Advisory Committee

on Senior Level Retention *and* Compensation

Fifth Report: August 2002

Prepared for the President of the Treasury Board

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Fifth Report of the Advisory Committee on Senior Level Retention and Compensation

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Preface

In the past, the Advisory Committee on Senior Level Retention and Compensation has submitted its findings and recommendations in a more comprehensive report that it has made public at a press conference. This report is shorter than earlier reports, coming quickly after the release of the Fourth Report in March 2002. The Committee intends to make the report public via a news release rather than a press conference given the brevity of the recommendations.

The Committee decided on this approach in order to recommend compensation adjustments for 2002-03 in keeping with the emphasis in our last report on regular and timely adjustments.

In addition, the Committee has taken the opportunity to deal with a couple of substantive recommendations outstanding from earlier reports.

I look forward to the continuing work of the Committee to provide advice and experience to the government in the effort to renew the important institution that is the Public Service of Canada.

Sincerely,

Carol Stephenson

Carol Stephenson

Compensation Matters

In our Fourth Report, the Committee expressed concern about the time lag in the methodology for establishing comparability with the Canadian market and we recommended using more up-to-date data in the future. We have reviewed compensation in the comparator market as of December 31, 2001 and are recommending adjustments that should be effective April 1, 2002. The last compensation adjustment used market data as of December 31, 2000.

Compensation of Executives and Deputy Ministers

With regard to executives (EXs) and deputy ministers (DMs), the current compensation principles and structure establish comparability with the total Canadian market, including the broader public and private sectors, based on total compensation (base salary, performance pay and non-cash compensation: pensions, benefits and perquisites) at the EX01 level and then establish compensation for higher levels based on internal relativity. The Advisory Committee found that total compensation for an EX01 in the Public Service is currently $127,800 while the median total compensation for the same level of job in the total Canadian market is $130,700. Thus, total compensation for an EX01 has fallen behind similar positions in the comparator market by 2.3%.

In order to respect the compensation principles and maintain the current structure, the Advisory Committee recommends that:

- EX and DM salary ranges be increased by 2.3%, effective April 1, 2002.

The following illustration proposes new job rates. Minimum salaries would continue to be 85% of the job rate (salary range maximum). There is no change to salary structure including at-risk pay percentages.

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

	Current Job Rates $000	Proposed Job Rates $000	At-Risk Pay
EX01	97.4	99.7	10%
EX02	109.1	111.7	10%
EX03	122.1	125.0	10%
EX04	140.4	143.7	15%
EX05	157.2	160.9	15%
DM1	176.0	180.1	15%
DM2	202.4	207.1	20%
DM3	226.7	232.0	20%
DM4	254.0	259.9	25%

Illustration 1

Compensation of CEOs of Crown Corporations

There are currently 38 Crown corporations for which the Governor in Council establishes compensation for CEOs and for which the Advisory Committee provides advice to the government. The current policy and compensation structure, as established in the Committee's Second Report, is based on the need:

- to provide adequate compensation in order to recruit qualified CEOs;
- to create internal equity, to the extent possible, within each Crown corporation;
- for equity across the Public Service; and
- for fiscal prudence.

The compensation structure for CEOs is based on the job rate of Group 1 of the Crown corporations being benchmarked at the 25th percentile of the job rate for similar positions in the private sector and then establishing compensation for higher groups based on internal relativity.

In its Third Report, the Committee asked the Privy Council Office to conduct a total compensation review for 2002 of CEO compensation and to monitor whether the current compensation structure is sufficiently competitive to attract qualified candidates. In its Fourth Report, the Committee also recommended that the Privy Council Office examine the Hay comparator group given the gaps in the higher group comparisons.

The findings of this work are revealing. The total compensation for CEOs of Crown corporations continues to lag that of comparable positions in the total Canadian market. The total compensation of Group 1 corporations is approximately 86% of the median for comparable positions in the comparator market, while the total compensation for the Group 10 corporation (Canada Post) is approximately 11% of the median for comparable positions.

Not surprisingly, the government is occasionally experiencing difficulties in recruiting individuals to some of these positions. In addition, a few corporations are applying compensation policies and principles, in establishing compensation for their Vice-Presidents, which differ from the compensation policy for CEOs. In these instances, the corporations are paying closer to the median of the private sector market. This results in Vice-Presidents earning more than, or nearly as much as, their CEOs.

It is evident to us that a fundamental review of the compensation policy and principles for CEOs of Crown corporations needs to be undertaken.

We therefore recommend that:

- the Privy Council Office conduct a review of the compensation policy and principles for CEO compensation and report back to the Committee this autumn; and
- CEO salary ranges be increased by 2.3%, effective the beginning of each Crown corporation's fiscal year in 2002, which date varies from corporation to corporation, as an interim adjustment pending the outcome of the compensation policy review.

The following illustration proposes new job rates or maximum base salaries.

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

	Current Job Rates $000	Proposed Job Rates $000	At-Risk Pay
Group 1	113.2	115.8	10%
Group 2	126.8	129.7	10%
Group 3	142.0	145.3	10%
Group 4	159.1	162.7	10%
Group 5	178.2	182.2	10%
Group 6	204.9	209.5	15%
Group 7	235.7	240.9	15%
Group 8	271.0	277.0	15%
Group 9	325.2	332.4	20%
Group 10	390.2	398.9	25%

Illustration 2

Compensation for other Governor in Council Appointees

In its Fourth Report the Committee recommended the establishment of a distinct classification and compensation structure for this population, which consists mainly of heads and members of agencies, boards and commissions.

This structure has been successfully implemented. There are ten levels in the structure, divided into two groups. The GC Group consists of positions eligible for performance pay, while the GC-Q Group consists of positions whose independence from government makes performance pay inappropriate. To establish the job rates for the GC-Q Group, two-thirds of the maximum at risk pay for the GC group is added to the GC job rates. This amount of at risk pay tends to be the average and is reasonable to establish the job rates for GC-Q positions.

To determine the adjustment to the GC job rates, the Committee considered data for comparable positions in the private, public and total Canadian markets. The Committee also took into account the importance of looking at GC compensation from the perspective of total compensation and relativities with executive and deputy minister compensation.

Pension and benefit entitlements for GC appointees are generally the same as those for executives and deputy ministers. Unlike executives and deputy ministers, however, most GC appointees are recruited from outside the Public Service for fixed terms with no guarantee of reappointment. They are recruited from a broad spectrum of the Canadian labour market, including the academic, municipal, provincial, hospital and private sectors. They are also recruited from the executive ranks of the Canadian public service and may return to an executive position in the Canadian public service.

The Committee concluded that it is important to maintain relativity between the executive and deputy minister population and that of the GC and GC-Q population to ensure comparable total compensation, to recognize the diverse sectors of the Canadian market from which Governor in Council appointees are recruited and to facilitate movement between executive positions and GC positions of equivalent levels.

We therefore recommend that:

- GC salary ranges be increased by 2.3% and that the GC-Q salary ranges be adjusted accordingly, effective April 1, 2002.

The following two illustrations propose job rates for the GC and GC-Q populations respectively.

Current and Proposed GC Job Rates and At-Risk Pay

	Current Job Rates $000	Proposed Job Rates $000	At-Risk Pay
Level 1	69.4	71.0	10%
Level 2	79.8	81.7	10%
Level 3	91.8	93.9	10%
Level 4	105.6	108.0	10%
Level 5	121.4	124.2	10%
Level 6	139.6	142.8	15%
Level 7	160.5	164.2	15%
Level 8	184.6	188.8	15%
Level 9	212.3	217.1	15%
Level 10	244.1	249.7	20%

Illustration 3

Current and Proposed GC-Q Job Rates and At-Risk Pay

	Current Job Rates $000	Proposed Job Rates $000	At-Risk Pay
Level 1	74.0	75.7	NA
Level 2	85.1	87.1	NA
Level 3	97.9	100.2	NA
Level 4	112.6	115.2	NA
Level 5	129.5	132.5	NA
Level 6	153.6	157.1	NA
Level 7	176.5	180.6	NA
Level 8	203.1	207.7	NA
Level 9	240.6	238.8	NA
Level 10	276.6	283.0	NA

Illustration 4

Human Resource Management Policies and Programs

The Advisory Committee also considered other subjects – performance management, flexible benefits and the possibility of collapsing the number of levels in the EX Group from five to three.

Performance Management

We received the results of the preliminary effectiveness assessment of the Performance Management Program (PMP) undertaken by Deloitte & Touche LLP on behalf of the Treasury Board Secretariat. Overall, this project confirmed views expressed by the Committee in the Fourth Report: the Program is generally well designed but its application must be monitored more closely to ensure consistency and optimal effectiveness. The Advisory Committee encourages the Secretariat to follow-up on the consultants' recommendations, particularly with regard to positioning PMP as a management tool to ensure quality performance of both organizations and individuals. The Advisory Committee will continue to monitor PMP. We firmly believe that Canadians deserve a high performing Public Service.

In relation to performance, the Advisory Committee once again considered the subject of poor performers. We understand that the government must develop the appropriate policies and tools to identify and address performance deficits and we note that work has started in the Secretariat. However, we are strongly of the view that there must be a cultural change and that this must be initiated and led from the top.

While the policy being developed by the Secretariat should give individuals the opportunity and assistance necessary to improve their performance, we recommend that the government consider expanding the use of separation agreements when it is in the best interests of the individual and the government that employment be terminated. This is a common practice in the private sector to ensure quality performance and to eliminate obstacles to developing and promoting deserving leaders. This should be the same in the Public Service. To streamline the process, we believe that the government should consider delegating this authority to the Secretary of the Treasury Board.

Flexible Benefits

The Advisory Committee concluded that the introduction of flexible benefits for executives, while feasible, is not recommended. Total compensation comparability data clearly indicates that Public Service executives have good benefits, including pensions, which are more valuable than those of their counterparts in the total Canadian market. Thus, the non-cash portion of total compensation is greater in the Public Service. The introduction of a flexible benefit plan would have additional costs that could be paid for by the employer; however, given the compensation principle of total compensation comparability, any improvement in benefits would, in fact, be paid for by executives themselves from future increases in cash compensation. The Advisory Committee believes that, even though total compensation would remain comparable, cash compensation falling behind the outside market would not be supportive of government recruitment and retention efforts. Further information can be found in Appendix C of this report.

Collapsing Levels in the EX Group

With respect to reducing the number of levels in the Executive Group, the Advisory Committee is convinced that the current structure allows greater flexibility in recognizing and rewarding jobs of different scopes across the Public Service. This is important given the complex and decentralized nature of the government. In addition, we do not believe that it would be appropriate to increase the potential salary liability of the government, which would result from reducing the number of levels, without evidence that a change would increase productivity. Further information can be found in Appendix D of this report.

Recommendations for other Human Resource Matters

In summary, regarding human resource management policies and programs, we recommend that:

- the Treasury Board Secretariat follow-up on the consultants' recommendations relating to the Performance Management Program; and
- the government consider expanding the use of separation agreements when it is in the best interests of the individual and the government that employment be terminated;
- the government consider delegation of authority for separation agreements to Secretary of the Treasury Board.

The Advisory Committee does not recommend:

- introducing flexible benefits; or
- reducing the number of levels in the Executive Group.

Summary of Recommendations

In summary, we recommend that:

- EX and DM salary ranges be increased by 2.3%, effective April 1, 2002;
- Privy Council Office conduct a review of the compensation policy and principles for CEO compensation and report back to the Committee this autumn;
- CEO salary ranges be increased by 2.3%, effective the beginning of each Crown corporation's fiscal year in 2002, which date varies from corporation to corporation, as an interim adjustment pending the outcome of the compensation policy review;
- GC salary ranges be increased by 2.3% and that the GC-Q salary ranges be adjusted accordingly, effective April 1, 2002;
- the Treasury Board Secretariat follow-up on the consultants' recommendations relating to the Performance Management Program;
- the government consider expanding the use of separation agreements when it is in the best interests of the individual and the government that employment be terminated; and
- the government consider delegation of authority for separation agreements to Secretary of the Treasury Board.

The Advisory Committee does not recommend:

- introducing flexible benefits; or
- reducing the number of levels in the Executive Group.

Appendices

Appendix A

Advisory Committee on Senior Level Retention and Compensation

Committee Members (2001-2004)

Carol M. Stephenson, B.A. – Committee Chair
President and CEO, Lucent Technologies, Inc.

Ms. Stephenson was appointed President and Chief Executive Officer of Lucent Technologies Canada in 1999. Prior to this she was President and Chief Operating Officer (The Americas) of BCE Media, Inc.; 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.

Robert E. Brown, B.Sc.
President and CEO, Bombardier Inc.

Mr. Brown was appointed President and Chief Executive Officer of Bombardier, Inc. in 1999. Prior to that he was President and Chief Operating Officer of Bombardier Aerospace; President of the Bombardier Aerospace Group – North America; Senior Vice-President, Corporate Development and Strategic Planning – Bombardier; Vice-President, Corporate Development – Bombardier. In addition, Mr. Brown has held senior federal public service positions, including Associate Deputy Minister, Department of Regional Industrial Expansion. He has also had positions with Atomic Energy Canada, the Public Service Commission, the Treasury Board Secretariat and the Council of Maritime Premiers. Mr. Brown holds a Bachelor of Science degree from the Royal Military College in Kingston and has attended the Advanced Management Program at Harvard Business School.

John L. Fryer, C.M., B.Sc. (Econ.), M.A.
Adjunct 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; Chair of the Advisory Committee on Labour-Management Relations in the Federal Public Service. Prior to this, he was also General Secretary of the B.C. Government Employees' Union and President of the National Union of Public and General Employees. Mr. Fryer was a member of the Advisory Committee on Senior Level Retention and Compensation (1997-2001), chaired by Lawrence F. Strong.

Monique F. Leroux, M.B.A., F.C.A.
President, Desjardins-Laurentienne Financial Corporation and CEO of its subsidiaries

Ms. Leroux is responsible for developing the activities of Desjardins subsidiaries in the areas of insurance, trust services and investment management. Previously Ms. Leroux was Senior Executive Vice-President and Chief Operating Officer at Quebecor Inc.; Senior Vice-President, Quebec Headquarters of the Royal Bank; Managing Partner at Caron Bélanger Ernst & Young in charge of services to the financial industry for Québec, and partner in charge of auditing and management consulting for national and international companies. She holds a Masters in Business Administration from the Université du Québec and a Chartered Accountant designation.

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

Past Assistant Deputy Minister and Deputy Minister, Québec 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 was a member of the Advisory Committee on Senior Level Retention and Compensation (1997-2001), chaired by Lawrence F. Strong.

Sarah E. Raiss, B.Sc., M.B.A.
Executive Vice-President, Human Resources and Public Relations, TransCanada Pipelines

Sarah Raiss is currently Executive Vice-President of Human Resources and Public Sector Relations and is responsible for human resources, government relations, community investment and communications. Prior to this position with TransCanada Pipelines Limited, 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 the Maritime Life Assurance Company, the Atlantic Canada Petroleum Institute, the Technology Applications Research Alliance, InNOVAcorp, Greater Halifax Partnership, International Ocean Institute, the Association of Universities and Colleges of Canada, and the Association of Commonwealth Universities. He is Chair of the Atlantic Association of Universities, of the Association of Universities and Colleges of Canada Standing Committee on Educational Issues and Funding and of the Academic Advisory Committee of the Institute of Canadian Bankers. 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.

Appendix C

Flexible Benefits for Senior Levels

Summary

The issue of flexible benefits has been under consideration by the Advisory Committee on Senior Level Retention and Compensation since the Committee's First Report recommended looking into the feasibility of introducing cafeteria style benefits for senior levels. The Committee has concluded that, subject to design, cost and timing considerations, the introduction of flexible benefits for senior levels is feasible.

However, the Advisory Committee is also responsible for making recommendations related to compensation and other matters that will assist the government in attracting and retaining the leadership required to serve Canadians. In this broader context, the Committee does not believe that flexible benefits would be a significant incentive and thus, does not recommend implementation of such a program.

Background

An important principle of executive compensation established by the recommendations of the Advisory Committee is the comparability of senior level total basic remuneration with that of the broader public and private sectors, for jobs of similar scope. Total basic remuneration is defined as *the valuation of total cash compensation (basic salary plus performance pay) plus benefits, pension and other perquisites.* The current methodology establishes comparability at the EX01 level, with higher level salaries based on internal relativity.

A study by Hay Management Consultants comparing the total basic remuneration of Public Service executives to their counterparts in the comparator markets showed that federal Public Service benefits are, as a percentage of total basic remuneration, higher than that of their counterparts. At the median of the comparator market, benefits at the EX01 level were valued $1,426 higher.

This fact is significant. The experience of other employers has shown that over time, providing flexible benefits increases the cost of executive benefits unless access to benefits is restricted. A further increase to benefits would mean diminished potential to improve the cash component of total basic remuneration.

The Advisory Committee strongly believes that maintaining the currency of cash compensation (basic salary plus performance pay) will provide the best advantage for the government in recruiting and retaining the talent it needs over the coming decade. As a result, the Committee recommends no change to benefits for senior levels at this time.

Appendix D

Collapsing the EX Levels from Five to Three

Summary

As a result of a recommendation made by the Advisory Committee on Senior Level Retention and Compensation in its Third Report, Treasury Board Secretariat commissioned a report analyzing the effect of collapsing the Executive Group (EX), i.e. reducing the number of levels. The report demonstrates that there is no ideal classification structure. In theory, the number of levels could be reduced but it would be at considerable cost and with minimal value added. As a result, the Advisory Committee does not recommend collapsing the number of levels.

Background

In 1990, the Treasury Board eliminated the Senior Management (SM) level but retained the five levels of executive work. This approach made a clear distinction between hierarchical levels and the size of jobs at each of the levels.

By all appearances, the five-level structure has been working well since its introduction in the early eighties. The Treasury Board Secretariat (TBS) reports that very few complaints have been received over the years regarding this structure.

However, following the Advisory Committee's recommendation to consider reducing the number of levels from five to three, TBS commissioned *Hay Management Consultants* to prepare a report analyzing the implications of changing the executive classification structure.

The Hay study listed the pros and cons from the point of view of four main principles: equity and fairness; Government-wide relativity; intra-departmental relativity; and, external comparability. Pros and cons were also considered from the standpoint of: compensation design and attracting and retaining executive talent. The study also stressed that there is no ideal classification structure that fits all organizations.

Hay's analysis demonstrated that the cost of moving from five to three levels is considerable, due in large part to the new salary liability that would likely be incurred. In addition, the redesign of the Executive Group Position Evaluation Plan benchmarks and the re-evaluation of all EX positions to accommodate the new structure would involve substantial work both by TBS and departments and incur a considerable implementation cost. The potential longer term annual savings of a three-level structure (as a result of a reduction in the number of EX classification transactions) would constitute only a fraction of the global conversion expenses.

Upon reviewing the study, the Advisory Committee concluded that it was sound and provided good advice. As a result, the Committee does not recommend collapsing the number of levels in the Executive Group.