the Secretariat projected the costs over 14 years to reform classification standards. Given that the scope of classification reform has not yet been decided, it is not clear if this projection covers the full costs. Nor is there a clear end date or target for completing the reform. The Treasury Board Secretariat is working on a three-year rolling plan that requires it to return to Treasury Board ministers annually to review the progress and the costs of the reform.

Lessons learned

6.97 In our follow-up audit we expected to find that the Secretariat had conducted a comprehensive post mortem to determine the root causes of the reform project's demise over the last 12 years and certainly over the course of the Standard project since 1995. To be meaningful, a post mortem would include all key stakeholders and ideally, after the second failed attempt at reform, would be guided by an independent group.

6.98 In our interviews we found that although there had been no formal post mortem, each senior official of the Secretariat had learned lessons based on the scope of their responsibilities and their interpretation of the reasons for the failure. At the end of our audit, the Secretariat gave us a paper summarizing the views of its officials and indicating how they had based the new approach on the lessons learned.

6.99 A key change was the reorganization of the Secretariat's Human Resources Branch. During the second attempt to reform classification (1995 to 2001), the Treasury Board Secretariat's Universal Classification Standard Division was responsible for delivering the Standard as a job evaluation tool and ensuring that departments used it to get reliable results in position evaluations. While consultations happened on some issues, the divisions with related responsibilities (Classification, Labour Relations and Compensation) largely worked independently. The Secretariat has recognized the need for timely and structured sharing of information that is relevant to different divisions of the Branch and to use it as a basis for decisions. It has clustered compensation, labour relations, classification, and pay equity together for a more integrated approach to these areas. In our opinion, this reorganization should help the Secretariat deal with some of the intractable issues that it must resolve in order for reform to proceed.

6.100 The Secretariat recognizes that classification reform is not in itself a solution to all problems of human resources management. It also recognizes the need to involve senior leaders in analyzing the problems and developing

solutions so the reforms will meet the business needs of departments. The Secretariat has committed to working with the public service unions.

6.101 The Secretariat has said that it intends to strengthen the human resources management capabilities of departments, managers, and unions. It also plans to consult with organizations and experts with similar experience outside the Human Resources Branch and the federal public service.

6.102 However, it is not clear to us how the new approach the Secretariat is taking will address the fundamental problems identified by the PS 2000 Task Force, problems that still exist today: the system is complex, cumbersome, very time-consuming, not responsive to pay equity concerns, and costly to operate. The Secretariat has projected the costs of classification reform to 2014 and has announced a strategy and a three-year rolling plan to be revised yearly. But there are no overall objectives for reform, no global plan, and no specific target dates for achieving results. In our opinion, it is questionable whether a reform initiative staggered over many years can be effective.

6.103 Recommendation. The Treasury Board Secretariat should articulate its objectives and expected outcomes for classification reform and develop a global plan for addressing the root problems inherent in the old classification system.

Treasury Board Secretariat's response. The government's goal is to simplify and modernize job classification by introducing a balanced system that reflects labour market realities, treats men and women equitably, and helps it recruit and retain the people needed to serve Canadians. In May 2002, the Treasury Board announced its decision to implement a multi-year classification. Subsequently, implementation initiatives were identified and linked into a coherent three-pronged strategy:

- development of new, tailored, gender-neutral standards responsive to the specific needs of individual occupational groups, where existing standards are particularly outdated;
- ongoing maintenance of existing standards, where necessary, and guidance on their application; and
- rebuilding of system capability through active monitoring and the development and delivery of an up-to-date curriculum for technical specialists and line managers.

Through the adoption of a three-year rolling plan, updated annually, the Treasury Board Secretariat will focus on priorities agreed with departments and unions. Setting business-based priorities, pacing change to fit the system's capacity to manage reform, and resourcing appropriately are the best means to produce sustainable results.

Work to achieve these aims is well under way. Several departments, public service unions, and functional communities have presented their business case proposals for classification reform. The decision as to which occupational groups will be selected for inclusion in the first formal three-year rolling plan will be announced this spring. During 2003–04 we will also be launching our active monitoring program and the first phase of our updated training curriculum.

Conclusion

6.104 Despite 12 years of effort, the government has not made significant progress in reforming its old and problematic classification system. The Treasury Board Secretariat changed its direction on classification reform in 2001; it realized it could not develop a manageable single pay structure with the available funding. In our view, several factors contributed to the failure of a universal approach: the lack of a formal compensation policy; the pattern of collective bargaining over the last 35 years to determine pay; the lack of co-ordination among classification, compensation, labour relations, and pay equity; and flawed costing assumptions. While the Secretariat has reorganized to better co-ordinate its human resources activities, many of the same factors remain to challenge the new approach.

6.105 The Treasury Board Secretariat finished designing the Universal Classification Standard except for confirming the final weighting of the elements and the number and point ranges of levels. The Secretariat says it will use the work done as a basis for developing new group-specific standards.

6.106 The current state of classification standards, some of them more than 30 years old, is a questionable foundation for a new and coherent compensation plan across the public service. The government's ability to justify the adequacy of classification and therefore of compensation in the public service is vulnerable, after a long period with little central control over classification practices in the public service.

6.107 The extent to which positions in the public service today are misclassified is unknown. However, given the number of positions reclassified in the last decade when the Secretariat was not controlling or monitoring classification actions, we view the state of job classification and compensation with serious concern. The Secretariat will need to rebuild and maintain the credibility of the old system until it moves to something else.

6.108 The new, tailored, incremental approach to classification reform that the Secretariat is planning faces significant challenges. It is not clear how it will address pay equity concerns and support modernization in other parts of human resources management—that are founded on the classification system. The government needs a more comprehensive plan to address these challenges.

Treasury Board Secretariat's comment. The Treasury Board Secretariat agrees on the importance of modernizing classification in the public service. This must be done in a way that helps us attract and retain the talent we need to serve Canadians and that treats men and women equitably.

It is evident that we made a substantial investment of time and energy in pursuit of a “universal” approach to classification that proved unworkable. We regret that this much-anticipated project did not fully achieve the intended result.

Much of the work done to prepare for the planned “universal classification standard” (UCS) has proved to be a worthwhile investment. In the main, existing resources were used by departments to carry out day-to-day classification activities. Many employee work descriptions were significantly updated. The strategic use of generic job descriptions has greatly reduced the work required to manage the personnel system. We have introduced innovative gender-neutral approaches into our classification standards design, work description writing, and job evaluation procedures.

Since the Treasury Board President’s announcement in May 2002 of a group-by-group approach to classification reform, we have made solid progress:

- We have consulted widely with departments, unions, and functional communities on 18 groups proposed for priority attention. In May 2003, the President will confirm our initial priorities for classification reform.
- The 72 current classification standards have been mapped against the UCS-based work descriptions to ensure public-service-wide consistency of interpretation and application. This spring, we will make all job evaluation standards accessible through the Internet.
- Last autumn we surveyed departments on classification capacity and current practices. The results are assisting us to focus curriculum development, training, and the sharing of best practices. In June, we will hold the first interdepartmental symposium of classification professionals to promote the renewal of the community.

We are convinced that our reporting to Parliament was appropriate. We could not announce a change of direction before a decision by Treasury Board ministers. The analysis leading to this decision did take longer than we would have liked, for the reasons stated in paragraph 6.72. In the meantime, however, senior Treasury Board Secretariat officials did appear before the Public Accounts Committee and indicated that we were exploring alternative approaches to classification reform.

In respect of pay equity, the departments of Justice and Labour and the Canadian Human Rights Commission recognize that the current provisions of the *Canadian Human Rights Act* are difficult to interpret and apply. For these reasons, the Bilson Task Force, appointed in June 2001 by the ministers of Justice and Labour to review pay equity legislation, is studying these provisions now.

Because the recommendations of the Task Force could result in changes to the current policy or legislation, we must take this into account in determining how to best balance our responsibilities to respect the provisions of the *Canadian Human Rights Act*, the *Financial Administration Act* and the *Public Service Staff Relations Act*. We have undertaken several initiatives to better manage our pay equity obligations, such as working at enhancing our capacity to monitor the impact of changes in gender predominance on wages.

In summary, we are trying very hard not to repeat the mistakes of the past as we manage a very complex issue.

About the Follow-up

Objectives

The objective of this follow-up was to assess the progress in job classification reform in the federal public service since 1996 and to identify the challenges ahead.

Scope and approach

The reform of job classification in the federal public service started in 1990 in the context of Public Service 2000 (PS 2000). We situated the current follow-up in the context of the principles, objectives, and recommendations submitted by the PS 2000 Task Force, the objectives of the Universal Classification Standard (UCS) project in 1995, and the progress made until December 2000.

The primary focus of our work was on the initiatives undertaken by the Treasury Board Secretariat in the implementation of the Universal Classification Standard between December 2000 and December 2002. We examined the work and rationale leading to decisions on changes to the Universal Classification Standard project. We reviewed relevant documentation and conducted many interviews to gain a clear definition of the new approach to classification reform announced by the Secretariat in May 2002. We reviewed the analyses conducted by the Secretariat during the decision-making process. We also examined the extent to which the Secretariat had taken measures to identify the key factors that would ensure the success of future classification reform. Finally, we looked at how the Secretariat is ensuring in the interim that departments and agencies have clear direction and the necessary support to classify positions adequately under the old classification system. Our follow-up excluded audit work in departments and agencies.

Criteria

The criteria are drawn from best practices in the areas of classification and job evaluation, risk analysis management, and decision-making processes used in previous studies and audits of the Office. We expected that

- decisions on changes to the classification system would be supported by sound analysis, using all relevant and up-to-date information including the position of key stakeholders;
- key critical success factors for future classification reform would have been identified, based on lessons learned; and
- in the interim, departments and agencies would have clear direction and the necessary support to classify positions adequately.

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