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Final Report

2011-604

Evaluation of Shared Services Integration - Shared Human Resources Services

November 19, 2013

Office of Audit and Evaluation



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MAIN POINTS

What was examined

- i. This evaluation examined the ongoing relevance and performance of Shared Human Resources Services (SHRS) located within the Shared Services Integration Sector of PWGSC for the period between 2008/2009 to 2012/2013. SHRS provides human resource (HR) services to other government departments and agencies. The services are organized into two groups: 1) task-based HR services such as staffing/resourcing, classification and organizational design, strategic HR policy/planning, and labour relations, and 2) compensation services. The program is located in sub-program 1.6.2 (Shared Services Integration) of the Department's Program Alignment Architecture. SHRS generated \$3.3M in revenue and incurred \$3.3M in operating costs during the 2012/2013 fiscal year.
- ii. Shared Services Integration includes two business lines: SHRS and administrative systems cluster management. This report presents the findings for the evaluation of SHRS only. The evaluation related to administrative systems cluster management is reported separately.
- iii. The Evaluation examined the activities, outputs, and immediate outcomes specific to SHRS, and its contribution to the achievement of common immediate, intermediate and ultimate outcomes for the Shared Services Integration sub-program (1.6.2).

Why it is important

- iv. Given their smaller size, many small departments and agencies (SDAs) lack the capacity to build, sustain, and improve their human resources function. Retention and recruitment of human resource personnel is challenging because there is often an insufficient volume of work to permit specialization and career development. Business continuity is also an on-going challenge for SDAs. Staff turnover and even regular leave can cause serious disruptions as often there is only one individual performing these types of tasks for the whole organization. Shared Human Resources Services (SHRS) was created to help address these capacity issues in SDAs by providing access to HR expertise on a fee-for-service basis.

What we found

- v. There is a continued need for SDAs to have access to HR services. SHRS was created to address a shortage of HR capacity within SDAs, and the Evaluation found that small entities continue to face HR capacity issues. The original rationale for SHRS persists, as the services are being used by SDAs and there is a consistent demand for the services. However, the continuing need for SHRS as a provider of HR services to some selected large departments and agencies is less compelling given that the original

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impetus for the creation of the program was to address HR capacity issues among SDAs.

- vi. SHRS's services are optional and there is no legislative or policy requirement for PWGSC to provide the services.
- vii. One of SHRS's main services, compensation services (accounting for 55% of revenues in 2012/2013), will likely see a reduction in demand in the long term as a consequence of the Consolidation of Pay Services Project. The Project will result in the centralization of federal government pay administration activities to a PWGSC Centre of Expertise in Miramichi, New Brunswick (2017 at the earliest). Other compensation-related services that will remain decentralized within individual departments and agencies could represent an area of potential continued client need for SHRS after 2017. It is not known whether the revenue generated by these services will be sufficient to offset the loss of business associated with consolidation of pay services.
- viii. SHRS is aligned with PWGSC's strategic outcome and federal priorities of reducing decentralization of corporate services. Further, the Evaluation concludes that each deputy head is accountable for meeting the HR needs of their respective department or agency, but it is not clear that any organization is accountable for ensuring that federal organizations have access to HR services.
- ix. SHRS is progressing towards the achievement of its outcomes, but in some cases, lack of data limits a more conclusive determination on the extent of their realization. The program provides standardized HR services and processes for those SDA's who opt to use the services, as demonstrated by the application of internal processes/policies designed to improve the consistency of services used by its clients. SHRS has met the intermediate outcome of "reduced risk among clients" as demonstrated by compliance with compensation service standards, improved Department Staffing Accounting Reportⁱ results attributable to the use of SHRS, and confirmed by clients who report that the program has reduced their risk.
- x. SHRS makes a critical mass of HR expertise available to SDAs, which has the potential to generate cost avoidances for clients. There is an insufficient amount of evidence available to conclude if SHRS is generating measurable cost savings or cost avoidances for clients.
- xi. SHRS experienced small, but increasing losses over the 2008/2009-2011/2012 period and saw a shortfall of \$500,000 in 2011/2012. In 2012/2013, SHRS modified its pricing structure by offering fixed rates and bundled services in an effort to secure a more predictable source of revenue. This was partly in response to shortfalls in previous years after the program was unable to reduce its expenditures in line with less than expected uptake of services. This decision appears to have been successful as

ⁱ The Departmental Staffing Accountability Report (DSAR) is an annual report provided by each organization subject to the *Public Service Employment Act* to the Public Service Commission concerning the management and results of the organization's staffing.

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SHRS was able to align expenses with revenues during the 2012/2013 fiscal year. With regards to economy, the Evaluation found that SHRS staff met the productivity targets set for compensation services and task-based services during the 2012/2013 fiscal year.

- xii. SHRS responds to government needs for task-based HR services such as staffing/resourcing, classification and organizational design, strategic HR policy/planning, and labour relations, but it is not alone in doing so. Alternative arrangements such as the Task and Solutions Professional Services (TSPS) procurement tool and the Public Service Commission are readily accessible to SDAs and offer services in the same HR domains as SHRS. In addition, there are 24 individual consulting firms under TSPS that offer the same range of services as SHRS (that is, staffing/resourcing, classification and organizational design, strategic HR policy/planning, and labour relations). The per diems charged under SHRS's previous rate structure (tiered rates based on level of experience) were less than those charged by private sector consultants under TSPS. In 2012/2013, SHRS introduced a fixed-rate structure for its services. The Evaluation found that the per diems charged by private sector consulting firms for two HR domains (Labour Relations and HR Policy and Planning) are slightly higher than those of SHRS. Within three other HR domains (staffing, classification and organizational design, general HR consulting), SHRS's new fixed per diem is marginally higher than the average per diem of private sector consulting firms.
- xiii. SHRS also responds to government needs for compensation services, although the Evaluation identified an alternative. Federal organizations may enter into interdepartmental arrangements for internal services, including compensation services. Under these arrangements, one department provides corporate services (such as human resources) on the behalf of another - at a cost and formalized through Memoranda of Understanding. Interviews revealed the existence of at least six interdepartmental arrangements for human resource services among SHRS clients specifically, and the research suggests that this model for internal service delivery is prevalent among small departments and agencies.
- xiv. Clients report that SHRS remains a preferred supplier of HR services to SDAs because it is sensitive and responsive to their needs.

Recommendations and Management Action Plan

Recommendation 1: The ADM, Integrated Services Branch, should develop a long-term business development strategy for SHRS that articulates and formalizes its value proposition.

Management Action Plan 1.1: The Integrated Service Branch agrees with the recommendation. SHRS will develop a strategy to expand and explore business opportunities and mitigate risks.

- A value proposition will be developed

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- A marketing strategy will be developed to position SHRS as a Centre of Excellence.

Recommendation 2: The ADM, Integrated Services Branch, should develop a performance measurement framework for SHRS that includes measurable outputs, outcomes and related indicators.

Management Action Plan 2.1: The Integrated Service Branch agrees with the recommendation. In order to better measure the impact of the Program, Shared Services Integration will develop, in consultation with relevant parties, a performance measurement framework. The activities are the following:

- Review a logic model and associated outcomes
- Define relevant performance indicators and its methodology for measurement
- Define reporting strategy and monitoring tools.

INTRODUCTION

1. This report presents the results of the Evaluation of Shared Human Resources Services (SHRS) located within the Shared Services Integration Sector of the Integrated Services Branch. The Deputy Minister for Public Works and Government Services Canada (PWGSC) approved this evaluation, on recommendation by the Audit and Evaluation Committee, as part of the 2011 – 2016 Risk-Based Audit and Evaluation Plan.
2. The planning and research phases for this engagement were conducted under the assumption that the Report would present the findings of the Evaluation of Shared Service Integration at the program level. However, during the early reporting phase it became readily apparent to the evaluation team that SSI consists of two unique and operationally separate business lines: Administrative Systems Cluster Management and Shared Human Resources Services. As a result, the evaluation assessed the relevance and performance of each and prepared two separate reports.

PROFILE

Background

3. SHRS was created in the mid-90s under the PWGSC Human Resources Branch, moved to the former Service Integration Branch in 2003, and then to the Consulting, Information and Shared Services Branch (now Integrated Services Branch) in 2006. SHRS provides integrated task-based services: staffing/resourcing; classification and organizational design; strategic HR policy/planning; and labour relations; as well as compensation services primarily to small departments and agencies (SDAs) that do not have an internal HR service function.

Authority

4. A 2009 Order in Council grants PWGSC the authority to provide HR services to federal departments and agencies. SHRS also operates under the authority of the *Department of Public Works and Government Services Act* which states that “the Minister may, on request of a department, board or agency of the Government of Canada, provide it with services of any other kind that are within the ambit of the Minister’s powers, duties, and functions.”

Roles and Responsibilities

5. Governance of SHRS is provided through the Integrated Services Branch. Two business line managers (one for task-based services and another for compensation services) report to a Director at the EX-01 level. The Director of SHRS reports to the

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Director General for Shared Services Integration who, in turn, reports to the Assistant Deputy Minister of Integrated Services Branch.

Resources

6. SHRS's resource complement consists of 26 full-time equivalents (including one Director) and three part-time employees. SHRS is funded on a net vote basis (Vote 1) and must ensure that its revenues offset related program expenditures within a fiscal year.
7. A net vote authority allows SHRS to spend the revenue it collects in the fiscal year for which it was generated. In 2012/2013, SHRS generated \$3.3M in revenue and incurred \$3.3M in operating costs.

Logic Model

8. A logic model is a visual representation that links a program's activities, outputs and outcomes; provides a systematic and visual method of illustrating the program theory; and shows the logic of how a program is expected to achieve its objectives. It also provides the basis for developing the performance measurement and evaluation strategies, including the evaluation matrix.
9. A logic model was developed for Shared Services Integration as part of an evaluation framework in 2011. It was validated with program staff. The logic model appears on page 4. Activities pertaining to the SHRS program are described below.

PROGRAM ACTIVITIES

Assess client requirements

10. SHRS's potential clients are primarily SDAs that lack internal HR resourcing capacity. SHRS also provides services to some large departments and agencies on an as-needed basis. Client assessments may involve identifying existing practices and procedures in the client organization to gain an understanding of client needs (i.e., HR services where the client lacks internal capacity) and how these services could be provided (i.e., how the client would like SHRS to meet these needs). This is done before the preparation of Memoranda of Understanding for potential and returning clients.

Provide guidance and advice

11. Client requirements are met through the delivery of advice and guidance on the full range of HR activities, including the provision of advice for staffing/resourcing, classification and organizational design, strategic HR policy/planning, and labour relations. SHRS provides a range of staffing/resourcing services, such as advice, development of tools, and participation on selection boards. Classification and organizational design activities include information analysis, and advice on organizational design as well as the provision of support in the development of work

descriptions. HR policy development/planning involves attendance by SHRS at meetings, liaising with central agencies, developing clients' HR policies and procedures, responding to audits and reviews of clients, and assisting with clients' reporting requirements. Labour relations activities include the provision of advice, interpretation of agreements and directives, and the resolution and investigation of issues such as complaints and grievances.

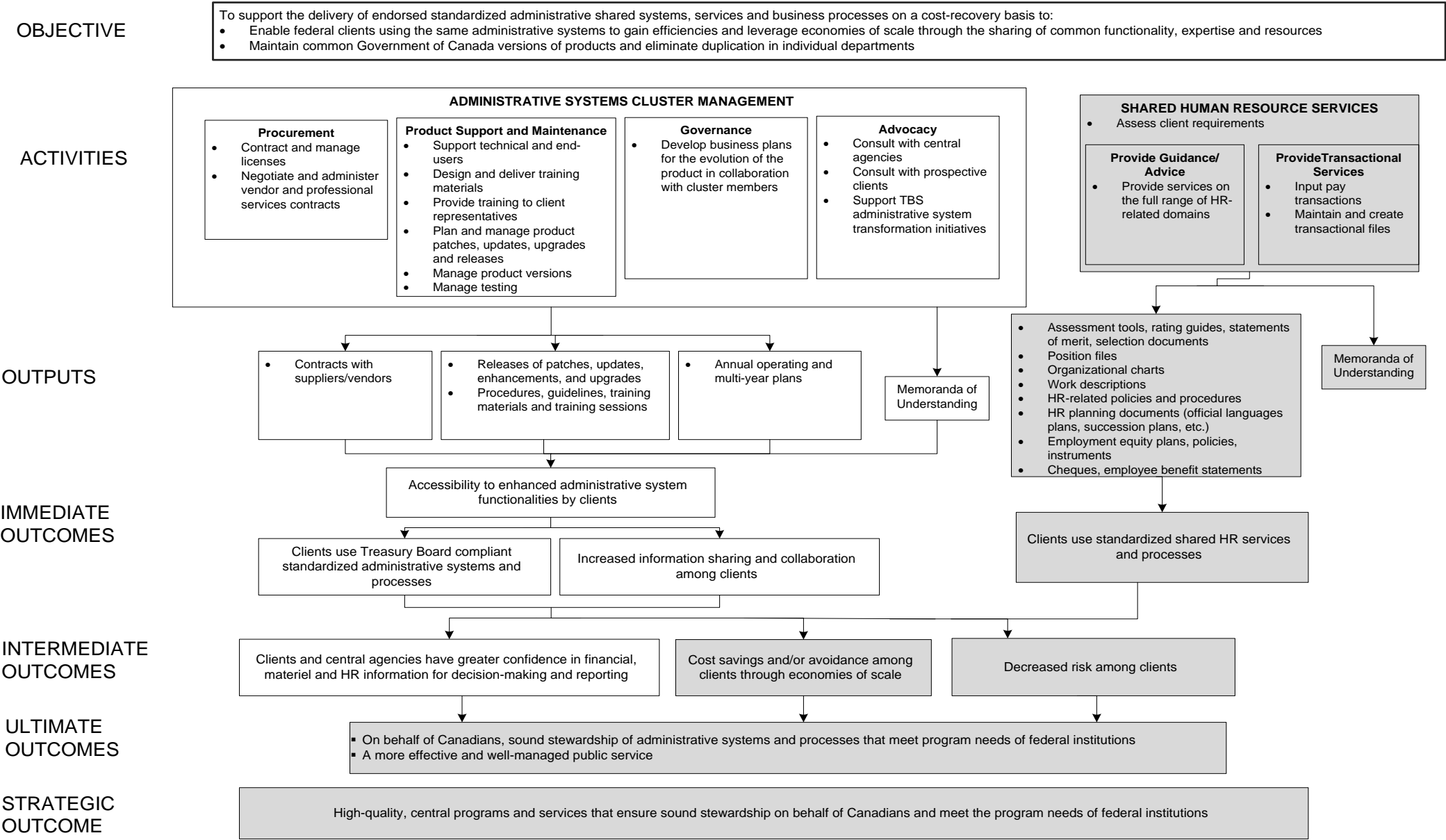
12. These activities lead to outputs such as: assessment tools, position files, organizational charts, work descriptions, HR-related policies and procedures, HR planning documents (official languages plans, succession plans, etc.), employment equity plans, policies, instruments, rating guides, statements of merit, and selection documents.

Provide transactional services

13. SHRS provides compensation services, including the input of pay transactions and the maintenance and creation of transactional files on behalf of clients. Unlike the task-based services described above, transactional services are accessed on an on-going basis by clients. Compensation services activities are also supported by a quality assurance process that tracks the timeliness of services. Compensation services also include a peer review process, case file review process, monthly statistics, and reporting. In addition, SHRS tracks compensation advisors' level of effort and has developed a case file management process (SHRS outlook Data Monitoring and Reporting project). These activities lead to outputs such as issued cheques and employee benefits statements.

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Exhibit 1- Logic Model



FOCUS OF THE EVALUATION

14. The objective of this Evaluation was to determine the program's relevance and performance in achieving its expected outcomes in accordance with the Treasury Board *Policy on Evaluation*. The Evaluation assessed the program for the period from 2008/2009 to 2012/2013.
15. An evaluation matrix, including evaluation issues, questions, indicators and data sources, was developed during the planning phase (see Appendix A). More information on the approach and methodologies used to conduct this Evaluation can be found in the "About the Evaluation" section at the end of this report.
16. The Evaluation was conducted in accordance with the evaluation standards of the Government of Canada and the Office of Audit and Evaluation at PWGSC. The Office of Audit and Evaluation developed an evaluation framework, which included a logic model and an evaluation matrix. The evaluation framework was developed based on a review of relevant documentation and on interviews with program management and staff members.
17. The Evaluation focused on Shared Services Integration under sub-program 1.6.2 of the Department's Program Alignment Architecture (Shared Services Integration). Two reports were prepared for this sub-program because it contains two distinct program activities; SHRS and Administrative Systems Cluster Management. This report focuses on the relevance and performance of SHRS.
18. SHRS generated \$3.3M in revenue and incurred \$3.3M in operating costs during the 2012/2013 fiscal year.

Approach and Methodology

Multiple lines of evidence were used to assess the program. These include:

Document Review: The document review provided an understanding of the program's activities and the policies and initiatives related to shared services. Documents reviewed included legislative and policy documents; Treasury Board submissions; memoranda of understanding; and departmental documents such as annual Reports on Plans and Priorities and Departmental Performance Reports.

Financial Analysis: Financial data related to the program's budgets, revenues and expenditures were reviewed and analyzed. In addition, the use of the Task and Solutions Professional Services (TSPS) procurement tool among federal organizations was examined. Finally, the internal HR costs among several SDAs were collected and

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compared to the HR costs for SHRS clients receiving the full suite of the program's services.

Administrative Data Analysis: SHRS maintains a database containing key metrics for its compensation services, and prepares a monthly statistical report for its clients to monitor the quality of the services. Some of these metrics include the timeliness of issue resolution and the accuracy of pay transactions. The evaluation team examined this database to assess compliance with SHRS's service standards.

Interviews: The evaluation team conducted interviews with SHRS senior management and SHRS clients (n=6). The interviewees provided information about the program's activities, outputs, expected outcomes, stakeholders, relevance, and performance. In addition, follow-up interviews were conducted with SHRS clients to further clarify SHRS's contribution to reducing client risk.

19. More information on the approach and methodologies used to conduct this Evaluation can be found in the About the Evaluation section at the end of this report. The evaluation matrix is provided in Appendix B.

FINDINGS AND CONCLUSIONS

20. The findings and conclusions below are based on multiple lines of evidence used during the Evaluation, and are presented by evaluation issue (relevance and performance).

RELEVANCE

21. Relevance is the extent to which the program addresses a continuing need, is aligned with federal priorities and departmental strategic outcomes and is an appropriate role and responsibility for the federal government.

Continuing need

22. Continuing need assesses the extent to which the program continues to address a demonstrable need and is responsive to its clients. Lines of evidence used to evaluate continuing need of SHRS included: the continued relevance of the original rationale; legislative or policy requirements; and demand for services. Based on these criteria, the Evaluation found a continuing need for HR services, especially among SDAs that lack internal HR capacity. However, this need may be reduced when most of SHRS's clients begin to transition their pay administration to PWGSC's Pay Centre of Expertise in Miramichi, New Brunswick in 2017 (at the earliest) as part of the government-wide Consolidation of Pay Services Project. The continuing need for SHRS as a provider of HR services to some selected large departments and agencies is less compelling given that the original impetus for the creation of the program was to address HR capacity issues among SDAs.
23. SHRS was established in the early 1990s in response to a need for HR services among SDAs, defined by Treasury Board Secretariat as federal organizations having less than \$300M in annual appropriations and less than 500 full-time equivalents.ⁱⁱ This original rationale remains relevant today. Given their smaller size, many SDAs lack the capacity to build, sustain, and improve their HR function. They often do not have a sufficient level of demand for HR services to maintain full-time resources dedicated to HR services, and where they do, retention and recruitment of staff is difficult as there are limited internal opportunities for advancement. Business continuity is another challenge facing SDAs. Unlike large departments and agencies, the loss of one or two corporate staff members can seriously reduce an SDA's HR capacity, thereby affecting the level and quality of internal service provision. SHRS provides a reliable source of HR services to SDAs and can act as a contingency in the event of unforeseen capacity shortages.

ⁱⁱ A Guide for Deputy Heads: Essential Information for Leading a Small Federal Department or Agency. Treasury Board of Canada Secretariat. 2013.

24. There is no legislative or policy basis obligating the provision of HR services by SHRS. Neither the Common Services Policy nor the *Department of Public Works and Government Services Act* specifically refers to HR services. A 2007 internal review of PWGSC's roles and responsibilities questioned whether the Department had the mandate to provide HR services given the absence of a specific statutory authority and recommended pursuing the appropriate authority. To resolve the issue, PWGSC successfully sought authority by way of an Order in Council in 2009. The Order in Council was approved and signed by the Governor General and represents the formal recommendation of Cabinet that the Minister of Public Works and Government Services offer, on the request of federal departments and agencies, HR services to other federal organizations.
25. There has been a consistent demand for SHRS's services over the past four years. SHRS maintains a group of approximately 27 returning client departments and agencies, for which it has served at least once during the 2008/2009 to 2012/2013 time period. The overall number of clients it serves per year has ranged from a minimum of 24 clients in 2008/2009 (accounting for revenues of \$3.1M) to a maximum of 33 clients in 2009/2010 (accounting for revenues of \$3.5M). During the 2012/2013 fiscal year, SHRS services were used by 27 out of the 61 (44%) SDAs in the Government of Canada. SHRS serves non-SDAs as well. SHRS's services were accessed by five federal entities that are not classified as SDAs, collectively representing 15% of SHRS's annual revenue during the 2012/2013 fiscal year.ⁱⁱⁱ Four of these organizations maintain internal HR capacity in the form of staff under the personnel management classification (PEs).
26. The demand mix for SHRS's services has been stable during the 2010/2011 to 2012/2013 time period.^{iv} Over the past three fiscal years, compensation services and task-based services have represented a relatively equal share of revenue for SHRS. During the 2012/2013 fiscal year, compensation services accounted for 55% of revenues and task-based services accounted for 45%.
27. The Consolidation of Pay Services Project is expected to have an impact on client use of compensation services in the future. Under the Project, government-wide pay administration activities will gradually be transferred to the PWGSC Centre of Expertise located in Miramichi, New Brunswick. This process began in fiscal year 2011/2012. SHRS estimates that most of its clients could be required to transition to PWGSC's Centre of Expertise by 2017, at the earliest. This will likely have the effect of reducing the demand for SHRS's compensation services in the longer term. However, other compensation-related services, such as leave and overtime administration and executive performance pay, will remain decentralized within individual departments and agencies. Crown corporations will not be required to transition their pay to PWGSC as well. These two areas could remain an area of

ⁱⁱⁱ Public Works and Government Services Canada, Office of Infrastructure Canada, Agriculture and Agri-food Canada, Public Health Agency of Canada, and the Heritage Canada Foundation.

^{iv} The practice of tracking revenue by business line began in 2010/2011. As such, revenue by service line prior to this time was unavailable.

potential continued client need for SHRS after 2017, but it is not known whether it will offset the expected loss of business associated with the Consolidation of Pay Services Project.

Alignment with federal government and PWGSC priorities

28. Program alignment is determined by assessing program linkages with federal government priorities and with departmental strategic outcomes. The Evaluation found that SHRS is aligned with federal priorities of reducing decentralization within the corporate service function, and that the program supports PWGSC's strategic outcome as it provides a centralized common service to government departments and agencies.
29. The *2012 Budget Plan* announced that the government intends to reduce and consolidate corporate services and move away from decentralized provision of internal corporate services. Specifically, federal entities have started to rationalize and merge their corporate services functions (including procurement, information technology, legal, communications, as well as HR) to reduce redundancy of these services. In so far as the program provides an integrated and 'one-stop shop' of HR services available to SDAs, SHRS is responsive to federal priorities of reducing decentralization by minimizing the need for small entities to establish and maintain an internal HR function.
30. As defined in the 2012/2013 Report on Plans and Priorities, PWGSC's mission and strategic outcome is to "deliver high-quality services and programs that meet the needs of federal organizations and ensure sound stewardship on behalf of Canadians." While not mentioned as a specific operational priority for the Department in the 2012/2013 Report on Plans and Priorities, SHRS aligns to this outcome by providing a centralized common service available to federal entities. However, PWGSC is not required to provide HR services and they are not listed in the *Common Services Policy*.

Appropriate role and responsibility for the federal government

31. To determine if the program is an appropriate role for the federal government, three elements were reviewed: whether the responsibility related to HR could be transferred to another level of government (i.e., to the provinces); to the private sector; or be decentralized to individual departments and agencies. There are three elements of accountability related to HR: (i) ensuring HR authorities are respected; (ii) ensuring small departments and agencies have access to HR services; and (iii) providing these services.
32. With respect to accountability for HR authorities, the Evaluation found that the *Financial Administration Act* prescribes direct accountability for human resources to each federal deputy head, and that they also hold delegated staffing authority from the Public Service Commission. As such, each federal organization is accountable for

ensuring that HR activities carried out on behalf of their respective departments are conducted in accordance with public sector values, legislation, and policy.

33. With respect to devolution of accountabilities for ensuring HR services are available to the federal government, this accountability rests at the federal level, and as such, responsibility for ensuring HR services are available cannot be devolved to other levels of government or the private sector. It is not clear that any federal organization is accountable for ensuring that federal departments have access to HR services. If a federal organization were indeed accountable we believe it would be the Office of the Chief Human Resources Officer, as the policy authority on HR in government. This is consistent with the approach taken by the Treasury Board Secretariat, more specifically, the Office of the Comptroller General, which is the policy authority for Internal Audit Policies in Government. It is the Office of the Comptroller General's responsibility to ensure small departments and agencies have access to internal audit services. To discharge this accountability, the Office of the Comptroller General conducts internal audits of these entities on behalf of the Government of Canada.
34. In terms of providing HR services, transferring responsibility to other levels of government is not reasonable or feasible given these are services required uniquely in the federal government context with a requirement to respect federal government rules and regulations. While private consultants are involved in the delivery of HR services to the federal government and continue as a viable option for provision of services, they are not accountable for delivering these services. At present, PWGSC's role as an optional common services provider make the Department an appropriate entity to deliver centralized HR services. However, decentralization to individual federal departments for the provision of HR services is a viable option given each department's individual accountability for HR authorities. The viability of other delivery mechanisms in the provision of human resource services to the federal government is discussed further in the report in the section on alternative delivery.

Conclusions: RELEVANCE

35. There is a continued need for federal organizations to have access to HR services, especially for SDAs. The original rationale for SHRS persists as the Evaluation found that SDAs continue to face HR capacity issues and represent the dominant users of SHRS's services. However, the continued need for SHRS as a provider of HR services to organizations that maintain internal HR capacity, such as large federal organizations, is less compelling. In the longer term (2017 and onwards), the need for SHRS's compensation services will be substantially reduced with the centralization of pay administration across government departments and agencies. Other compensation-related services that will remain decentralized within individual departments and agencies could represent an area of potential continued client need for SHRS after 2017. It is not known whether the revenue generated by these services will be sufficient to offset the loss of business associated with consolidation of pay services. The demand for SHRS's compensation services, which represents 55% of 2012/2013 revenues, will be impacted by pay centralization.

36. SHRS's services are optional and there is no legislative or policy requirement for PWGSC to provide the services.
37. SHRS supports federal priorities for reducing decentralization in corporate administrative functions. As well, as a common service available to government departments and agencies, SHRS is aligned with PWGSC's strategic outcome.
38. The Evaluation found that each department is responsible for ensuring that its human resource activities respect federal requirements, and therefore HR is aligned with the roles and responsibilities of the federal government. The Evaluation did not find evidence that any organization was responsible for the provision of HR services to federal organizations, although based on the model currently being implemented by the Office of the Comptroller General in relation to Internal Audit, we believe the Office of the Chief Human Resources Officer may be accountable. In terms of responsibility to provide HR services, these services are consistent with PWGSC's common service provider responsibilities, although the private sector has demonstrated the capacity to provide these services as well (discussed in the section on Alternative Delivery).

PERFORMANCE

39. Performance is the extent to which a program is successful in achieving its objectives and the degree to which it is able to do so in a cost-effective manner that demonstrates efficiency and economy. Potential alternative delivery options explore other means to achieve program outcomes and for reducing program costs.

Outcome Achievement

40. The Evaluation examined the degree to which this program achieved its intended immediate, intermediate, and ultimate outcomes. The intended outcomes of the program are identified in *italics* below, followed by an assessment of the extent to which they have been achieved.

Immediate Outcome - Small departments and agencies use standardized shared HR services and processes

41. This outcome refers to two separate elements: uptake and delivery. The Evaluation found that the first element, that small departments and agencies use SHRS services, pertains to uptake among small departments and agencies. As discussed in the section on continuing need, use of SHRS among small entities is at 44%; 24 out of the 61 total SDAs in the Government of Canada used SHRS's services during the 2012/2013 fiscal year. In addition, a limited number of large federal entities made use of SHRS during the 2012/2013 fiscal year such as the Office of the Chief Electoral Officer, Agriculture and Agri-food Canada, the Public Health Agency of Canada, as well as Public Works and Government Services Canada.

42. The second element, that the services and processes used by SDAs are standardized, arises directly from how SHRS delivers its services. SHRS has several mechanisms in place that are intended to increase standardization in the services it provides to its clients. SHRS delivers standardized services to clients through a staffing process monitoring program, various quality assurance processes, and a staffing management accountability framework. These processes ensure, among other business objectives, that SHRS applies the appropriate federal public service HR principles and policies in a consistent and standard manner.
43. Overall, clients said that they were highly satisfied with the services: most characterized SHRS as responsive, flexible and staffed with highly knowledgeable HR professionals. A SHRS-conducted satisfaction survey confirms these results, with 96% of clients indicating overall satisfaction with SHRS's services.^v
44. The Evaluation concludes that SHRS is providing standardized HR services and processes among those SDAs who opt to use the services, as evidenced by the use of internal processes and policies intended to facilitate standardization by the Program. SHRS could make further inroads to penetrate its target market as 44% of the total number of SDAs in the Government of Canada accessed SHRS's services during the 2012/2013 fiscal year.

Intermediate Outcome - Decreased risk among clients

45. This outcome refers to reducing the likelihood that clients are exposed to the risk of non-compliance with the relevant Public Service Commission and Treasury Board policy and legislation that pertain to HR and compensation. The Evaluation found evidence of SHRS's contribution to risk avoidance among its clients, and high rates of compliance with compensation service standards, suggesting that SHRS is reducing risk for those clients that make use of these services.
46. According to interviewed staff members, SHRS reduces potential risk for clients primarily through its challenge function. The Evaluation was provided with selected cases where SHRS either challenged or refused to consent to a client's request to proceed with a particular HR activity that was deemed risky or non-compliant (e.g. a staffing/resourcing action).
47. SHRS is accountable for the work it provides because it is located within the public service. As an entity staffed with public servants, SHRS is required to observe the same public service values as its clients. SHRS argues that it is in their best interest to ensure that the activities it undertakes on behalf of SDAs comply with relevant public service policies and regulations regarding HR because it shares some of the risks associated with noncompliance. As such, it is accountable for the outcomes of the advice it provides to its clients.

^v Representing 9 out of 25 clients during 2010/2011

48. The results of audits conducted by the Public Service Commission of two SHRS clients, two individual client cases of risk reduction as evidenced through improved Departmental Staffing Accountability Report ratings, administrative data and interview follow-ups serve as the primary evidence base for the findings presented in this section.
49. In a specific case of helping decrease client risk, SHRS assisted a client manage the outcomes of a Public Service Commission audit of its HR practices. After a detailed investigation on the part of SHRS that involved a review of the applicable policies and procedures across several HR domains (classification, staffing and labour relations), the client was able to provide additional information to satisfy the concerns raised by the audit. This, in turn, decreased the identified risks to the department. According to SHRS, it is unlikely that other HR providers would have had the necessary depth and breadth of experience and knowledge to conduct a similar task, although the evaluation team was unable to assess the validity of this claim. In another case of an SHRS client undergoing an audit by the Public Service Commission, the auditors found that the client had an appropriate framework and associated monitoring processes in place to manage appointment activities but also noted that compliance with the relevant acts and regulations that pertain to staffing required improvement.
50. The contribution of SHRS to risk reduction is demonstrated by the case of two clients who witnessed an improvement in the results of their Departmental Staffing Accountability Report assessment. Prior to obtaining services from SHRS, both clients had received “Attention Required” ratings for most of their HR functions. These ratings were subsequently raised to “Acceptable” after the clients transitioned their HR functions to SHRS.
51. These findings are supported by client interviews when they were asked to comment on the extent to which SHRS reduced their risk exposure during follow-up interviews. Four out of the five clients who made use of either compensation services or task-based services reported that SHRS mitigates risk to their organization, primarily by providing business continuity.
52. In addition, the evaluation team assessed compliance with SHRS’s service standards for its compensation services as a means of assessing risk reduction. The evaluation team was able to assess seven (7) of the fifteen (15) service standards set by SHRS, as presented in Exhibit 2 below.^{vi} High rates of compliance indicate that SHRS may be mitigating risk for clients in these areas. The results indicate that SHRS has achieved high rates of compliance with its service standards, ranging from 91% to 100% compliance.

^{vi} Lack of available data did not permit an assessment of the remaining 8 service standards.

Exhibit 2 – Compliance with Compensation Service Standards, January-December 2011

| Activity/Function | Service Standard | Percent Achieved |
|---|---|------------------|
| Process pay transactions for issuance of a first cheque for a new employee | As per MAF component standards, within 10 working days for employees paid current and 20 working days for employees paid in arrears | 100% |
| Process overtime | 4 weeks following the date of receipt or according to the specifications outlined in the collective agreement | 100% |
| Process documents for return of employees on leave without pay | As per MAF component standards, within 10 working days | 100% |
| Implement salary revisions following the signature of a new (renewed) collective agreement | According to the specifications outlined in the collective agreement | 100% |
| Process requests for payment of all allowances at termination of employment (including processing of pension documents) | 1 month following the receipt of the official notice of termination and if applicable, following the signature of various pension and insurance documents | 98% |
| Issue letter to employee on leave without pay | 10 days following the date of receipt of the employee request | 97% |
| Process documents for issuance of Maternity benefits | Every 2 weeks | 91% |

Source: Quality Assurance Reports. Provided by SHRS.

53. Overall, high rates of compliance with SHRS's compensation service standards indicate that it is mitigating risk for clients in this area. The generally favorable outcomes of Public Service Commission audits of two clients suggest that SHRS has helped its clients ensure compliance with HR policy and legislation. These results, coupled with improved Departmental Staffing Accountability Report ratings for two clients as well as interviews confirming SHRS's role in risk mitigation for their organization, indicate that the program is reducing risk for those clients that make use of task-based services as well.

Intermediate Outcome - Cost savings/avoidances due to economies of scale

54. According to SHRS documents, resource centralization responds to the capacity issues faced by SDAs and generates cost savings/avoidance for clients. By providing a centralized one-stop-shop of HR services, SHRS can generate cost avoidances for its clients by negating the need for them to staff internal HR specialists. The Evaluation attempted to measure this outcome by comparing the value of Memoranda of Understanding of a selection of SHRS's clients to the HR-related costs of a comparable group of SDAs that met their HR needs through alternative arrangements. The Evaluation found that SHRS makes a critical mass of HR expertise available to SDAs, and that the model for an integrated HR service provider such as SHRS has the potential to generate cost savings. However, there is an insufficient amount of evidence available to conclude if SHRS is generating measurable cost savings or cost avoidances for clients.

55. SHRS's client base represents, collectively, a total of 2,372 full-time equivalents. SHRS provides clients with access to specialists in multiple HR domains (staffing,

classification, HR policy/planning, labour relations, etc.). For the reasons discussed in the section on continued need, the HR staff located in SDAs are unlikely to possess the level of HR experience currently available through SHRS. HR services are predominantly provided by human resource (PE) and administrative generalist (AS) staff within SDAs. A profile of the personnel management classification (PEs: the dominant human resource professional classification within the federal government) across federal organizations confirms that less than 2% are located in SDAs. In those cases where administrative generalists provide HR services in SDAs, these staff are responsible for delivering many internal corporate services within their respective organizations, of which HR is just one task. This observation was validated through interviews, where clients confirmed that where they maintained internal HR capacity, this capacity was predominantly within the administrative generalist classification. As such, SHRS may generate cost avoidances for SDAs by eliminating the need for them to maintain internal HR staff.

56. An integrated ‘one-stop-shop’ provider of HR services (such as SHRS) is expected to generate cost savings. Under this model, rather than staff HR expertise in a number of domains such as classification, compensation, or resourcing, a centralized HR service provider such as SHRS intends to provide all of these services at a lower cost than if clients chose to maintain in-house HR capacity.
57. As part of the cost savings analysis for the Evaluation, expenditure on SHRS among those organizations that accessed most of the program’s services (at least five out of the six) during the 2011/2012 fiscal year was compared to the average HR costs of similarly-sized SDAs that are not SHRS clients. Nine of SHRS’s clients accessed most of the services during 2011/2012 and the evaluation team was able to collect the HR expenditures of three SDAs that did not make use of SHRS.^{vii} Based on the available information, the analysis found that the average cost of SHRS services per full-time equivalent was \$6,400 (a conservative estimate given that not all of these clients received the full suite of services and the estimate does not include the costs associated with internal provision) while the average cost per full-time equivalent for the comparison group was \$5,839. Overall, costs incurred by clients that use SHRS’s services are comparable to the costs associated with the use of alternative arrangements in this case analysis. Unfortunately, the small sample of comparison cases limits the extent to which these results can be generalized. Therefore, the Evaluation is unable to conclusively determine whether SHRS generates cost savings.
58. The fragmented manner in which most SHRS clients access the services may also impact the program’s ability to realize cost savings. In addition to SHRS, many clients use other means to address their HR needs. Clients draw on a combination of internal resources, Public Service Commission staff, consultants, or interdepartmental arrangements to meet their HR needs, but few access the full suite of SHRS services (nine clients in the 2011/2012 fiscal year). Each of these separate arrangements will

^{vii} The nine SHRS clients had between 7 to 30 full-time equivalents and the three SDAs had between 14 to 27 full-time equivalents.

require (on a per capita basis) more time and resources to manage in comparison to a single memorandum of understanding with SHRS to meet all of their HR needs. Therefore, recent efforts on the part of SHRS to encourage its clients to access the full suite of services (such as bundling, reduced rates for multiple service users, etc.) will not only increase revenue for the program, but has the potential to generate cost savings for clients.

59. Overall, SHRS provides access to a critical mass of HR expertise to clients by negating the need for them to staff internal HR specialists which has the potential to generate cost avoidances. However, the Evaluation was unable to find measurable evidence of cost-savings through the use of SHRS when compared to the costs reported by SDAs meeting their HR needs through alternative arrangements.

Ultimate Outcome – Sound stewardship of administrative systems and processes that meet the program needs of federal institutions. A more effective and well-managed public service

60. SHRS likely contributes to sound stewardship of administrative processes through the provision of common, centralized human resource services, which in turn likely leads to a more effective and well-managed public service. Insofar as SHRS has made progress in meeting its immediate and intermediate outcomes; namely standardization of services, reduced risk and cost savings/avoidances, the program plays a role in the achievement of sound stewardship of administrative processes and a more effective and well-managed public service. However, the Evaluation was unable to assess SHRS's specific contribution given the variety of other programs and services at PWGSC that share this outcome.

Efficiency and Economy

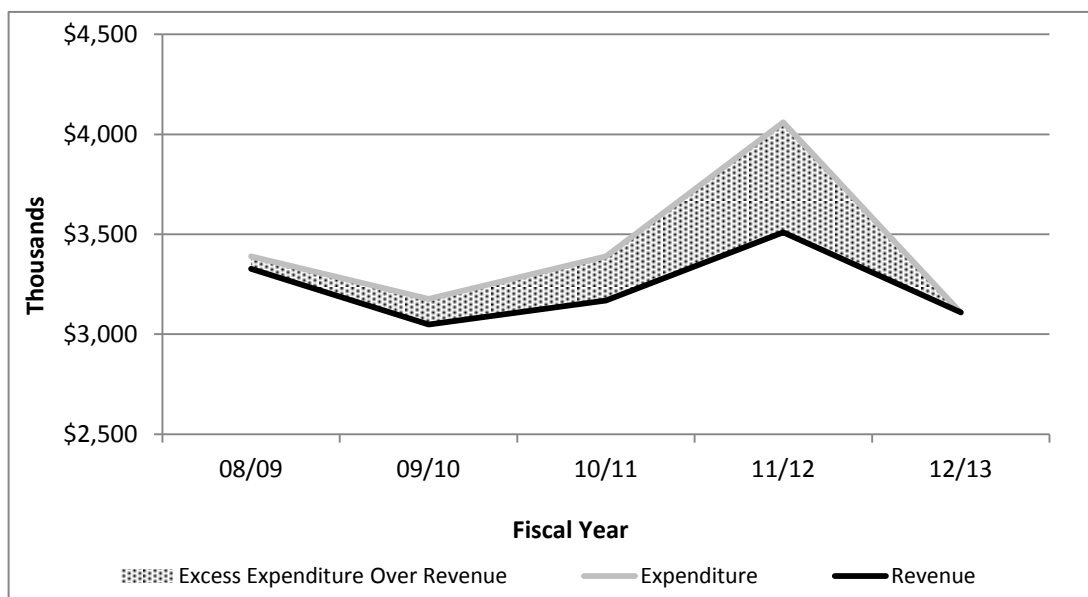
61. Demonstration of efficiency and economy is defined as an assessment of resource utilization in relation to the production of outputs and outcomes. Efficiency refers to the extent to which resources are used such that a greater level of output is produced with the same level of input or, a lower level of input is used to produce the same level of output. Economy refers to minimizing the use of resources. A program has high demonstrable economy and efficiency when resources maximize outputs at least cost and when there is a high correlation between minimum resources and outcomes achieved.

Efficiency

62. The ability of SHRS to generate a sufficient level of revenue to offset its expenditures serves as the primary measure of the efficiency of SHRS's operations.
63. SHRS's overall revenues have remained stable during the period examined by the Evaluation. During the period covered by the Evaluation (2008/2009 to 2012/2013), SHRS generated a minimum of \$3.1 million in revenue (in 2009/2010) to a maximum of \$3.5 million in revenue (in 2011/2012).

64. The data presented in Exhibit 3 shows that SHRS experienced small, but increasing losses over the 2008/2009-2011/2012 period, including a \$500,000 shortfall during the 2011/2012 fiscal year. During the 2012/2013 fiscal year, expenditures decreased (primary as a result of staffing reductions) and were equivalent with revenues.

Exhibit 3 – SHRS Operating Revenue, Expenditure, and Excess Expenditure Over Revenue, by fiscal year^{viii}



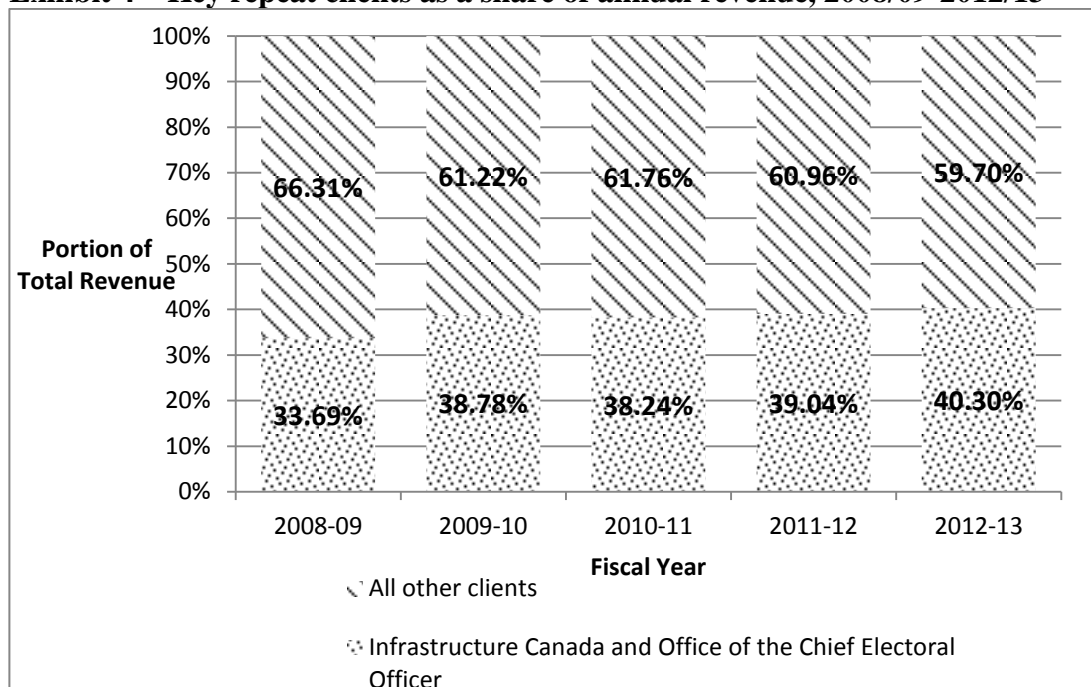
Sources: SHRS Revenue (2009-2013), SHRS Financial Profile (2009-2013) and MOU Revenue by client (2009-2013)

65. SHRS has recently implemented fixed rate services to guarantee a certain amount of revenue per year. Under this new structure, clients are invoiced on a monthly basis regardless of the use or uptake of the services. Under the previous structure, clients were billed only for services that were used and the associated level of effort on the part of SHRS. This new structure has provided a more stable source of revenue for the program and improved its financial footing.
66. As part of this new billing structure, SHRS has also introduced a ‘bundled’ approach to charging for services, whereby clients are granted a discounted rate if they agree to make use of both compensation and a minimum number of task-based services. At the time of this Evaluation, nine clients have signed Memorandum of Understanding for bundled services.
67. Two key clients have accessed SHRS continuously throughout the period of the Evaluation (2008-2013). As presented in Exhibit 4 below, Infrastructure Canada and the Office of the Chief Electoral Officer generated 33.69% to 40.30% of SHRS’s annual revenue during the period evaluated. The remaining revenue (approximately

^{viii} 2012/2013 figures as of March 19, 2013

59.70%-66.31%) is based on a diverse and varying number of clients that appear to fluctuate each year. This ebb and flow in the overall number of clients is indicative of their use of ‘one-off’ services, that is, specific task-based activities (such as classification).

Exhibit 4 – Key repeat clients as a share of annual revenue, 2008/09-2012/13



Source: SHRS revenue by client.

68. The Evaluation also found that a reduction in revenue associated with the discontinuation of services to a previous client did not have an adverse effect on SHRS’s ability to break even. The Canada School of Public Service represented a similar share of annual revenue for SHRS to that of Infrastructure Canada and the Office of the Chief Electoral Officer, at 35% of total revenue in 2008/2009. In 2010/2011, SHRS ceased to provide services to this client. Despite the significant reduction in revenue for SHRS that was previously generated from this client, the program generated a sufficient level of revenue to offset expenditures that year.
69. SHRS has been vulnerable to fluctuations in revenues in the past. In 2011/2012, SHRS was unable to decrease operating expenses to offset an unexpected decrease in demand for its services, resulting in a \$500,000 shortfall. However, a reduction in operating costs in 2012/2013 coupled with the decision to implement fixed rate services put the program on stable financial footing, with revenues aligning with expenditures.
70. SHRS funds its operations through re-spendable revenue arising from the provision of HR services to government departments and agencies, allowing SHRS to use revenues to finance directly related expenditures. This authority is referred to as vote-netted revenue. Vote netted revenue is a lapsing authorization and can only be used to

offset related expenditures within a fiscal year. It allows the program to be at least partially self-sufficient; however, it must carefully manage both expenditures and revenues. If they do not receive the forecasted revenues, it is not possible to seek additional funding from Parliament and therefore other departmental funds would have to be used to cover the shortfall.

71. The Evaluation found evidence that, in the past, SHRS's revenues were not always correlated with the costs it incurred to provide its services (e.g., operating costs, overhead). As presented in Exhibit 5 below, during the 2010/2011 fiscal year SHRS was not generating a sufficient level of revenue to offset the costs associated with providing compensation or task-based services. In 2011/2012 SHRS saw a reduction in costs, attributable to a decrease in the number of billable staff dedicated to each service. However, compensation services generated \$297,000 in excess revenue for what SHRS incurred in costs, effectively offsetting the \$223,000 in costs that were not recovered by task-based services. However, the program's overall financial situation improved in 2012/2013 as data for the fiscal year show that SHRS's revenues for compensation services and task-based services aligned with the costs to deliver each service.

Exhibit 5 – SHRS expenses to deliver services and annual revenue, 2010-2011 and 2012-2013, in thousands of dollars

| | 2010/2011 (\$ '000s) | | | 2011/2012 (\$ '000s) | | | 2012/2013 (\$ '000s) | | |
|-----------------------|-------------------------|--------------|---------------|-------------------------|--------------|------------|-------------------------|--------------|------------|
| | Costs to Recover | Revenue | Difference | Costs to Recover | Revenue | Difference | Costs to Recover | Revenue | Difference |
| Compensation services | 1,990 | 1,785 | -205 | 1,573 | 1,870 | 297 | 1,746 | 1,857 | 111 |
| Task-based services | 2,816 | 1,665 | -1,151 | 1,862 | 1,639 | -223 | 1,578 | 1,514 | -64 |
| Total | 4,806 | 3,450 | -1,356 | 3,435 | 3,509 | 74 | 3,324 | 3,371 | 47 |

Source: SHRS Costing Model 2010-2011, 2011-2012 and 2012-2013 (DB: 2.10.01.26) and Revenue by Business Line, 2010-2011, 2011-2012 (DB: 2.10.01.17) and 2012-2013 (Projected Revenues: DB: 2.10.01.27, see email, costs to recover: 'projected revenues 2012-2013' DB: 2.10.01.27)

Economy

72. Productivity rates were examined as a means to assess the economy of the program.
73. In order for SHRS to break-even, it must deliver sufficient billable services to recover its total expenses. The charging model is derived from an estimate of costs (SHRS estimates what level of revenue must be generated each year in order to offset fixed costs).

74. SHRS's ability to generate revenue is directly linked to the proportion of time that its staff remains engaged in revenue-generating activity, also known as the utilization rate. One key measure of utilization is staff productivity. During the 2012/2013 fiscal year, SHRS began monitoring staff productivity for its compensation services and task-based services business lines. The average productivity rate for task-based services during the 2012/2013 fiscal year was 81.93%, against a baseline of 75%. The average productivity rate for compensation services during the 2012/2013 fiscal year was 102.27%, against a baseline of 90%. Staff levels have fluctuated only slightly over time. In 2010, SHRS's staff complement consisted of 32 full-time equivalents compared to 26 full-time equivalents and three contract workers in 2013.^{ix}

Alternative Delivery

75. This section of the Report considers potential alternative delivery options as a means of achieving program outcomes and of reducing program costs. The Evaluation identified two potential alternatives for program delivery: the private sector and other federal organizations (either the Public Service Commission or interdepartmental arrangements).

76. SHRS provides services to individual departments and agencies, targeting primarily SDAs, that lack the internal resources to address their HR needs. However, there is evidence of duplication in the areas of staffing/resourcing, classification and organizational design, strategic HR policy/planning, and labour relations, as well as compensation services as other providers and arrangements offer similar services. Interdepartmental service agreements and centralized procurement tools are available and are used by several of SHRS's clients to meet their HR needs.^x During interviews, clients were asked how their HR needs would have been met in the absence of SHRS. Most indicated that they would have employed existing alternative arrangements such as interdepartmental arrangements with other departments and agencies, the Public Service Commission, private sector contractors, or conducted the work in-house, confirming the existence of viable alternatives. Overall, most of SHRS's interviewed clients currently meet their HR needs through a mix of existing internal capacity and other providers.

77. The Task and Solutions Professional Services (TSPS) is a procurement tool that provides access to private sector HR expertise in all four task-based services offered by SHRS (with the exception of compensation services). With some caveats, if a federal department or agency decides that they would like to secure the services of an external contractor to complete HR tasks, they must use TSPS to procure these services.^{xi} The TSPS procurement arrangement is the largest source of external HR

^{ix} The three contract workers are part-time and collectively represent 1 full-time equivalent.

^x SHRS's clients mentioned six different interdepartmental service agreements for HR services and eight SHRS clients made use of centralized procurement tools to access HR services during 2012/2013.

^{xi} Caveats would include cases where the contract was less than \$25,000 or in cases where only one contractor was able to deliver on the requirements (an Advance Contract Award Notice)

expertise available to federal organizations.^{xii} It should be noted that the Evaluation was unable to compare the quality of SHRS's services to that of TSPS private sector consultants. Of the five client organizations that were interviewed, none were in a position to compare/contrast their experiences with both service providers. Nevertheless, the comparison between SHRS and TSPS is appropriate when considering equivalent activities.

78. During the 2012/2013 fiscal year, \$8M worth of HR services were accessed under TSPS among 41 federal departments and agencies, of which eight were current SHRS clients. Among the eight clients, the proportion of their expenditure that was used to access HR services through TSPS and SHRS is presented in Exhibit 6. Use of SHRS as a share of their total expenditure on external HR services varied considerably, ranging from 2.06% of total expenditure for Agriculture and Agri-Food Canada to 91.90% for the Office of the Chief Electoral Officer. While use of the TSPS among all federal departments and agencies during the 2012/2013 fiscal year totalled \$8M, the data analysis revealed that the TSPS arrangement was used overwhelmingly by large federal departments and agencies.

**Exhibit 6 – Use of the Task and Solutions Professional Services (TSPS)
procurement arrangement for HR services and SHRS services, in 2012/2013**

| SHRS Client | TSPS Expenditure | SHRS Expenditure | Total Expenditure on External HR services | Percent SHRS |
|--|-----------------------------|-----------------------------|--|-------------------------|
| Office of the Chief Electoral Officer | \$79,379 | \$900,916 | \$980,295 | 91.90% |
| Military Police Complaints Commission | \$13,411 | \$45,621 | \$59,032 | 77.28% |
| Office of Infrastructure Canada | \$153,120 | \$352,000 | \$505,120 | 69.69% |
| Parole Board of Canada | \$43,189 | \$67,447 | \$110,636 | 60.96% |
| Office of the Coordinator, Status of Women | \$44,032 | \$31,509 | \$75,541 | 41.71% |
| Public Works and Government Services Canada | \$859,654 | \$108,239 | \$967,893 | 11.18% |
| Public Health Agency of Canada | \$48,028 | \$2,694 | \$50,722 | 5.31% |
| Agriculture and Agri-Food Canada | \$842,409 | \$17,748 | \$860,157 | 2.06% |

Source: TSPS quarterly usage reports (2012/2013) and SHRS Memorandum of Understanding value by client (2012-2013)

79. An analysis of SHRS's rates revealed that TSPS consultants are marginally more expensive than SHRS when considering similar levels of experience. Exhibit 7 below presents the 2011/2012 per diem rates for SHRS staff compared to the average per diems set by TSPS private sector consultants.

^{xii} Other arrangements to secure HR services such as temporary help or casual contractors would not be captured under TSPS.

Exhibit 7 – SHRS and Private Sector (TSPS) firms, a comparison of per diem rates by equivalent levels of experience

| Shared HR Services (2011/2012 rates) | | TSPS (2011/2012 rates) | |
|---|---------------|---------------------------|-----------------------|
| Group and Level | Per Diem | Experience Level | Per Diem (Average) |
| PE-05 & PE-06 | \$800-\$900 | 3 | \$952 |
| PE-03 & PE-04 | \$700- \$750 | 2 | \$791 |
| PE-01 & PE-02 AS-01 & AS-02 CR-05 | \$555 - \$650 | 1 | \$645 |

Source: MOU's between SHRS and clients, data from Acquisitions Branch

80. In 2012/2013, SHRS began charging a fixed rate of \$850 for its task-based services and abandoned its tiered rate structure. Under the previous tiered rate structure, per diems were based on level of experience (as presented in Exhibit 7). As part of its new rate structure, SHRS has also introduced a 'bundled' approach to charging for task-based services. Clients are offered a discounted rate of \$820 if they agree to make use of both compensation services and a minimum of three task-based services. As of March 2013, nine clients have signed Memoranda of Understanding for bundled services and benefit from this reduced rate.

81. SHRS positions itself as a 'one-stop-shop' integrated provider of HR services offering expertise in multiple HR domains. Under the TSPS, there are 24 individual HR consulting firms that offer the same range of services as SHRS. A comparison of the rates of these selected consulting firms to SHRS's fixed rate of \$820 is presented in Exhibit 8 below.

Exhibit 8 – SHRS and 24 Selected Private Sector Firms (TSPS), a comparison of average per diems^{xiii}

| HR Domain | Shared HR Services (2012/2013 rates) | TSPS firms that offer services in all HR domains (2011/2012 rates, average) |
|--|---|---|
| Staffing | \$820 | \$709 |
| Classification and Organizational Design | | \$764 |
| Human Resources Consultant (all domains) | | \$772 |
| Labour Relations | | \$856 |
| HR Policy and Planning | | \$872 |

Source: Memorandum of Understanding between SHRS and clients, TSPS data provided by Acquisitions Branch

82. As presented in Exhibit 8, the analysis shows that, within three of the HR domains (staffing, classification and organizational design, HR consultants), SHRS's

^{xiii} SHRS's HR domains were matched with the equivalent service categories available under TSPS, where possible.

2012/2013 rates are marginally higher than those of private sector consulting firms offering the same range of services. The rates charged by private sector consulting firms for the other two HR domains, (labour relations and HR policy and planning), are slightly higher than those of SHRS.

83. There are additional overhead costs to clients that would not be reflected in these per diems. In the case of TSPS, these costs would include the level of effort on the part of federal organizations to administer the procurement process and manage private sector consultants. Similarly, in the case of SHRS, these costs would include the level of effort on the part of clients to develop a Memorandum of Understanding and manage the relationship with SHRS.
84. Similar to SHRS, the Public Service Commission also offers staffing services. However, the Public Service Commission positions itself as a provider of collective staffing processes and executive-level staffing while SHRS targets its services to the needs of SDAs and not one specific type of resourcing action. Of those in a position to compare, SHRS clients report that they prefer the Public Service Commission for executive HR resourcing, largely because they consider this the Commission's area of expertise. The Public Service Commission provides executive staffing services for some elements of the staffing process (client needs assessments, job advertising services, notifications of appointment, etc.) while the scope of SHRS's services for executive staffing are broader (SHRS cover the life cycle of HR). Like SHRS, the Public Service Commission's staffing services are offered on a cost-recovery basis and can be accessed as one-off services to enhance limited executive resourcing capacity (e.g., during peak or critical periods). According to its website, the Public Service Commission charges a \$1,080 per diem for its professional services. This is higher than SHRS's per diem rate of \$850.
85. Departments and agencies also provide HR services to other federal organizations. The research conducted for this Evaluation revealed that at least six federal organizations provide HR services to other small federal entities. However, the evaluation team conducted research and found non-comparable financial information that could not support a complete analysis of the costs associated with these arrangements.
86. Recent changes to the *Financial Administration Act* have provided legal authority for departments to enter into these types of arrangements, known as interdepartmental arrangements for internal support services. As most of the services defined as internal support services in the *Financial Administration Act* are also listed as optional services under the *Common Services Policy*, the changes to the *Financial Administration Act* may blur the distinction between common service organizations and other departments with respect to the provision of corporate services. Nonetheless, from a prospective SHRS client's point of view, interdepartmental arrangements represent a viable alternative and are recognized by the Treasury Board Secretariat as an efficient means for organizations to meet their needs for internal services. However, arms-length organizations that were interviewed as part of the

Evaluation noted that they are reluctant to participate in interdepartmental arrangements due to potential issues with the perception of their independence and neutrality.

87. Interviewed clients report that they continue to use SHRS because it is sensitive and responsive to the unique needs of small entities. Knowledge of the public sector context and the integrated model of SHRS are some of the other reasons why clients chose the program among the options available to them. Clients also frequently referenced the business continuity that came from using SHRS, although there is no reason to believe that this benefit is unique to the program. However, the use of TSPS, the Public Service Commission and interdepartmental arrangements among SHRS's current clients suggests the program is not necessarily the only service provider that has the HR expertise its clients require.

Conclusions: PERFORMANCE

88. The Evaluation concludes that SHRS is providing standardized HR services and processes among those SDAs who opt to use the services, as evidenced by the use of internal processes and policies intended to facilitate standardization by the Program and confirmed by client interviews.
89. SHRS has met the intermediate outcome of “reduced risk among clients” as demonstrated by compliance with compensation service standards, improved Departmental Staffing Accountability Report results attributable to the use of SHRS, and confirmed by clients who report that the program has reduced their risk.
90. The Evaluation found that the model for an integrated HR service provider is sound as SHRS makes a critical mass of HR expertise available to SDAs. The integrated model has the potential to generate cost avoidances but there is an insufficient amount of measurable evidence available to determine if SHRS is meeting the outcome of “cost savings or avoidances for clients”. In addition, the Evaluation was unable to assess the program's contribution to the achievement of the ultimate outcomes.
91. SHRS experienced small, but increasing losses over the 2008/2009-2011/2012 period and saw a shortfall of \$500,000 in 2011/2012 as SHRS was unable to reduce its expenditures in line with less than expected uptake of services. The evaluation also found that, during the 2010/2011 and 2011/2012 fiscal years, SHRS's revenues were not always equivalent to the costs it incurred to provide the services (e.g. operating costs, overhead). However, the situation improved in 2012/2013 as SHRS modified its pricing structure by offering fixed rates and bundled services in the effort of securing a more predictable source of revenue. This decision appears to have been successful as SHRS was able to align expenses with revenues during the 2012/2013 fiscal year.

92. The average staff productivity rates for the 2012/2013 fiscal year show that SHRS will meet its productivity targets for compensation services and task-based services.
93. The Public Service Commission, TSPS and interdepartmental arrangements for corporate services collectively offer viable alternatives for SHRS's five service domains. The TSPS arrangement provides access to private sector consultants in the same service domains as SHRS but does not offer compensation services. The per diems charged by consultants with similar levels of experience under the TSPS arrangement were higher than those charged by SHRS under its previous tiered rate structure. Within three HR domains (staffing, classification and organizational design, general HR consulting), SHRS's new fixed per diem is marginally higher than the average per diem of private sector consulting firms. However, the per diems charged by private sector consulting firms for the other two HR domains (Labour Relations and HR Policy and Planning) are slightly higher than those of SHRS.
94. The research also shows that interdepartmental arrangements are supported by recent legislative changes and can provide access to the same range of HR services offered by SHRS. Clients prefer the Public Service Commission over SHRS for executive level resourcing, at least among the few clients that were in a position to compare the two service providers.

GENERAL CONCLUSIONS

95. There is a continued need for SDAs to have access to human resource services. SHRS was created to address a shortage of HR capacity within SDAs, and the Evaluation found that small entities continue to face HR capacity issues. The original rationale for SHRS persists, as the services are being used by SDAs and there is a consistent demand for the services. However, the continuing need for SHRS as a provider of HR services to some selected large departments and agencies is less compelling given that the original impetus for the establishment of the program was to fill a need for HR services among small departments and agencies.
96. The need for SHRS's compensation services will decrease in the future with the transition of its clients' pay administration activities to Miramichi. This, coupled with the existence of viable private sector alternatives for SHRS's other business line (task-based services such as staffing, labour relations, classification and organizational design), means that SHRS will need to identify alternative areas of potential business opportunity to remain financially viable in the long-term. SHRS has begun considering alternative business offerings for its clients, such as leave and overtime administration and executive performance pay. However, the extent to which these alternatives will be sufficient to offset the \$1.8M in revenue expected to be lost from compensation services (as of 2017) is unknown at this time.
97. SHRS's services are optional and there is no legislative or policy requirement for PWGSC to provide the services. The Evaluation found that SHRS aligns with PWGSC's strategic outcome and federal priorities of reducing decentralization of

corporate services. Individual departments are ultimately accountable for human resources and for ensuring that their HR needs are met, but the private sector and individual departments and agencies play a role in the provision of HR services to federal organizations.

98. With respect to performance, SHRS is progressing towards the achievement of its immediate and intermediate outcomes, but lack of data limits a more conclusive determination to conclude on some elements.
99. The Evaluation concludes that SHRS is providing standardized HR services and processes among those SDAs who opt to use the services, as evidenced by the use of internal processes and policies intended to facilitate standardization by the Program and confirmed by client interviews.
100. SHRS has met the intermediate outcome of “reduced risk among clients” as demonstrated by compliance with compensation service standards, improved Departmental Staffing Accountability Report results attributable to the use of SHRS, and confirmed by clients who report that the program has reduced their risk.
101. SHRS makes a critical mass of HR expertise available to federal departments and agencies and offers an integrated ‘one-stop-shop’ HR services. While this model has the potential to reduce costs for clients, there is an insufficient amount of evidence available to conclude if SHRS is generating measurable cost savings or cost avoidances. The proposition put forward by SHRS is that there is inherent value for the government in having an integrated HR services provider available inside the public service. This value is predicated on an in-depth understanding of the complex HR structure within the federal government, and the availability of a ‘one-stop-shop’ organization offering a suite of HR services. From its clients’ perspective, SHRS’s value lies in its integrated service model and its knowledge of the public service context. However, the Evaluation found that the fragmented manner in which clients address their HR needs represents a missed opportunity for cost savings. More recent efforts on the part of the program (such as service bundling) may encourage uptake of multiple services among clients.
102. The Evaluation was unable to assess SHRS’s incremental contribution to the achievement of the ultimate outcomes given the variety of other programs and services at PWGSC that share this outcome.
103. SHRS experienced small, but increasing losses over the 2008/2009-2011/2012 period and saw a shortfall of \$500,000 in 2011/2012. In 2012/2013, SHRS modified its pricing structure by offering fixed rates and bundled services in an effort to secure a more predictable source of revenue. This was partly in response to shortfalls in previous years after the program was unable to reduce its expenditures in line with less than expected uptake of services. This decision appears to have been successful as SHRS was able to align expenses with revenues during the 2012/2013 fiscal year. With regard to economy, the Evaluation found that SHRS staff met the productivity

targets set for compensation services and task-based services during the 2012/2013 fiscal year.

104. SHRS responds to government needs for task-based HR services such as staffing/resourcing, classification, strategic HR policy/planning, and labour relations, but it is not alone in doing so. Alternative providers such as TSPS and the Public Service Commission are readily accessible to SDAs and offer services in these service lines.
105. The per diems charged by consultants with similar levels of experience under the TSPS arrangement were higher than those charged by SHRS under its previous tiered rate structure. Within three HR domains (staffing, classification and organizational design, general HR consulting), SHRS's new fixed per diem is marginally higher than the average per diem of private sector consulting firms. However, the per diems charged by private sector consulting firms for two other HR domains (Labour Relations and HR Policy and Planning) are slightly higher than those of SHRS.
106. The Evaluation identified one alternative for SHRS's compensation services. Federal organizations may enter into interdepartmental arrangements for internal support services, including compensation services. However due to lack of data, the Evaluation was unable to determine the costs associated with these arrangements.
107. Clients indicate that SHRS remains a preferred supplier of HR services for SDAs because it is sensitive and responsive to the needs of SDAs.

RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

Recommendation 1: The ADM, Integrated Services Branch, should develop a long-term business development strategy for SHRS that articulates and formalizes its value proposition.

Management Action Plan 1.1: The Integrated Service Branch agrees with the recommendation. SHRS will develop a strategy to expand and explore business opportunities and mitigate risks.

- A value proposition will be developed
- A marketing strategy will be developed to position SHRS as a Centre of Excellence.

Recommendation 2: The ADM, Integrated Services Branch, should develop a performance measurement framework for SHRS that includes measurable outputs, outcomes and related indicators.

Management Action Plan 2.1: The Integrated Service Branch agrees with the recommendation.

In order to better measure the impact of the Program, Shared Services Integration will develop, in consultation with relevant parties, a performance measurement framework. The activities are the following:

- Review a logic model and associated outcomes
- Define relevant performance indicators and its methodology for measurement
- Define reporting strategy and monitoring tools.

APPENDIX A: ABOUT THE EVALUATION

Authority

This report presents the results of the Evaluation of Shared Human Resources Services (SHRS). The Deputy Minister for Public Works and Government Services Canada approved the conduct of this evaluation, on recommendation by the Audit and Evaluation Committee, as part of the *2011 – 2016 Risk-Based Audit and Evaluation Plan*.

Evaluation Objectives

The Evaluation examined Shared Human Resources Services, delivered by the Shared Services Integration Sector within the Integrated Services Branch. This evaluation had two objectives:

- To determine the relevance of the program: the continued need for the program, its alignment with governmental priorities and its consistency with federal roles and responsibilities.
- To determine the performance of the program: the achievement of its expected outcomes and a demonstration of the efficiency and economy of the program.

Approach

The Evaluation was conducted in accordance with the *Standard on Evaluation* for the Government of Canada. The Evaluation took place between June 2011 and August 2012 and was conducted in three phases: planning, examination and reporting. To assess the evaluation issues and questions, the following lines of evidence were used.

Multiple lines of evidence were used to assess the program. These include:

- a) *Document Review*: The document review provided an understanding of the program's activities and the policies and initiatives related to shared services. Documents reviewed included legislative and policy documents; Treasury Board submissions; Memoranda of Understanding; and departmental documents such as annual Reports on Plans and Priorities and Departmental Performance Reports.
- b) *Financial Analysis*: Financial data related to the program's budgets, revenues and expenditures were reviewed and analyzed. In addition, data pertaining to the expenditures on HR services among small departments and agencies were collected to assess the efficiency and economy of the SHRS program. More specifically, the use of the Task and Solutions Professional Services (TSPS) procurement tool was examined. In addition, the internal HR costs among three small departments and agencies were

collected through telephone interviews and compared to the HR costs for SHRS clients receiving the full suite of the program's services.

- c) *Administrative Data Analysis:* SHRS maintains a database containing key metrics for its compensation services, and prepares a monthly statistical report for its clients to monitor the quality of the services. Some of these metrics include the timeliness of issue resolution and the accuracy of pay transactions. The evaluation team examined this database to assess compliance with SHRS's service standards.
- d) *Interviews:* The evaluation team conducted interviews with SHRS senior management (1), and SHRS clients (5). The interviewees provided information about the program's activities, outputs, expected outcomes, stakeholders, relevance, and performance. In addition, follow-up interviews were conducted with SHRS clients to further clarify SHRS's contribution to reducing client risk.

Limitations of the Methodology

The expenditure/level of effort associated with the HR function of small departments and agencies in the Government of Canada could not be assessed/obtained. Detailed data on HR spending was not available in annual departmental reports, because financial data for internal services is only presented in aggregate form. Cost analysis was further impaired because only a selected number of SHRS clients receive the most or all of the HR services. Consequently, a similarly sized comparison group was required for non-SHRS clients, which reduced the available sample size of non-SHRS clients.

Departments do not currently track the costs of interdepartmental arrangements in their annual reports and therefore it was only possible to obtain a few select examples obtained from the MOUs of the host department. However, the evaluation team found non-comparable financial information that could not support a complete analysis of the costs associated with these arrangements.

Furthermore, due to employee turnover in client organizations, it was not possible to obtain the opinions of small departments and agencies that had received services from both SHRS and alternative providers or to obtain data from clients who had recently left SHRS. As such, it was not possible to obtain data on the satisfaction/quality of SHRS compared to alternative providers, nor was it possible to assess client motivation for discontinuing their use of SHRS.

Finally, financial data was not always available for all years. Specifically, financial data for the 2008/2009 and 2009/2010 fiscal year was unavailable for Exhibit 5.

Reporting

Findings were documented in a Director's Draft Report, which was reviewed by the Office of Audit and Evaluation's Quality Assurance function. The Program's Director

General was provided with the Director's Draft Report and a request to validate facts and comment on the report. A Chief Audit and Evaluation Executive's Draft Report was prepared and provided to the Assistant Deputy Minister, Integrated Services Branch, for acceptance as the Office of Primary Interest. The Office of Primary Interest was requested to respond with a Management Action Plan. The Draft Final Report, including the Management Action Plan, was presented to PWGSC's Audit and Evaluation Committee for the Deputy Minister's approval. The Final Report will be submitted to the Treasury Board Secretariat and posted on the PWGSC website.

Project Team

The Evaluation was conducted by employees of the Office of Audit and Evaluation, overseen by the Director of Evaluation and under the overall direction of the Chief Audit and Evaluation Executive. The Evaluation was reviewed by the Quality Assessment function of the Office of Audit and Evaluation.

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APPENDIX B: EVALUATION MATRIX

| Issue / Question | Performance Measure | Data Source / Methodology |
|---|--|--|
| RELEVANCE | | |
| 1) Is there a continued need for federal departments and agencies to have access to: a. Support services for the operations of selected administrative systems clusters? b. Shared HR services? | For Shared Systems | |
| | 1.1) Departments and agencies who are members of SSI-managed clusters (# and % of total public service population) compared to non SSI-managed clusters | Document Review |
| | 1.2) Current vs. predicted (2 years) membership in SSI-managed clusters • % change in membership of SSI-managed clusters over five years • # of new/departed members • Assessment of conditions/trends that may influence needs for shared services | Document review Stakeholder consultations |
| | 1.3) Legislative and policy commitments for the provision of program support to administrative systems clusters | Document review |
| | 1.4) Key informant and existing and potential client views on continued need | Survey Stakeholder consultations |
| | For Shared HR Services | |
| | 1.5) Extent of demand for shared HR services (# of clients and % of total SDA public service population) | Document Review Population Affiliation Report |
| | 1.6) Proportion of current clients comprised of repeat clients | Document Review |

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| Issue / Question | Performance Measure | Data Source / Methodology |
|---|--|--|
| | 1.7) Estimated relative market share for shared HR services | Document Review Population Affiliation Report |
| | 1.8) Evidence of continued challenges for SDA's to maintain internal HR capacity | Document Review Stakeholder consultations |
| | 1.9) Key stakeholders and client views on continued need | Stakeholder consultations |
| 2) Does the provision of: a. Program management support to administrative systems clusters; and b. Shared HR services align with federal and departmental priorities? | 2.1) Extent of alignment of SSI Program with departmental strategic outcomes | Document Review |
| | 2.2) Point of view of key stakeholders | Stakeholder consultations |
| | 2.3) Extent of alignment of SSI Program with government priorities regarding administrative efficiencies | Document Review |
| 3) Does the provision of: a. Program management support to administrative systems clusters; and b. Shared HR services align with federal and PWGSC roles and responsibilities? | 3.1) Clarity of legislation, policies, etc. in defining PWGSC's roles and responsibilities with respect to shared services/systems | Stakeholder consultations Document review |
| | 3.2) Extent to which the role of PWGSC in shared services/systems is consistent with the original policy rationale | Stakeholder consultations Survey |
| PERFORMANCE - Achievement of Outcomes | | |
| 4) Is the Shared Services Integration (SSI) Program achieving its expected outcomes? | | |
| i. Enhanced administrative system functionalities available to clients | 4.1) Client satisfaction with achieving enhanced functionalities | Document review Survey |

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| Issue / Question | Performance Measure | Data Source / Methodology |
|---|--|---|
| | 4.2) # of patches, updates, enhancements, and releases made available to clients | Stakeholder consultations Survey |
| ii. Clients use Treasury Board-compliant, standardized administrative systems and processes | 4.3) Rate of uptake of patches, updates, enhancements, and releases among clients | Document review |
| | 4.4) # and % of client departments using latest system configuration | Document review |
| iii. Increased information sharing and collaboration among clients | 4.5) Evidence of transfers of knowledge/experience among SSI-managed clusters | Interviews with cluster members Survey |
| iv. Small departments and agencies use standardized shared human resource services and processes | 4.6) # of SDA's that have used shared HR services | Document review |
| | 4.7) Client satisfaction | Survey |
| v. Cost savings and/or avoidance among client departments through economies of scale | 4.8) Estimated cost avoidances attributable to membership in SSI-managed clusters (in procurement, licensing, product development, testing and maintenance, program support) | Document review Stakeholder consultations Cost savings/avoidance analysis |
| | 4.9) Estimated cost avoidances attributable to the use of shared HR services | Document review Stakeholder consultations Cost savings/avoidance analysis |
| vi. Clients and central agencies have greater confidence in financial, materiel and human resources information for decision-making and reporting | 4.10) Opinions on the extent to which the use of standardized administrative systems result in improved information | Stakeholder consultations |
| vii. Decreased risk among clients | 4.11) Level of confidence among clients and central agencies that use of standardized administrative systems results in decreased risks | Stakeholder consultations |
| viii. Federal organizations have access to high quality, timely and cost-effective corporate administrative systems support | 4.12) Extent to which SSI administrative systems support and HR services are available to federal organizations | Stakeholder consultations |

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| Issue / Question | Performance Measure | Data Source / Methodology |
|--|--|---|
| and HR services that contribute to a more effective and well managed public service. | 4.13) Experience of federal organizations using and receiving SSI administrative systems support and HR services | Stakeholder consultations |
| | 4.14) Awareness level of (non-member) SDAs re: SSI and the services/advantages it offers | Stakeholder consultations Survey |
| 5) Are SSI clients receiving timely, cost-effective, high quality services? | 5.1) Clients' assessment of service quality compared to that of other providers | Stakeholder consultations Survey |
| PERFORMANCE – Demonstration of Efficiency and Economy | | |
| 6) Are there alternative arrangements for realizing the same results at lower cost? | For Shared Systems | |
| | 6.1) Existence and usage of alternative arrangements for program support to administrative systems clusters | Case Studies Stakeholder consultations Survey |
| | 6.2) Experiences of departments and agencies who are not members of SSI-managed administrative clusters | Case Studies Stakeholder consultations Survey |
| | 6.3) Client perceptions of cost avoidances and the impact of their membership in SSI-managed clusters on their total costs | Case Studies Stakeholder consultations Survey |
| | 6.4) Program support costs among non SSI-managed clusters | Case Studies Stakeholder consultations Survey |
| | For Shared HR Services | |
| | 6.5) Overlap or duplication with other federal services | Stakeholder consultations Document Review |
| | 6.6) Estimated economies of scale for SDA's in utilizing SSI HR services | Stakeholder consultations Document Review |

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| Issue / Question | Performance Measure | Data Source / Methodology |
|------------------|--|--|
| | 6.7) SSI per diem rates compared to private sector consultant fees | Stakeholder consultations Document Review |