Advisory Committee

on Senior Level Retention *and* Compensation

Seventh Report: December 2004

Prepared for the president of the Treasury Board

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SEVENTH REPORT OF THE ADVISORY COMMITTEE ON SENIOR LEVEL RETENTION AND COMPENSATION

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Preface

The Advisory Committee on Senior Level Retention and Compensation is pleased to provide this report and its recommendations to the Government for consideration. Since the Committee's renewal in 2001, this Advisory Committee has produced four reports. The majority of our recommendations have been accepted by the Government of Canada and have been implemented within the Public Service. Our recommendations have primarily focused on 1) providing timely advice on competitive, modern, compensation plans that will attract and retain excellent senior level personnel in the Public Service and 2) improving the implementation of the Performance Management Program that was recommended by the previous Committee.

In addition, we have strongly supported government initiatives aimed at modernizing the human resource system within the Public Service and strengthening the leadership of the executive of the Public Service.

The Committee feels this is a critical period for the leadership of the Public Service. With the transition to a new government and the recent re-election of a minority government, there is no doubt that strong leadership by the executive of the Public Service will be required. Recently, confidence has been shaken by the controversy surrounding the sponsorship program. Periods of change can be debilitating or invigorating. A debilitating environment results in uncertainty and inertia. An invigorating environment results in confidence, commitment, and innovation. Our Committee believes that strong leadership by the executive of the Public Service will result in the latter. A well-designed and implemented Performance Management Program is essential. We continue to believe in the Performance Management Program as an important tool to clarify the goals and commitments of the Public Service and reward behaviours and outcomes that produce the desired results.

With the transition to a new government, a minority government, there is no doubt that strong leadership by the executive of the Public Service will be essential.

We have taken the opportunity in this report to include a retrospective review of our recommendations over the last four reports, provide a summary of progress on implementation of these recommendations, and provide our views on some of the challenges for the future.

The Committee has striven to produce reports that are timely so that the government can maintain competitive salary ranges that support its human resources strategy for senior personnel. We reiterate the importance of addressing senior level human resource issues in a timely fashion.

I and my colleagues on the Committee continue to feel strongly that the Public Service plays an important role in the economic and social development of Canada, whether providing policy advice to Government or delivering services directly to Canadians. It is for this reason that we continue in our reports to not only present recommendations to the Government, but also make observations that we hope contribute to public discussion and understanding of the value of the Public Service of Canada. These are extremely challenging times and we hope our efforts provide useful advice.

Carol Stephenson

Human Resources Management – Progress and Future Challenges

Our Seventh Report addresses the five main areas we have focused on since 2001. These include:

1. Human Resources Management

2. Compensation for Executives and Deputy Ministers

3. Compensation for CEOs of Crown Corporations

4. Compensation for Other Governor in Council Appointees

5. Performance Management

For each area, this report provides a retrospective review of our recommendations over the last four reports, a summary of the progress by government in implementing these recommendations, and our current recommendations. Finally, we provide our views of the challenges for the future.

FUTURE CHALLENGES

The Public Service is at a critical period in its evolution. With the transition to a new government, and the recent election of a minority government, compounded by recent setbacks in public trust, there has never been a more important time for strong leadership by the executive of the Public Service. Addressing the challenges of transition occurs at the level of government as a whole, at the department and agency level, and as well at the individual level. Strong human resource leadership and management are required.

At the same time, demographics in both the private and public sectors are pointing to the need to ensure that the oncoming wave of retirements is well planned from a development and succession point of view.

At the same time, demographics in both the private and public sectors are pointing to the need to ensure that the oncoming wave of retirements is well planned from a development and succession point of view. A recent publication by the Canadian Centre for Management Development (2004) entitled *Renewing Organizations: Managing Workforce Transitions* asks five important questions.

1. Are your human resources plans sufficiently integrated with your overall business plans to ensure that your organization has the talent to meet its objectives?
2. Are you confident that your succession plans will provide you with current and future talent for mission-critical and leadership positions?
3. Do your management and other development programs deliver what you require to meet changing priorities?
4. Have your healthy workplace initiatives resulted in better performance, improved employee satisfaction and commitment, and staff retention?
5. Are you capturing mission-critical knowledge from employees when they leave?

These five questions are an excellent start to the type of human resource planning that will ensure healthy transition at all levels. Development plans for high potential candidates for executive positions should be in place. Succession plans should also be reviewed at all levels in all departments. If gaps are identified in key areas, human resource plans must be put in place to address these gaps.

The *Public Service Modernization Act* and the Modern Controllership initiative are significant developments that promise to support the transition to increased accountability, transparency, and value for money. The Committee commends this work and supports its direction.

Past Recommendations and Progress to Date

Good human resource management means good human resource planning that is based on the government's overall strategy. This point was stressed in the Third Report of the previous Committee. Our Committee has continued to support this view, and in our Fourth Report, we made the following recommendations:

- The government commit to a Public Service that:
    - is the best in the world;
    - attracts and retains the best and brightest;
    - provides the best service; and,
    - creates maximum value for Canadians
- That the Clerk of the Privy Council as Head of the Public Service consider sponsoring a meeting of the top leadership of the Public Service (Assistant Deputy Ministers and above) for a few days each year to discuss vision, strategic directions, government priorities and important program initiatives. This should be a learning event, including case studies and best practices, as well as an opportunity for building networks.
- The government examine an expanded use of mentoring.

In the 2004 Annual Report to the Prime Mini ster on the Public Service of Canada, Alex Himelfarb, Clerk of the Privy Council, expressed his commitment to *"build on the Public Service of today, with its long and proud history, to create the Public Service of the future – one that is nothing less than the finest Public Service in the world."*[1]

There are many well-established mentoring programs working effectively in a number of departments. The Treasury Board Secretariat has completed a study of the programs currently in existence across the Public Service, identifying best practices and recommending how departments and agencies can create favourable conditions for successful mentoring. We

Good human resource management means good human resource planning that is based on the government's overall strategy.

[1] Canada, Privy Council Office: *Eleventh Annual Report to the Prime Minister on the Public Service of Canada*.

We encourage the use of mentoring, along with adequate resources and supports, as essential for the future as core knowledge leaves the government due to retirements.

encourage the use of mentoring, along with adequate resources and supports, as essential for the future as core knowledge leaves the government due to retirements.

Summary of Conclusions and Recommendations

In summary, we:

- Recommend that the five questions outlined earlier are discussed and addressed in each department. In particular, these questions need to be addressed for the executive cadre of the Public Service.
- Recommend specifically, in answering question #2, that succession plans be examined in conjunction with the current and forecasted demographics to ensure human resource needs can be met in the executive ranks. The Committee requests that the results and analysis of the demographic information coupled with the succession plans be reviewed.
- Recommend, as we did in the Fourth Report, that the Clerk of the Privy Council as Head of the Public Service consider sponsoring a meeting of the leadership of the Public Service (Assistant Deputy Ministers and above) for a few days each year to discuss vision, strategic direction, government priorities and important program initiatives.

Compensation for Executives and Deputy Ministers

Principles, Methodology and Limitations

In 1998, the original Advisory Committee, under the leadership of Lawrence F. Strong, recommended the principles for executive compensation that the government has followed since. At intervals, we have reviewed these well-established executive compensation principles and have continued to find them sound and appropriate for senior levels of the Public Service.

For example, at the beginning of the Committee's mandate, we recommended that the at-risk pay maximum of ten per cent was appropriate for the first three levels of executive and fifteen per cent for the EX04, EX05 and DM-1. We find this is still an appropriate level of at-risk pay; however, we will continue to assess how the various components of executive compensation contribute to achieving the government's objectives in human resources.

Another important principle is that, at the first level of executive, salary ranges are positioned competitively with respect to the external labour market. To apply this principle, job rates (the maximums of the salary ranges) should be adjusted periodically using market comparisons between total compensation at the EX01 level, or the first level of executive, and equivalent jobs in the Canadian labour market. (Salary ranges for successively higher levels are set at reasonable differentials based on internal relativities and *not referenced* to the labour market.) The Committee uses an annual benchmarking exercise to determine the currency of the EX01 compensation with the appropriate labour market.

The Committee uses an annual benchmarking exercise to determine the currency of the EX01 compensation with the appropriate labour market.

The methodology for this annual benchmarking has been described in previous reports, but can be briefly described as follows. The government determines a value, in dollars, of the worth of Public Service executive *total* compensation; that is, base salary plus at-risk pay, and non-cash compensation, including benefits, pension, and leave entitlements. Long-term incentives, common for executives in the private sector are not included in our valuation because they are not appropriate for executives in the public sector. This valuation figure is compared with the valuation figure for other executives in the broader Canadian labour market in as precise a way as possible, based on the Hay system's job evaluation points. If there is a gap between the median total compensation of the labour market for positions with the same job evaluation points and the total compensation of executives, the Committee considers it, along with other factors, in making its recommendations.

This methodology has limitations. Our recommendations are for salary ranges that *lag* those of the total Canadian market simply because of the timing. The survey data contains salaries that were mainly in effect over the *prior* year, for example, January 2003 to December 2003, and the resulting recommendations are put into effect for the government for the *following* year, in this example, April 2004. Thus, the salary recommendations are based on data of varying age, some of which is up to fifteen months old.

To further address the issue of timeliness, we will consider forecasting methodologies to determine whether they would work for the federal Public Service.

This 'lag policy' is a conservative approach, but one which is prudent and less susceptible to the ups and downs of the labour market. The Committee has attempted to base its recommendations on data that is as recent as possible in order to minimize the effect of this lag. To further address the issue of timeliness, we will consider forecasting methodologies to determine whether they would work for the federal Public Service.

In addition to the annual benchmarking study, we use studies of *compression* and *inversion* to measure changes over time in the competitiveness of executive compensation with other groups and levels within the federal Public Service. Compression is said to occur when the compensation of a supervisor is less than ten per cent greater than that of a direct report, and inversion refers to situations where the compensation of a position is greater than the compensation of its supervisor's position.

A study of compression and inversion by the Public Service Human Resources Management Agency of Canada for 2003-04 shows that the incidence of compression situations has dropped significantly. However, this is only a result of groups and levels having moved from compression situations into inversion situations. In fact, inversion situations have more than doubled in the past year, largely as a result of salary restructuring in non-executive groups and levels. Specific situations need to be analyzed and addressed.

However, no reasonable increase to executive rates of pay could entirely eliminate compression and inversion. Completely eliminating compression and inversion would require increases of more than forty per cent, an unrealistic and unaffordable solution. Indeed, some compression and inversion is inevitable and even normal in certain specialty areas, for example, when a highly qualified technical expert, such as a medical specialist, reports to a manager who does not have medical qualifications. Our goal is to address compression and inversion reasonably.

Using the methodology outlined above, the findings and recommendations below were made concerning executive compensation.

Findings

The Committee's study includes the extent to which the current total compensation: a) compares with that paid to equivalent positions in the Canadian labour market; b) is competitive with compensation paid within the federal Public Service; and, c) generally follows trends in the Canadian economy. The incidence of compression and inversion, the government's strategy for attraction and retention of experienced and qualified executives, and the need for fiscal prudence are factors that influence our recommendations. What the data showed was a picture not dissimilar from that presented in earlier reports. In terms of total compensation, the Public Service is behind the external market and the gap grows significantly at higher levels of responsibility. For 2003-2004, total compensation at the EX01 level in the federal Public Service is $136,339. The median total compensation for the same job in the external labour market has risen to $140,100. At the end of 2003, total compensation for the EX01 had fallen behind the market by approximately 2.75 per cent. The Committee

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In terms of total compensation, the Public Service is behind the external market and the gap grows significantly at higher levels of responsibility.

therefore recommends a salary range increase of 2.75 per cent for executives and deputy ministers, effective April 1, 2004. Minimum salaries should continue to be set at 85 per cent of the job rates. No change is proposed to the compensation structure, including at-risk pay. This salary range increase will also help to alleviate some of the pressure from compression and inversion.

The illustration below shows the new job rates that would result from this increase.

Current and Proposed EX and DM Job Rates and At-Risk Pay

	Current Job Rates	Proposed Job Rates	At-Risk Pay
EX01	$102,200	$105,100	10%
EX02	$114,500	$117,700	10%
EX03	$128,200	$131,800	10%
EX04	$147,300	$151,400	15%
EX05	$165,000	$169,600	15%
DM 1	$185,200	$189,800	15%
DM 2	$212,900	$218,200	20%
DM 3	$238,500	$244,400	20%
DM 4	$267,200	$273,800	25%

Illustration 1

The effect of this recommendation on the labour market position is shown in the illustration below, which clearly shows the widening gap at each successively higher level.

Public Service Job Rates Compared to Labour Market

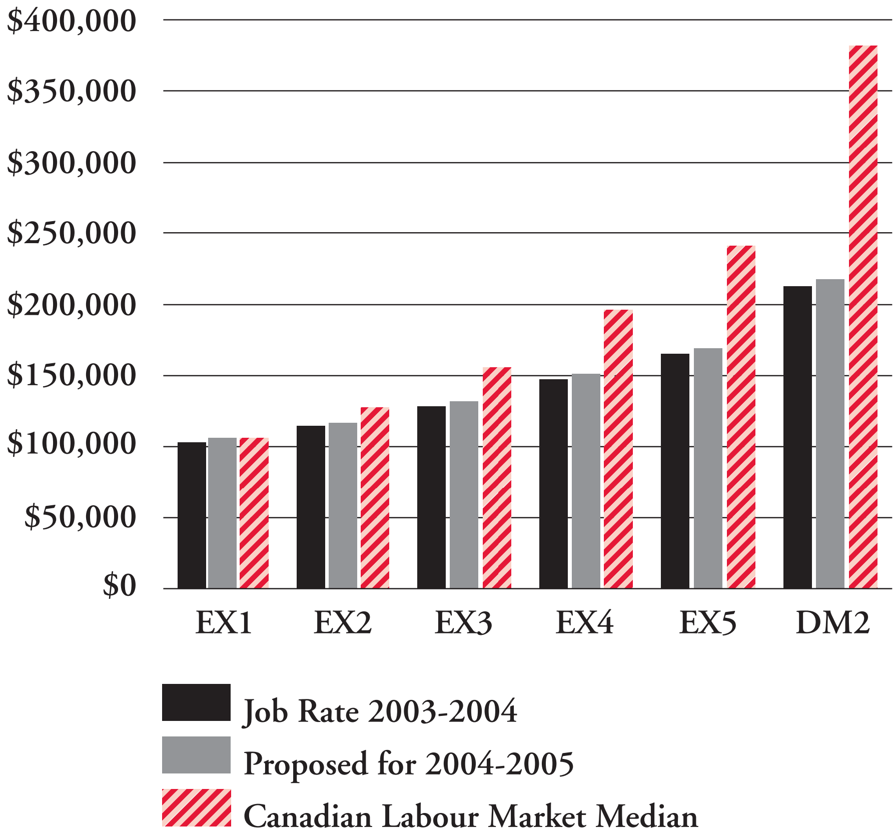

Illustration 2

Benefits and Vacation Leave

Vacation leave for executives in the federal Public Service is consistent with that of executives in the broader public and private sectors of Canada. However, collective agreements of the 'feeder groups' to the executive cadre provide differing schedules for earning vacation leave at specific years of service. As a result, it sometimes happens that employees, newly appointed to the Executive Group from one of these collectively bargained groups, actually lose two to three days of vacation for a period of a few years until their executive vacation leave entitlement 'catches up'. The Committee found the cost of removing this irritant to be minimal. The Committee therefore recommends that executives newly appointed from

Effectively, 'grandfathering' vacation leave for a small number of new executives for a short period of time will remove an irritant and a possible disincentive to accept executive positions.

non-executive groups retain their existing vacation leave on promotion to the Executive Group to ensure their entitlement does not deteriorate as a result of their promotion to the Executive Group. Effectively, 'grandfathering' vacation leave for a small number of new executives for a short period of time will remove an irritant and a possible disincentive to accept executive positions.

Past Recommendations and Progress to Date

Recommended Salary Range Increases for Executives and Deputy Ministers	April 2001	April 2002	April 2003
	3.1 %	2.3 %	2.8 %

All increases were implemented with the exception of the April 2003 adjustment, when the government awarded a salary range increase of 2.5 per cent.

It was recommended (Sixth Report) that EXs and DMs receive one day of personal leave per year to be taken at their discretion, but which cannot be carried over from year to year. One day of personal leave was implemented, effective April 1, 2003.

Summary of Conclusions and Recommendations

In summary, we recommend that:

- EX and DM salary ranges be increased by 2.75 per cent, effective April 1, 2004.
- Individual situations of inversion be analyzed and addressed.
- Vacation leave entitlement for employees newly appointed to the Executive Group be maintained at the pre-appointment level to avoid loss of vacation leave.

Compensation for Chief Executive Officers (CEOs) of Crown Corporations

Principles, Methodology and Limitations

The compensation structure for CEOs of Crown corporations implemented in 1999 was established based on a comparison of the Group 1 job rate with the first quartile (P25) of the actual base salary in the Hay Private Sector Market. The benchmark for comparison (actual base salary at P25, Hay Private Sector Market) was chosen as it best respected the needs identified by the Committee:

- the need to provide adequate compensation levels in order to recruit qualified CEOs – although we realize this level is unlikely to be fully competitive with the private sector, especially among the larger Crown corporations, due to the public policy component and the need for equity with the broader public service;
- the need to create internal equity, to the greatest extent feasible within each corporation;
- the need for equity across the federal Public Service, which is particularly relevant when comparing deputy ministers with CEOs of medium or large Crown corporations; and
- the need for fiscal prudence.

The report further states "The Committee has laboured long and hard to find a structure that meets all of these needs equally. We have not found one." As a result, the Committee continued to monitor market trends with respect to total compensation, comprised of base salary, variable pay, pension and benefits, with a view to ensuring CEO compensation is sufficiently competitive.

The Committee has found that CEO compensation in our Crown corporations does not differ markedly from other countries and, until now, the Committee has been satisfied that the structure remained acceptable.

The Committee has also continued to monitor whether the compensation structure for CEOs is sufficient to retain and recruit qualified individuals, while answering the other needs identified by the Committee. The Committee has found that CEO compensation in our Crown corporations does not differ markedly from other countries and, until now, the Committee has been satisfied that the structure remained acceptable.

The September 2003 Hay data, however, reveal difficulties with benchmarking CEO compensation at P25 of the actual base salary of the Hay Private Sector Market. There has been a 27 per cent increase in the private sector market sample, a net addition of 104 organizations. Hay has also implemented a new methodology for calculating results. The base salary component of total compensation, particularly at P25, has been more significantly influenced by the change in sample size and the change in methodology than any other measure. That this should occur is not surprising. Normally, a central tendency such as the median (P50) is used for benchmarking as it is less likely to be influenced by variations in data findings or adjustments to methodologies.

There is a second, more important concern, with using P25. It is unusual to establish a compensation policy based on less than the median of the market from which candidates are being sought. In the case of the compensation policy for CEOs of Crown corporations, P25 was selected because it resulted in compensation that was appropriate at the time when CEO compensation was being converted from a previous policy to what exists today. It was also selected because it maintained the important relativities between CEO compensation and that of EX/DM compensation and that of heads of agencies.

The Committee is therefore of the view that moving to a compensation policy based on market median would be desirable to address the methodological issues that have arisen, but more importantly, to establish a compensation policy more suited to the retention and recruitment of CEOs of Canada's Crown corporations.

In addition to moving to a compensation policy based on market median the Committee is also of the view that, in future, compensation comparisons should be based on total compensation instead of base salary. Total compensation provides a more constant and reliable representation of market trends over time than base salary alone, since benefits and pension entitlements do not vary as much from year to year as base salary and at risk pay.

In addition to moving to a compensation policy based on market median the Committee is also of the view that, in future, compensation comparisons should be based on total compensation instead of base salary.

To move to market comparisons based on median total compensation, the comparative market selected needs to reflect the nature of the work performed by CEOs of Crown corporations while still maintaining the relativities between CEO compensation and that of EX/DM compensation and that of heads of agencies.

The market that best meets these two objectives is the Hay Total Canadian Market. In the case of the Private Sector Market, Group 1 total compensation lags P50 by 14.75 per cent. In the case of the Total Canadian Market, Group 1 total compensation lags P50 by 5.96 per cent.

The Committee, therefore, recommends that going forward, the compensation policy for CEOs of Crown corporations be based on a comparison of Group 1 total compensation to total compensation at P50 of the Hay Total Canadian Market. This will meet the needs originally identified by the Committee for CEO compensation and will recognize the public policy component of the work done by our Crown corporations.

It is further recommended that the 5.96 per cent differential in total compensation at P50 in the Total Canadian Market be implemented gradually. In keeping with the underlying principles of maintaining internal equity across the public sector and fiscal prudence, the Committee recommends that the Group 1 job rate be increased by the same percentage as that used for executives in the public service, 2.75 per cent in 2004. The job rate for Group 1 would be increased from $118,700 to $122,000 effective in 2004.

The effect of this recommendation on the labour market position is shown in the illustration below:

Group 1 Total Compensation Compared with Labour Market

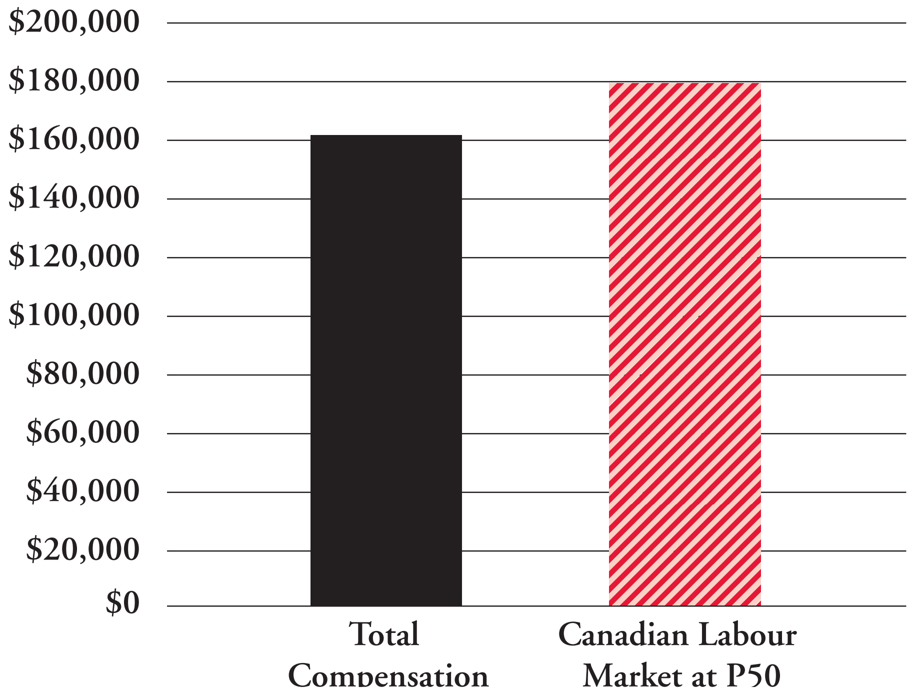

Illustration 3

Salary compression and inversion continue to be of concern in some Crown corporations.

With respect to the remaining 3.2 per cent, the Committee will be considering along with data from the next total compensation survey whether it should further increase base salary or invest more in the at risk pay within the context of total compensation. Salary compression and inversion continue to be of concern in some Crown corporations. The Committee will also monitor the effect of benchmarking Group 1 total compensation against total compensation at P50 in the Total Canadian Market. The proposed Group job rates for CEOs for 2004 would be as follows:

Current and Proposed Job Rates and At-Risk Pay for CEOs of Crown Corporations

Level	Current Job Rates	Proposed Job Rates	At-Risk Pay
Group 1	$118,700	$122,000	10%
Group 2	$132,900	$136,600	10%
Group 3	$148,800	$153,000	10%
Group 4	$166,700	$171,400	10%
Group 5	$186,700	$192,000	10%
Group 6	$214,700	$220,800	15%
Group 7	$246,900	$253,900	15%
Group 8	$283,900	$292,000	15%
Group 9	$340,700	$350,400	20%
Group 10	$408,800	$420,500	25%

Illustration 4

Past Recommendations and Progress to Date

Recommended Salary Range Increases for CEOs of Crown Corporations	April 2001	April 2002	April 2003
	5.39 %[N1 N2]	2.3 %	2.8 %

[N1] Increases effective at the beginning of the Crown Corporation's fiscal year, which date varies from corporation to corporation.

[N2] This reflects a two-year adjustment period (2000 and 2001) as there was no salary adjustment in 2000.

All increases were implemented with the exception of the April 2003 adjustment, when the government awarded a salary range increase of 2.5 per cent.

Summary of Conclusions and Recommendations

In summary, we recommend that:

- Salary ranges for CEOs of Crown corporations be increased by 2.75 per cent, effective in 2004.
- Starting in 2004, the compensation policy for CEOs of Crown corporations be based on a comparison of Group 1 total compensation to total compensation at P50 of the Hay Total Canadian Market.
- The 5.96 per cent differential in total compensation at P50 in the Total Canadian Market be implemented gradually.

Compensation for Other Governor in Council Appointees

Principles, Methodology and Limitations

The GC classification structure was originally established in 2001, further to a complete review of all positions using an updated position evaluation plan. Compensation was determined based on a comparison of the GC-3 job rate to actual base salary at the median (P50) in the Hay Private Sector Market. The Committee recommended this approach for a number of reasons: the GC-3 level was then, and continues to be now, the most populous level; most appointees are recruited from outside the federal public sector; and the government needs to attract qualified candidates. The Committee also took into account the importance of maintaining internal relativities among the three different populations within the broader federal public sector (EXs/DMs, GCs, and CEOs of Crown corporations).

The Committee monitors the application of federal compensation policies on an annual basis. This year, the Committee noted a greater divergence in actual base pay increases since 2002 from what was reported in total compensation (base salary, at-risk pay, pension and benefits) over the same period. While the September 2003 Hay data indicate that the job rate at the GC-3 level lags the private sector market by 2.9 per cent and the total Canadian market by 1 per cent, the data also show that the total compensation at the GC-3 level actually leads the private sector market by 1.4 per cent and the total Canadian market by 4.2 per cent, as shown in the illustration below. Data also support the growing trend in the private sector of increasing variable or at-risk pay rather than base pay, focussing more and more on performance and productivity.

Data also support the growing trend in the private sector of increasing variable or at-risk pay rather than base pay, focussing more and more on performance and productivity.

GC-3 Total Compensation Compared to Labour Market

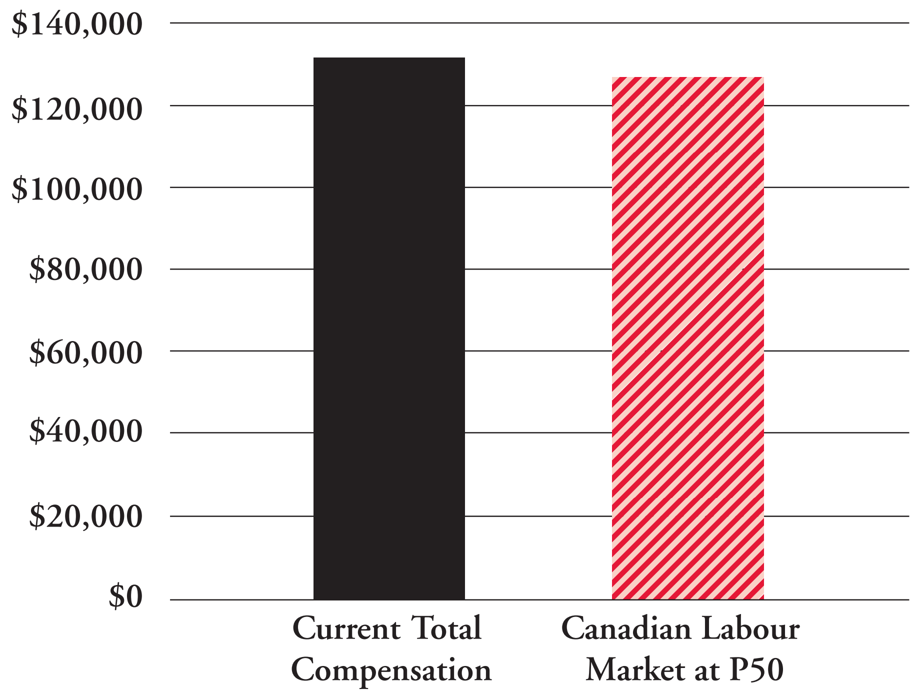

Illustration 5

To date, the Committee is very pleased with the progress made in establishing a solid classification and compensation structure for Governor in Council appointees in Agencies, Boards and Commissions.

Consequently, the Committee is of the view that total compensation comparison at the GC-3 level, as for executives, would provide more consistent results from one year to the next, would maintain the government's capacity to attract, retain and motivate qualified individuals and would more accurately reflect compensation adjustments in the market, thereby minimizing the impact of any one particular component of compensation.

To date, the Committee is very pleased with the progress made in establishing a solid classification and compensation structure for Governor in Council appointees in Agencies, Boards and Commissions. The Committee is also satisfied that, with this structure, appropriate relativities with other senior public officials have been re-established. With a view to maintaining these relativities, the Committee proposes that the main comparator market be the same as that for executives, the Total Canadian

Market. However, to ensure that GC compensation does not get eroded over time, the Committee will continue to monitor cash compensation against changing trends in the private sector as well.

Therefore, the Committee recommends that, in future, GC compensation be based on total compensation and that comparisons be made with the Total Canadian Market. This change in policy should be done gradually to allow for variations in market data that may occur in the short term. To this end, the Committee recommends that effective April 1, 2004, the GC salary ranges be increased by 2.0 per cent and the GC-Q ranges be adjusted accordingly. The 15 per cent differential in job rate would then be applied to lower and successively higher levels to maintain relativities.

The current and proposed GC salary ranges, effective April 1, 2004, would be as follows:

Current and Proposed GC Job Rates and At-Risk Pay

	Current Job Rates	Proposed Job Rates	At-Risk Pay
GC-1	$72,800	$74,200	10%
GC-2	$83,700	$85,300	10%
GC-3	$96,200	$98,100	10%
GC-4	$110,600	$112,800	10%
GC-5	$127,200	$129,700	10%
GC-6	$146,300	$149,200	15%
GC-7	$168,200	$171,600	15%
GC-8	$193,400	$197,300	15%
GC-9	$222,400	$226,900	15%
GC-10	$255,800	$260,900	20%

Illustration 6

The current and proposed GC-Q job rates are as follows:

Current and Proposed GC-Q Job Rates

	Current Job Rates	Proposed Job Rates	At-Risk Pay
GCQ-1	$77,700	$79,100	N/A
GCQ-2	$89,300	$91,000	N/A
GCQ-3	$102,600	$104,600	N/A
GCQ-4	$118,000	$120,300	N/A
GCQ-5	$135,700	$138,300	N/A
GCQ-6	$160,900	$164,100	N/A
GCQ-7	$185,000	$188,700	N/A
GCQ-8	$212,700	$217,000	N/A
GCQ-9	$244,600	$249,600	N/A
GCQ-10	$289,900	$295,700	N/A

Illustration 7

Past Recommendations and Progress to Date

Recommended Salary Range Increases for GC, GCQ	April 2001	April 2002	April 2003
	New classification and compensation structure introduced	2.3 %	2.6 %

All salary range increases were implemented with the exception of the April 2003 adjustment, when the government awarded a salary range increase of 2.5 per cent.

Our Sixth Report recommended that the terms and conditions for Governor in Council appointees continue to parallel those of executives and be amended to provide one day of personal leave per year to be taken at their discretion but which cannot be carried over from year to year.

One day of personal leave was implemented, effective April 1, 2003.

Summary of Conclusions and Recommendations

In summary we recommend that:

- In future, GC compensation be based on total compensation and that comparisons be made with the Total Canadian Market.
- Effective April 1, 2004, GC salary ranges be increased by 2.0 per cent and the GC-Q ranges be adjusted accordingly.

Performance Management Program for Executives

A well-functioning performance management program is critical to successful implementation of business strategy and effective management of human and financial resources. As an important management tool, it can support the government and deputy ministers in: clearly articulating the results that are expected of both the organization and individuals; planning to achieve the results; measuring performance towards the achievement of results; reporting on the results achieved; and, being accountable for results.

The Performance Management Program for Executives (PMP) is rooted in solid principles of business performance and human resources management and reflects the values of a Public Service focused on the public interest.

As a tool to support human resources management, PMP must be applied with rigour to be most effective. An inherent risk with performance management programs in general is over-compensating poor or marginal performers and under-compensating strong performers by 'averaging out' performance ratings and performance pay. To counter this risk, government organizations must define and clearly communicate what constitutes a good or superior performance and differentiate between levels of performance.

Government organizations must define and communicate what constitutes a good or superior performance and differentiate between levels of performance.

Since the PMP is used to determine a part of the compensation for executives, as with all compensation provided to executives in the Public Service, it has been subject to scrutiny and criticism based on less than full understanding of the program and its operation. It is a misperception that performance pay should be reserved for only a select few who are unusually talented or who consistently exceed the expectations of their jobs. Indeed, the majority of pay-for-performance programs in both the private and public sectors reward those who *meet* the expectations established for them. Performance-related pay directs executives' attention to priorities and recognizes that performance and results do vary from year to year. We conclude that the federal government's performance management program is well-designed and consistent with best practices in Canada and internationally; however, we will continue to review the mix of pay-for-performance and base compensation to ensure it is appropriate and effective in achieving the government's business and human resource objectives.

The Committee continues to encourage increased rigour in assessments, including the identification of those whose performance does not meet expectations, especially including the way in which results were achieved.

The Committee continues to encourage increased rigour in assessments, including the identification of those whose performance does not meet expectations, especially including *the way* in which results were achieved. The Treasury Board Secretariat, and now, the Public Service Human Resources Management Agency of Canada, have worked to bring about the culture necessary to support the PMP as an effective management tool, through monitoring, education, and communications. The Committee commends these efforts and encourages the Agency to sustain the effort, including work on integration of performance agreements with the priorities of the government and the Management Accountability Framework.

PMP Application In 2003-2004

Since the inception of the PMP five years ago, the Committee has monitored its application. With experience, the statistics on the PMP should show progress towards greater rigour in application. This is not a simple exercise that can happen overnight in an organization as large and complex as the federal government. With respect to performance ratings, there has been progress: a reduction in the number of executives who obtained the highest rating for achievement of key commitments, and a two-fold increase in the number who received the lowest rating. Preliminary data for 2003-2004 show that this trend has continued.

The chart below shows this positive trend over four years.

	1999-2000	**2000-2001**	**2001-2002**	**2002-2003**
Surpassed	37.1%	30.0%	26.8%	20.0%
Succeeded	59.0%	65.5%	70.2%	74.5%
Did Not Meet	0.8%	0.2%	0.3%	1.1%
Unable to Assess	3.1%	4.3%	2.7%	4.4%
	100%	**100%**	**100%**	**100%**

Illustration 8

The compensation that results from achievement of key commitments is at-risk pay, which is paid as a lump sum and re-earnable each year, based on the degree to which agreed targets are met and business plans achieved. Preliminary data supplied by the PSHRMAC for 2003-2004 shows that just under 90 per cent per cent of executives received performance pay, averaging close to seven per cent of base salary. These figures are comparable to recent data from the Conference Board of Canada showing that in the private sector, 90 per cent of eligible executives received performance pay. However, our labour market survey data show that the average at-risk pay amount of 7 per cent that Public Service executives receive is much lower than the average 27 per cent at-risk pay received by comparable positions in the external labour market.

The compensation that results from achievement of key commitments is at-risk pay, which is paid as a lump sum and re-earnable each year, based on the degree to which agreed targets are met and business plans achieved.

The new Public Service Human Resources Management Agency of Canada has taken a strong position on the PMP, both through its guidance and messaging to departments stressing the importance of the program as a performance management tool as well as a tool to improve the assessment of individual performance. The PSHRMAC has also strengthened administration of PMP, including strongly communicating the expectation of a more normal distribution of ratings and requiring administrative checkpoints and a central review mechanism to ensure consistency and equity within departments.

Importantly, the PSHRMAC has done considerable work on improving quality management of the program, highlighting not only the results

As in past reports, the Committee urges the government to publish the results of the PMP in the interests of transparency, and to increase its communications about the program to explain its purpose and operations.

achieved but, most importantly, *how* the results were achieved, particularly with respect to valuing and managing people. The Committee encourages the new Agency to continue its efforts.

As in past reports, the Committee urges the government to publish the results of the PMP in the interests of transparency, and to increase its communications about the program to explain its purpose and operations.

Managing the Performance of Executives

In its Fifth and Sixth Reports, the Committee recommended development of a policy and tools for dealing with performance that does not meet expectations. Performance that is lacking, especially with respect to *how* people are managed, has the potential to affect morale across an entire organization. Managing human performance is not easy or simple. It begins by setting and communicating clear standards and expectations. Employees have the right to know what is expected of them as well as the right to opportunities to improve their performance. They also have a right to fair and respectful treatment.

There is evidence that individual departments have shown leadership in dealing head-on with performance issues, and we commend them. It shows that it can be done.

Managing performance effectively requires policies, tools, support from the top, and training. The *Public Service Modernization Act* will provide some policy options for dealing with performance that does not meet expectations. The PSHRMAC is also developing tools and training departmental human resources staff on ways to deal with performance issues. There is evidence that individual departments have shown leadership in dealing head-on with performance issues, and we commend them. It shows that it can be done.

Past Recommendations and Progress to Date

Past recommendations included:

- That the application and results of the PMP must continue to improve.
- Recommend that revisions to the PMP guidelines be finalized and implemented immediately with the 2003-2004 performance cycle.
- Recommend that the government consider publishing the PMP results annually.

- Recommend the government consider using reasonable financial compensation to facilitate the termination of employment when it is in the best interest of the individual and the government.
- Believe that improving leadership and management skills should be an important focus for the government.

The government finalized and announced new PMP Guidelines in June 2003 for application to the 2003-2004 performance cycle. Training and communications were provided to departmental human resources staff and continued in 2004-2005. To support continuous improvement in the PMP, a Monitoring and Evaluation Framework was introduced in February 2004, with the first reports due from departments and agencies in June 2005. The government is considering publication of results.

As mentioned earlier, the *Public Service Modernization Act* will allow deputy ministers to terminate people for poor performance.

The creation of the new Canada School of Public Service and its commitment to building capacity and supporting the learning, training and development needs of Public Service managers, is a move in the right direction. The Committee will continue to watch its progress.

Summary of Conclusions and Recommendations

In summary, we recommend that:

- The Performance Management Program remain an important tool to clarify the goals and commitments of the Public Service and reward behaviours and outcomes that produce the desired results.
- Rigour be applied to the application of PMP including the tools PSHRMAC has put in place. This includes a very important central review mechanism to ensure a normal distribution of ratings.
- Ongoing training be ensured for both managing performance, leadership, and management skills.
- Government consider publishing PMP results annually for increased transparency.

- Government, through *Public Service Modernization Act*, delegate authority for separation agreements to Deputy Ministers and consider expanding the use of separation agreements when it is in the best interests of the individual and the government that employment is terminated.
- Terms and conditions of employment for executives be reviewed to ensure they are current, reflect the principles of good human resources management and ensure consistent and equitable treatment of executives in the context of the broader Public Service.

Summary of Recommendations and Conclusions of the Seventh Report

- That the five questions outlined earlier are discussed and addressed in each department. In particular, these questions need to be addressed for the executive cadre of the Public Service.
- Specifically, in answering question #2, succession plans must be examined in conjunction with the current and forecasted demographics to ensure human resource needs can be met in the executive ranks. The Committee requests that the results and analysis of the demographic information coupled with the succession plans be reviewed.
- That the Clerk of the Privy Council as Head of the Public Service consider sponsoring a meeting of the leadership of the Public Service (Assistant Deputy Ministers and above) for a few days each year to discuss vision, strategic direction, government priorities and important program initiatives.
- That EX and DM salary ranges be increased by 2.75 per cent, effective April 1, 2004.
- That individual situations of inversion be analyzed and addressed.
- That vacation leave entitlement for employees newly appointed to the Executive Group be maintained at the pre-appointment level to avoid loss of vacation leave.

- Salary ranges for CEOs of Crown corporations be increased by 2.75 per cent, effective in 2004.
- Starting in 2004, that the compensation policy for CEOs of Crown corporations be based on a comparison of Group 1 total compensation to total compensation at P50 of the Hay Total Canadian Market.
- That the 5.96 per cent differential in total compensation at P50 in the Total Canadian Market be implemented gradually.
- That in future, GC compensation be based on total compensation and that comparisons be made with the Total Canadian Market.
- That effective April 1, 2004, the GC salary ranges be increased by 2.0 per cent and the GC-Q salary ranges be adjusted accordingly.
- That the Performance Management Program remain an important tool to clarify the goals and commitments of the Public Service and reward behaviours and outcomes that produce the desired results.
- That rigour be applied to the application of PMP including the tools PSHRMAC has put in place. This includes a very important central review mechanism to ensure a normal distribution of ratings.
- That ongoing training be ensured for both managing performance, leadership, and management skills.
- That the Government consider publishing PMP results annually for increased transparency.
- That the Government, through *Public Service Modernization Act*, delegate authority for separation agreements to Deputy Ministers and consider expanding the use of separation agreements when it is in the best interests of the individual and the government that employment is terminated.
- That the terms and conditions of employment for executives be reviewed to ensure they are current, reflect the principles of good human resources management and ensure consistent and equitable treatment of executives in the context of the broader Public Service.

Appendices

Appendix A

Advisory Committee on Senior Level Retention and Compensation

Committee Members

Carol M. Stephenson, B.A. (Committee Chair)
Dean, Richard Ivey School of Business

Ms. Stephenson, a widely respected CEO in the Canadian telecom industry was appointed Dean of the Richard Ivey School of Business in July, 2003. In 1999, she was appointed Chief Executive Officer of Lucent Technologies Canada. Prior to that she was President and Chief Executive Officer of Stentor Resource Centre Inc.; and Vice-President of Bell Canada. Ms. Stephenson is a graduate of the University of Toronto. She has also completed the Executive program at the Graduate School of Business Administration, University of California at Berkeley as well as the Advanced Management Program at Harvard University. She also holds an honorary doctorate in engineering from Ryerson Polytechnic University.

John L. Fryer, C.M., B.Sc. (Econ.), M.A.
Professor, University of Victoria

Adjunct Professor, School of Public Administration, University of Victoria; President Emeritus, National Union of Public and General Employees (NUPGE). Mr. Fryer is a member of the board of directors of the International Centre for Human Rights and Democratic Development. He was the former Chair of the Advisory Committee on Labour-Management Relations in the Federal Public Service. Mr. Fryer is currently chairman of Negotiated Solutions, a west coast consulting company. Mr. Fryer has been a member of the Advisory Committee on Senior Level Retention and Compensation since 1997.

Gaétan Lussier, O.C., B.Sc. (Agr.), M.Sc., Ph.D.
President, Gaétan Lussier and Associates

Past Assistant Deputy Minister and Deputy Minister, Quebec Ministry of Agriculture; Past Deputy Minister of Agriculture Canada; Past Deputy Minister and Chairman, Employment and Immigration Canada; Past President, Les Boulangeries Weston Québec Inc.; Past President and Chief Executive Officer Culinar Inc. Mr. Lussier has been a member of the Advisory Committee on Senior Level Retention and Compensation since 1997.

Sarah E. Raiss, B.Sc., M.B.A.
Executive Vice President, Corporate Services of TransCanada Corporation

Sarah Raiss is responsible for human resources, information systems and corporate services. Prior to this position with TransCanada Corporation, she was President, of S.E. Raiss Group, Inc.; Vice President of Customer Service, Training and IT Support at Ameritech; Senior Consultant at Metzler & Associates; as well as holding various positions with Michigan Bell. Ms. Raiss holds a Bachelor of Science in Applied Math and a Masters of Business Administration in Strategic Marketing and Organization Behaviour from the University of Michigan.

Tom Traves, B.A., M.A., Ph.D.
President, Dalhousie University

Dr. Traves has been the President of Dalhousie University since 1995. He serves on the Boards of the Directors of Clearwater Fine Foods, InNOVAcorp and the Greater Halifax Partnership. He is past-Chair of the Atlantic Association of Universities, the Academic Advisory Committee of the Institute of Canadian Bankers and the Association of Universities and Colleges of Canada Standing Committee on Educational Issues and Funding. Previously, he served as Vice-President (Academic) at the University of New Brunswick in Fredericton and as Dean of Arts at York University in Toronto. Dr. Traves has a B.A. from the University of Manitoba, an M.A. and Ph.D. from York University and an honorary doctorate from Umea University in Sweden in 1997.

Appendix B

Committee Mandate

To provide independent advice and recommendations to the President of the Treasury Board concerning executives, deputy ministers and other Governor-in-Council appointees of the federal Public Service and public sector on:

- developing a long-term strategy for the senior levels of the Public Service that will support the human resource management needs of the next decade,
- compensation strategies and principles, and
- overall management matters comprising among other things human resource policies and programs, terms and conditions of employment, classification and compensation issues including rates of pay, rewards and recognition.

To present recommendations in a report to the President of the Treasury Board. The report will be made public by the President of the Treasury Board.