



Expenditure Review of Federal Public Sector - Overview

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Overview

Expenditure Review of Federal Public Sector Compensation Policy and Comparability

November 2006

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Overview—Expenditure Review of Federal Public Sector Compensation Policy and Comparability

Context—The business of the federal public sector

As of fiscal year 2002–03, the federal public sector was a \$185 billion dollar enterprise. Excluding federal business enterprises and Crown corporations, it employed about 351,000 people in that year, at an annual cost of \$25 billion.

These employees accounted for about 2.3% of total employment in Canada, or 12.2% of Canadian public sector employees. As the largest employer in the country, the federal public sector is also uniquely diverse in its operations and in the breadth of talent it deploys. Its activities range, for example:

- from operating icebreakers in the high Arctic to inspecting aircraft,
- from protecting our borders to peacekeeping abroad,
- from delivering employment insurance and pension cheques to issuing passports,
- from geological research in the field to approving drugs for human use,
- from collecting taxes to preserving historic sites.

Federal public sector employees are active at hundreds of locations in all parts of Canada, and at well over 100 sites elsewhere around the globe.

To deliver on its missions for Canadians, the federal public service workforce is as diverse as its activities. From hospital orderlies to research biologists, from economists to ships' crews, from ambassadors to corrections officers, from police officers in remote communities to aircraft pilots, the knowledge and skills demanded of Canadian public servants are as varied as Canada itself.

Origins and nature of this Review

Following the experience of personnel reductions and salary freezes through the early and mid 1990s, the size of the federal public sector and its total spending on Personnel grew relatively rapidly in the late 1990s and early 2000s. Recent external studies about the comparability of federal compensation to that paid for similar work in the Canadian private sector and at other levels of government claimed that there was a significant and growing premium in favour of the federal public sector.

To understand what had been occurring, the Treasury Board decided in early 2004 to include compensation policy and comparability as one of a series of internal expenditure reviews launched at that time. The result is this Report, which documents the first-ever comprehensive description and analysis of compensation in the federal public sector. It offers as well a full set of recommendations on how to strengthen management of federal public sector compensation in support of a first class public service capable of meeting the expectations of Canadians.

This Report aims to provide an objective and factual view of its subject, albeit from an employer perspective. The intent is to give ministers and senior officials, as well as other stakeholders, an accessible, integrated and coherent presentation of the federal public sector compensation field in all its complexity. This in turn can serve as a foundation for responsible and informed debate and choices for improving compensation management over the coming years.

No minister or senior official has sought to shape the findings or recommendations developed through the Review. As such:

This Report is in no way a statement of Treasury Board or Government views on federal public sector compensation.

The analysis and recommendations laid out in this Report are the responsibility of its principal author, James Lahey, who was an Associate Secretary at the Treasury Board Secretariat until December 2004, and Associate Deputy Minister at Indian and Northern Affairs Canada thereafter. Now that the Report has been submitted to the Secretary of the Treasury Board, it will be the duty of the Treasury Board to decide how best to follow up on its recommendations.

The nature of public sector compensation

Every organization must build and manage the workforce and culture it requires to achieve its business purposes. Employers use their compensation program, comprising salaries and benefits, to attract, retain and guide the efforts of their workforce. In shaping their compensation programs, employers seek to satisfy their employees' needs, while meeting their own business goals. As the business alters over time in response to changes in the wider world, so must the compensation regime also evolve.

In many ways the federal government is like any other employer, seeking to fashion the various components of compensation into a regime that is attractive, effective and sustainable. Necessarily, such a regime will always be a compromise among the principal compensation policy drivers: external comparability, internal fairness and affordability.

But the federal government, like other public sector employers, is responsible as well to Canadians both as citizens and as taxpayers. In this context, the federal employer must ensure that its compensation regime is fair to the public, providing reasonable value at a responsible cost, today and into the future. Policy considerations also influence a government employer, from such economic concerns as avoiding fuelling inflation, to the periodic desire to set a social policy example in areas such as parental leave.

Accountability for federal public sector compensation

The Treasury Board, a standing committee of Cabinet, has broad responsibility for determining the terms and conditions of employment for persons working in the federal public sector, including compensation. The exact nature of the Treasury Board role varies, depending on the organization in question. For most departments and agencies, the Treasury Board is the legal employer. As such, Treasury Board Secretariat officials negotiate collective agreements with the various public sector unions in respect of unionized employees of such

departments and agencies.^[1] For excluded or unrepresented employees in these organizations, and for the Canadian Forces and the Royal Canadian Mounted Police, the Treasury Board determines pay levels and benefits directly.

For most other parts of the federal public sector, such as separate employers and Crown corporations, the role of the Treasury Board is limited to approving overall annual budgets or corporate plans. Compensation terms are then negotiated or determined by these individual organizations. Compensation for federally appointed judges is set through the *Judges Act*, as amended from time to time by Parliament, based on recommendations from an independent commission constituted every four years. Parliamentarians, of course, determine their own compensation by legislation.

Scope of this Review

This Review focuses on the compensation policies and expenditures for five domains of federal employment. These are:

- the core public service; i.e. those departments and agencies for which the Treasury Board is the legal employer;
- the separate employers, i.e. departments and agencies that have the legal authority to manage their own human resources regime, including compensation;
- the Canadian Forces; i.e. the regular members, and the active members of the Canadian Forces Reserves;
- the regular members of the Royal Canadian Mounted Police, and civilian members employed under the *RCMP Act*; and
- a miscellaneous set of other groups, including federally appointed judges, parliamentarians, employees of Parliament, ministerial staff, and students employed in special programs.

We mention a sixth domain, that of federal business enterprises and other Crown corporations (mainly cultural agencies and port authorities), in passing only. These organizations largely fund their personnel costs from commercial revenues, with little central government involvement. They are therefore of limited relevance to this Review.

For each of the five domains described in this Report, as far as the available data permitted, we have examined total compensation. The compensation components included are:

- salaries and wages,
- performance pay,
- recruitment and retention—known as terminable—allowances
- other allowances and premiums,
- overtime,
- retroactive payments,
- pensions,
- employer life and disability insurance premiums,
- employer payments for health and dental plans,
- employer contributions relating to statutory programs (most notably the Canada and Quebec Pension Plans, and Employment Insurance),
- severance pay, as well as
- leave usage and cash-outs of unused leave entitlements.

We also looked at current expenditures attributable to pay equity settlements, reclassifications, flows of employees into and out of the federal public service, and the current cost to the employer of insurance, health and dental benefits for public service pensioners.

Limitations on data

We should comment on data issues before proceeding to summarize the Report's findings. First, there is no single, acknowledged source of data on federal public sector compensation. So we have assembled figures from various sources, from Statistics Canada to Treasury Board and Public Works and Government Services administrative data, to information supplied by specific agencies. Second, most numbers are estimates, by necessity. For example, since employment fluctuates daily, if not hourly, setting a total for a given time period requires picking a point in time (or better, an average of several points in time) to represent the period. Third, given the complex sources and processing for most data, we cannot be certain about their accuracy. However, we have verified the information presented as far as possible, and after working with it over many months, we are confident that the reported relativities and trends over time are essentially correct.

Snapshot of federal compensation in 2002–03

In 2002–03, the five domains covered in this Report employed approximately 351,000 people. About half (168,864) worked in the core public service, with the Treasury Board as employer. Separate employers at that time (mainly the Canada Customs and Revenue Agency) employed 68,156 workers, or about one fifth of the total. Canadian Forces regular members and reservists totalled 84,369, around one quarter. The RCMP regular and civilian members (18,026) and the other organizations (groups numbering 11,691) made up the remainder of the world we examined in this Report.

Salaries and wages for this world totalled about \$17.9 billion in 2002–03. This constituted 3.4% of total salaries and wages in Canada. Adding in the other elements of total compensation brought total federal compensation in 2002–03 to nearly \$25 billion. Non-salary costs thus amounted to 38.5% of salary costs. The following Table provides a summary by domain:

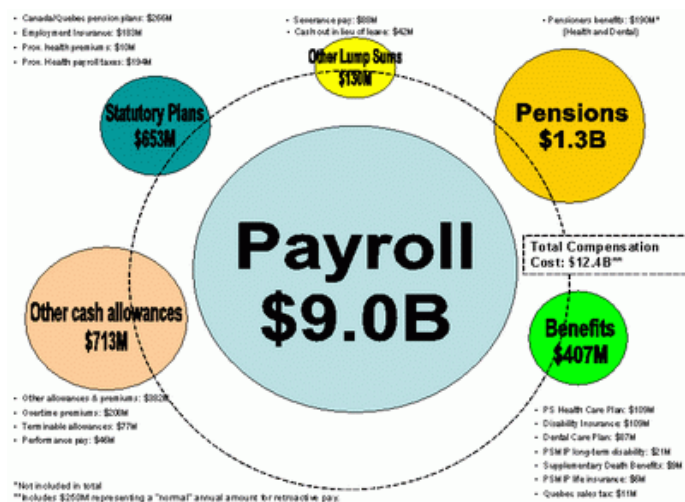
Table 1 Salaries and Total Compensation by Domain, 2002–03		
Domain	Salaries and Wages (\$ Billion)	Total Compensation (\$ Billion)
Core public service	9.0	12.4
Separate employers	3.5	4.6
Canadian Forces	3.7	5.3
Royal Canadian Mounted Police	1.1	1.6
Others (i.e. federally appointed judges, parliamentarians, employees of Parliament, ministerial staff, students)	0.6	0.7
Sub-total	17.9	24.6
Non-pension pensioner benefits		0.2
Total	17.9	24.8

Figure 1 shows the main elements of total compensation and their relative size for the core public service in 2002–03. The pattern is much the same for the other domains.

Figure 1

Main components of total compensation in the core public service in 2002–03

[Display full size graphic](#)



Salaries and wages

In 2002–03, the average salary for employees in the core public service was \$53,300. The cost of total compensation averaged about \$73,400 per employee. [2]. Average salaries by department and agency varied widely, with specialized regulatory agency average salaries naturally tending to be significantly higher than for more operational institutions. Salary levels were largely concentrated between \$35,000 and \$75,000, with over four fifths of employees. Fewer than 3% earned under \$35,000; roughly the same proportion earned over \$100,000. For the combined core public service and the separate employer domains, the average salary in 2002–03 was \$52,800.

Average salaries for the Canadian Forces regular members were similar to that in the combined core public service and separate employer domains at \$52,700. Average total compensation is hard to calculate reliably because of the uncertain impact of reserve members on benefit costs. However, a reasonable estimate for regular members would be about \$77,500. For the regular and civilian members of the RCMP, the 2002–03 average salary was about \$59,900. Total RCMP compensation was worth about \$88,800 on average.

The salary distribution in the Canadian Forces found 12% earning below \$35,000 and just over 1% with a salary above \$100,000. Half earned between \$45,000 and \$60,000.

It is critical to emphasize that there is no reason to expect any particular relationship between the average salaries and benefits in the various domains. Each domain has its own business needs, and consequent employee requirements. The comparisons are interesting from the perspective of understanding the compensation patterns in the federal public sector. But differences between domains have no evident policy implications.

Pension contributions

Pension contributions regarding current service in 2002–03 were by far the largest non-wage employer compensation cost. For the core public service, employer contributions amounted to \$1.29 billion; for the separate employer domain, the amount was \$470 million. Across these two domains, the employer paid 74% of current service costs, and employees 26%.

For the Canadian Forces, government contributions were \$570 million (78% of total current service costs); for the RCMP the employer share was \$195 million (76% of the total). The somewhat higher employer proportion of current service pension costs for these two domains mainly reflects that military and RCMP members can earn a full pension with fewer years' service than in the core public service, and at a younger age. The government contributed about 84% of costs related to the pension plans for parliamentarians and for federally appointed judges.

Insurance, health and dental plans

Life and disability insurance plans cost taxpayers about \$200 million for the core public service and the separate employers. For the Canadian Forces and the RCMP, costs amounted to a further \$55 million approximately. Nearly half (44.3%) of new disability claims in 2002 for the principal disability insurance plan were caused by depression or anxiety.

Health and dental plans cover certain costs not covered by provincial medicare, with annual deductibles in both types of plan. Reimbursement is generally limited to 80% for the Public Service Health Care Plan (PSHCP), and

90% for the Public Service Dental Care Plan (PSDCP). The government bears the full cost of both plans for current employees and their dependants, except for the optional cost of semi-private or private hospital coverage. For the combined core public service and separate employer domains, 2002–03 costs totalled about \$280 million.

Public service pensioners and their dependants participated in the Public Service Health Care Plan and in a separate Pensioners' Dental Services Plan. The government paid about \$185 million on behalf of pensioners for health and dental coverage; pensioners paid approximately \$115 million.

Overall, the average value of claims under the Public Service Health Care Plan was about \$840 per member in 2002. Nearly two thirds (62.9%) of claims contributed to the cost of prescribed drugs. For the Public Service Dental Care Plan, the average cost of claims per member was approximately \$470, principally for routine preventative care.

Both the Canadian Forces and the RCMP provide comprehensive medical and dental care for their members (including the care normally provided through provincial medicare plans). In 2002–03 the cost of the Canadian Forces Health Service was around \$363 million.^[3] Similar services for regular and civilian RCMP members totalled about \$39 million. The government also spent about \$50 million for military and RCMP dependants to be covered by the PSHCP and the PSDCP.

In addition, the Treasury Board paid 50% of provincial health insurance premiums where they remain in force, and employer health payroll taxes in the four provinces that levy them. In 2002–03, these costs totalled about \$360 million across the five employment domains treated in this Report.

Leave and severance

Employees in the core public service used a total of 7.74 million days of leave of various kinds in 2002–03, including statutory holidays. This represented an average of about 41.2 days per employee. This paid time not worked was about 18.4% of the total potential working days during the year (i.e. 250 per employee), with an equivalent value of around \$1.6 billion, as part of salaries paid:

- vacation leave averaged 17.3 days per employee (42% of the total);
- sick leave was 8.3 days per employee (20%);
- family-related leave was 1.6 days per employee (4%).

Payments for severance^[4] in 2002–03 in the core public service amounted to about \$88 million. Recipients numbered about 4,420, for an average amount of about \$20,000. For separate employers, severance was reported as \$33 million. For the Canadian Forces the total was \$94 million, including termination benefits. The RCMP total for severance was \$20 million.

Other cash compensation

Performance pay

Most employers in the federal public sector offer some form of performance pay, particularly to executives. In the core public service, lump-sum payments to Executives (EX) and Deputy Ministers (DM) in 2002–03 related to the Performance Management Program totalled about \$32 million. While over 90% of EXs and DMs received some performance pay that year, only about one third received what could be considered a performance bonus.^[5] The average lump-sum payment was about \$7,400. Salary increases for executives not yet at the maximum of their salary band amounted to around \$9 million in 2002–03.

Overtime

For 2002–03, total paid overtime in the core public service was about \$208 million (equal to around 2.3% of regular pay). Operational groups tended to use proportionately more overtime. For example, the Correctional Services (CX) group earned overtime at a rate about three-and-one-half times their share of overall pay. For the Canadian Forces, 6% is included in base salary in lieu of overtime for non-commissioned members, and 4% for general service officers. Overtime pay for the RCMP amounted to about \$99 million, or approximately 9% of regular pay.

Recruitment and retention allowances

In 2002–03, a variety of recruitment and retention (terminable) allowances adding up to about \$77.4 million were paid to a total of about 15,500 employees in the core public service. About \$20 million was paid for this purpose by the main separate employers.

Other allowances and premiums

In each domain, there are a series of additional allowances and premiums designed to compensate for such things as dangerous conditions of work, service outside Canada or in remote locations, or bilingualism. In the core public service the 2002–03 total for such allowances and premiums was about \$382 million (equivalent to around 4.2% of regular pay overall). In the Canadian Forces, such allowances amounted to \$180.5 million in 2002–03 (4.8% of regular pay). Of interest is the Post Living Differential (\$64.8 million), which attempts to maintain a predictable cost of living for members and their families, no matter where in Canada a member is posted. For the RCMP, allowances (mainly for plainclothes and kit upkeep, shift differentials, and the Senior Constable Allowance) totalled \$76.7 million (6.5% of regular pay).

Pay equity

The estimated ongoing salary costs of previous pay equity settlements in the core public service for 2002–03 were in the order of \$225 million (about 2.5% of overall payroll). For the affected occupational groups, this averaged out at about 15% of the current payroll.

Other compensation costs

The Treasury Board contributes to various compulsory statutory programs or payroll taxes, like any other employer. Across the five domains analyzed in this Report, the total expenditure in this area was more than \$913 million. This was essentially for employer contributions for the Canada and Quebec Pension Plans and for Employment Insurance.

Reclassifications

In 2002–03 about 6,700 employees in the core public service were reclassified to a higher level position. This constituted about 5% of the full-time, indeterminate population of 130,000. The highest rates of reclassification were in:

- the Secretarial, Stenographic and Typing (ST) classification group at 26%,
- the Personnel Administration (PE) group at 11%, and
- the Program Administration (PM) group at 10%.

Some observations on the 2002–03 snapshot

Differences and commonalities among domains

Comparisons among the five domains must be handled with care. Exploring differences is always interesting, but the unique nature and business purposes of each domain mean that such differences are unlikely to be meaningful in policy terms. The core public service is diffuse and highly varied in its business missions and employee characteristics. The various separate employers each tend to have fairly focused mandates, but which are as different as food inspection and tax collection. The Canadian Forces must be prepared to apply lethal force to defend Canada and its citizens and interests; the RCMP of course has policing as its vocation. These varied purposes drive different labour force requirements, which in turn imply distinctive salary patterns. There is no reason to expect average salaries, or salary distributions in a given domain, for example, to have a particular relation with those in another domain.

On the other hand, we can observe clear evidence of structural commonalities across the various domains studied. First, the components of total compensation are similar throughout the federal public sector. It is rare to find anomalies such as the absence of a Supplementary Death Benefit in the case of the RCMP, or the presence of a type of location-based cost-of-living allowance such as the Canadian Forces' Post Living Differential. Second, many of the insurance and benefit plans are unified across several domains. Finally, there has evidently been an intention to hard-wire the relationships among salaries for senior officials across all the domains. [\[6\]](#)

The influence of external labour markets

Broadly speaking, external labour markets affected federal public sector compensation in 2002–03 in three ways:

- as one factor influencing collective bargaining;
- as a standard for setting salaries, within the context of comparable total compensation, for the first level of the Executive group in the core public service; and
- as an influence on determining salaries for regular federally appointed judges.

Generally speaking, attrition in the federal public sector in 2002–03 was low, except perhaps in the Canadian Forces. In the core public service, only about 1% of employees resigned. Departures from the armed forces constituted about 7% of serving members. Detailed and consistently recorded statistics on the number of qualified candidates applying in external competitions are not available. However, it appears that external demand for advertised positions in the federal public sector was high in 2002–03, except for highly specialized positions for which the external labour market is active.

Changes in federal public sector compensation: 1990–91 to 2002–03

Having documented the components and associated expenditures comprising federal public sector compensation in 2002–03, we then tell the story of how total compensation has evolved since 1990–91. We focus particularly on changes since the end of Program Review downsizing in 1997–98. By examining both changes in expenditure levels and the underlying forces driving those changes, we in effect explain how we arrived at the levels and pattern of compensation spending in 2002–03.

Looking at change very broadly, the 1990s saw the federal public sector^[7] shrink by about 75,000 employees (or 21%) by 1998–99. Thereafter, employment increased by at least 40,000, to reach 90% of the 1990–91 level. The overall level of both salary spending and total compensation declined in the federal public sector in the early 1990s as the level of employment fell.

After 1997–98, however:

- salary spending increased by 44% in current dollars and
- total compensation costs grew by 49%.

In constant 2002–03 dollars, the growth in salary costs between 1997–98 and 2002–03 was 29%; for total compensation, the constant dollar increase was 34%. Total salary expenditures in 2002–03 were 131% of the 1990–91 level; total compensation spending equalled 139% of 1990–91 expenditures.

The largest drivers of change in total compensation were salaries and employer pension contributions. Increases in total salaries paid accounted for two thirds of the growth in total compensation from 1997–98 to 2002–03. Larger employer pension contributions in regard to current service represented 15%, or nearly half of the remaining increase in total compensation costs. Other areas of substantial increase were allowances and premiums, and health and dental plan employer costs, each contributing nearly 5% to the growth.^[8] The appendix shows the employer costs by principal component in the combined core public service and separate employer domains, the Canadian Forces, and the RCMP, as well as the federal public sector as a whole, for 1990–91, 1997–98 and 2002–03.

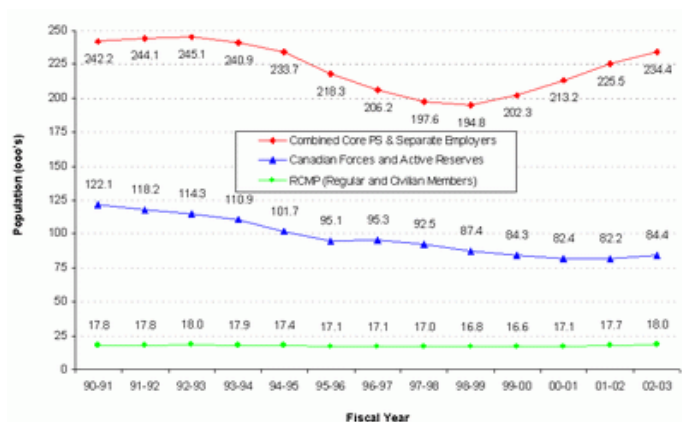
Changes in employment

Our principal focus was on the core public service and the separate employers.^[9] In these combined domains, total employment fell from as high as 245,000 in the early 1990s to about 195,000 in 1998–99, and then grew back to around 235,000 by 2002–03. However, employment levels over those years are not strictly comparable. We conclude that increases in expenditures on service contracts from 1998–99 onwards, as well as on transfers of functions to the private sector or other governments where the federal government effectively still pays for the activity, provided an equivalent of at least 10,000 person years of work. By 2002–03 then, the core federal government's effective size was at least as great as in the early 1990s.

Figure 2

Employment in the combined core public service and separate employer domains, the Canadian Forces and the regular and civilian members of the RCMP, 1990–91 to 2002–03

[Display full size graphic](#)



Employment changes in the uniformed federal public sector followed different patterns. For the Canadian Forces, the number of regular members fell through almost the whole period under review, from nearly 89,000 in 1990–91 to a low of 59,000 in 1999–2000 and 2000–01, rising slightly to 62,000 in 2002–03.^[10] For the RCMP, the total number of regular and civilian members was quite stable. From a maximum of 18,000 in the early 1990s, the total diminished to just below 17,000 in 1998–99 and 1999–2000, returning to about 18,000 in 2002–03.

Changes in the salary mass

For the combined core public service and separate employer domains, total salaries:

- fell from \$9.1 billion in 1990–91 to
- \$8.2 billion in 1997–98, and then rose by 50% to
- around \$12.4 billion in 2002–03.

In constant 2003 dollars, there was a decline of 22% from the peak level in the early 1990s to 1997–98, followed by a 35% increase by 2002–03.

For the Canadian Forces, total military payroll fell from a high of:

- \$3.4 billion in 1993–94 to a low of
- \$2.9 billion in 1996–97 and 1997–98, thereafter rebounding to
- about \$3.7 billion in 2002–03.

In constant 2003 dollars, there was a decline of 23% between 1990–91 and 1997–98, with a subsequent increase of 14% by 2002–03.

For the regular and civilian members of the RCMP, total salaries rose from:

- \$803 million in 1990–91 to
- \$1.08 billion in 2002–03.

While there was some fluctuation in the intervening years, there was no distinct down-and-then-up pattern for total salaries as in the other domains. In constant 2003 dollars, however, the RCMP salary mass declined by 13% between 1993–94 and 1997–98, and then grew by 12% as of 2002–03.

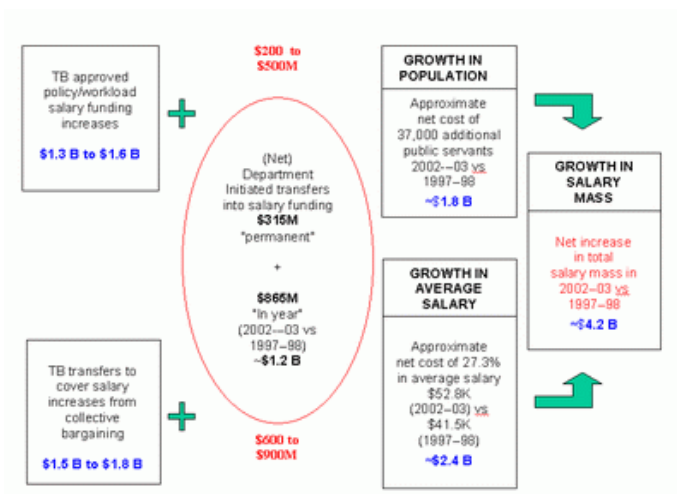
Principal drivers of growth in the salary mass after 1997–98

We focused mainly on determining the principal drivers in the 50% increase in total salaries in the combined core public service and separate employer domains between 1997–98 and 2002–03. We estimate that growth in the number of public servants accounted for over 40% of this increase, and growth in average salaries explained the remaining portion.

Figure 3

Components of change in the total salary mass for the combined core public service and separate employer domains, 1997–98 to 2002–03

[Display full size graphic](#)



In looking at population increases, we attempted to reconstruct how these were financed. Although the historical data is somewhat ambiguous and awkward to work with, it appears that between 70% and 90% of the growth in employment resulted from specific approvals by the Treasury Board to increase salary budgets as part of decisions to implement new or revised programs, or to recognize workload increases. The remaining 10% to 30% was funded through transfers initiated by departmental managers from approved non-salary budgets into salary budgets. [\[11\]](#)

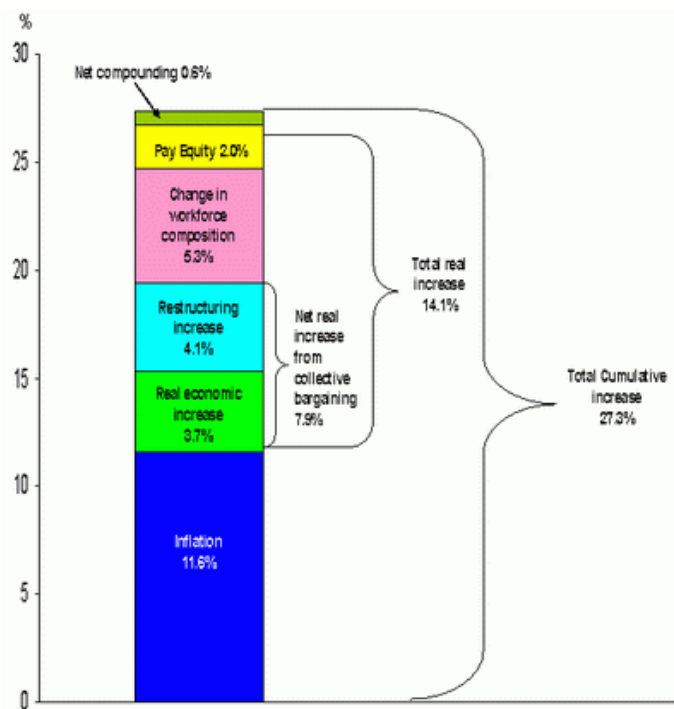
By 2002-03, average salaries in the combined core public service and separate employer domains reached \$52,800, a cumulative increase since 1998-99 of 27.3% in current dollars, which was equivalent to 14.1% in constant 2003 dollars. By contrast, between 1990-91 and 1998-99, the average salary in constant 2003 dollars fluctuated in a narrow band between \$46,300 in 1997-98 and \$48,100 in 1994-95. In fact, this pattern had prevailed since 1982-83. Thus, after 15 years when the average federal public service salary remained essentially unchanged in terms of real income through periods of both collective bargaining and salary controls or freezes, from 1997-98 to 2002-03 average real salaries grew by about one seventh. [\[12\]](#)

Unravelling the factors driving change in the average salary in the combined core public service and separate employer domains is complex. Figure 4 summarizes those factors. Cumulative inflation between 1997-98 and 2002-03 was 11.6%. Collective bargaining outcomes covered that inflation, and also contributed 7.9 percentage points (well over half) of the 14.1% real salary increase in those years. General economic increases accounted for 3.7 of these percentage points. Changes in the structure of salaries such as adding or eliminating salary increments, or combining rates for different groups or regions resulted in 4.1 percentage points of the real increase.

Figure 4

Components of change in average salary in the combined core public service and separate employer domains, 1997-98 to 2002-03

[Display full size graphic](#)



Change in the composition of the federal public service workforce accounted for over one third (5.3 percentage points) of the real increase. In essence, higher paid classification groups associated with analytical and professional work grew, while traditional administrative and operational groups shrank. For example, the Clerical and Regulatory group declined between 1991 and 2003 by over 16,600 members, or 28%. The Secretarial, Stenographic and Typing group fell by 82%. Conversely, the greatest growth occurred in the Computer Systems group (with an increase of 174%), the Law group (+132%), and the Economics, Sociology and Statistics group (+115%). Substantial expansion in the Administrative Services classification group (+64%) was at least partly explained by a shift of former clerks and secretaries into broader administrative work.

In addition, salary changes resulting from pay equity settlements during the period contributed a real increase of about 2% overall to the average salary in the combined core public service and separate employer domains. Pay equity settlements covering more than a dozen female-dominated classification groups between 1980 and 2003 resulted in significant payouts to the affected employees. Lump-sum payments totalled about \$3.4 billion, including about \$900 million in interest. Cumulative ongoing costs from the time of settlements up to March 2003 were estimated to exceed \$1.8 billion.

Executive employment in the core public service followed in a more pronounced way the pattern of the broader public service. The population fell 32% between 1990-91 and 1997-98, and then rose by 37% by 2002-03 to reach about 4,400, or 93% of the 1990-91 level. Average salaries for these executives grew by 13% in constant dollars between 1997-98 and 2002-03. Including improved performance pay introduced in the late 1990s, core public service executives saw their average combined salary and performance pay increase by about 18% in real terms over the five year period.

As with the cost of employment growth, the cost of increased average salaries in the combined core public service and separate employer domains between 1997-98 and 2002-03 was financed partly by transfers from the Treasury Board (between 60% and 75%), and partly by departmental transfers from approved non-salary budgets to salaries (between 25% and 40%). The total value of departmentally initiated transfers from non-salary to salary budgets was \$1.2 billion higher in 2002-03 than in 1997-98, contributing nearly 30% of the total increase in salary mass over that five year period.

Average salary growth for the Canadian Forces

The pattern of change in real average salaries in the Canadian Forces was more variable than for the combined core public service and separate employer domains (for simplicity, we will call this the "regular public service"). A clear upward trend in the early 1990s (from \$44,500 in 1990-91 to \$49,900 in 1994-95 in constant 2003 dollars), was followed by a dip to \$47,000 in 1996-97, then rapid growth to \$54,200 in 2000-01, and finally a decline to \$52,700 in 2002-03. The endpoint is virtually identical to the regular public service average of \$52,800 in that year. Between 1997-98 and 2002-03, the Canadian Forces constant dollar average salary increase was about 10.9%, or 3.1 percentage points lower than for the regular public service.

The incidence of structural change as an influence on average salaries was much less prominent in the Canadian Forces than in the regular public service. An analysis of the proportion of regular Canadian Forces members serving at the various ranks shows an upward shift in average salary of about 2.7% between 1990–91 and 2002–03 as a result of structural change. For the period 1997–98 to 2002–03, this factor was actually a negative 1.5%, compared with a contribution to average salary of 5.3% in the regular public service in those years from compositional change.

Average salary growth for the RCMP

For the regular and civilian members of the RCMP, the average salary was higher than for either the regular public service or the Canadian Forces, but its growth has been more modest. In constant 2003 dollars, the average salary increased modestly from \$57,600 in 1990–91 to \$62,000 in 1994–95, then declined to \$56,700 in 1997–98, grew to \$60,900 in 2001–02, and finally dipped to \$59,900 in 2002–03. The increase, then, from 1997–98 to 2002–03 in real terms was around 5.6%, less than half the increase in the regular public service. For the RCMP, changes in average salary arising from realignment in the distribution of members by rank would if anything be negative.

Average salary growth for other groups

For federally appointed judges, salary changes approved in the *Judges Act* covering the period 1997–98 to 2002–03 resulted in a 21% constant 2003 dollar increase in judicial salaries. For Members of Parliament and Senators, the salary increase between 1997–98 and 2002–03 was about 19.6% in constant 2003 dollars. [\[13\]](#)

Pension contributions

Pensions are by far the largest non-salary benefit for employees, and the largest non-salary cost for the employer. During the period from 1990–91 to 2002–03, there has been a substantial increase in the proportion of contributions for current service assumed by the public service employer. The employer/employee contribution ratio for the main Public Service Pension Plan was 51/49 in 1990–91, and employees still paid over 40% as recently as 1995–96. By 1999–2000 the ratio was 72/28; it was 74/26 in 2002–03. The total contribution paid by employees in 1991–92 was \$540 million. This declined to \$453 million in 1997–98 with a reduced population, and then grew to \$644 million in 2002–03. The employer contribution increased in all but one year during this period, rising from \$561 million in 1990–91 to \$1.8 billion in 2002–03. [\[14\]](#)

There were two main reasons for this shift. First, the combined employee contribution to the Public Service Pension Plan and to the Canada and Quebec Pension Plans was capped at 7.5% of salary until 2000. As CPP/QPP contributions increased, employee contributions to the Public Service Pension Plan declined from 5.7% to 4.0%. [\[15\]](#) Second, actuarial assumptions became more unfavourable in later years, as expectations of high real interest rates and low real salary increases were reversed. With defined benefit pension plans such as the Public Service Pension Plan, the employer is obliged to cover the expected costs of the plan, less whatever is contributed by the employees.

A similar pattern of an increasing employer share of current service pension costs was evident in the other principal federal public sector pension plans. For the Canadian Forces Pension Plan, the employer/member cost-sharing ratio shifted from 68/32 in 1991–92 to 78/22 in 2002–03.

For the regular and civilian members of the RCMP the evolution was from 64/36 in 1991–92 to 76/24 in 2002–03.

For federally appointed judges' annuities the change was from 75/25 in 1990–91 to 84/16 in 2002–03.

For the Members of Parliament retiring allowances, the cost-sharing ratio between the Government and members fluctuated with changes in plan terms, from as even as 50/50 in 1990–91 to 84/16 in 2002–03.

The reason for a higher employer share in the current service pension costs of these latter groups is that most groups contribute the same percentage of salary as in the regular public service, but fewer years of service are required to qualify for a pension, and in some cases the retirement age is also lower.

Other benefits

Compensation costs for elements other than salaries and employer pension contributions grew from about \$3.1 billion in the federal public sector in 1990–91 to almost \$4.4 billion in 2002–03. Most of the growth occurred after 1997–98, when the total was around \$2.8 billion. [\[16\]](#) Total expansion in this area between 1997–98 and 2002–03, then, was about 57% in current dollars, or 35% in constant 2003 dollars.

In several cases, increased costs resulted from new or substantially revised policies, as described below.

Recruitment and retention (terminable) allowances

For certain unionized groups determined to be in high demand in the external labour market, new recruitment and retention allowances were introduced. This policy began in 1997 with the Computer Systems group. Spending in this area grew to \$77.4 million in 2002–03 in the core public service. Similar allowances in the separate employer domain totalled at least \$20 million in that year.

Performance pay

On the recommendation of the independent Advisory Committee on Senior Level Retention and Compensation, a new performance pay system for Executives and Deputy Ministers was phased in between 1998 and 2000. The total of lump sum payments in the core public service relating to performance increased from about \$11 million in 1997–98 to around \$40 million in 2002–03. Payments for this purpose in other domains amounted to at least \$20 million in that year.

Maternity and parental leave

As a result of changes in the *Employment Insurance Act* in 2001, the duration of supplementary allowances for those taking maternity or parental leave was doubled to a maximum of a year. In the core public service the value of this allowance grew from \$22 million in 2000–01 to \$62 million in 2002–03. Expenditures in that year for the Canadian Forces and the RCMP combined reached about \$25 million.

Canadian Forces Post Living Differential

The Canadian Forces introduced a Post Living Differential in 2000–01 to reduce variations in standard of living as members are posted around the country. By 2002–03 this allowance cost \$65 million, compared with about \$4 million for the Accommodation Assistance Allowance which was its closest predecessor. Military operational allowances increased with the tempo and danger of foreign operations undertaken by the Canadian Forces, increasing from about \$36 million in 1997–98 to \$60 million in 2002–03.

Pensioners' dental plan

In 2001, a voluntary Pensioners' Dental Services Plan was introduced to cover public sector pensioners and their dependants. By 2002–03, the employer share was about \$23 million.

Leave entitlements

Employee leave entitlements grew over the period. Average total days of leave per capita (including vacation, sick leave, family and other leave, and statutory holidays) grew from 40 days in 1991–92 to 41.2 days in 2002–03. We estimate that the proportion of paid time not worked increased from 15.7% in 1990–91 to 18.3% in 2002–03. This difference has a combined value of about \$225 million in current dollars.

CPP/QPP contributions

Changes in contribution rates for the Canada and Quebec Pension Plans in the late 1990s led to a major increase in employer payments for this purpose. Contributions covering the regular public service, the Canadian Forces and the RCMP grew from about \$250 million per year in the early 1990s to about \$590 million in 2002–03.

Other cost drivers

In some other areas little has changed in policy terms, but costs have risen substantially. In the area of health and dental programs, the main employer cost drivers were increases in the share of costs borne by the employer and increases in supplier prices. The employer share of health and dental plans increased substantially just before and in the first few years of the 1990s. For employees, the employer share of Public Service Health Care Program (PSHCP) costs increased from 50% to 75% in 1989, to 90% in 1991, and to 100% in 1992. ^[17] For pensioners, the employer share rose from 50% to 75% in 1991, and to 80% in 1992. For the Public Service Dental Care Plan (PSDCP) the 50% employer share set at the program's inception in 1987 was increased to 100% shortly afterwards as part of an out-of-court settlement with the unions.

Employer costs for the Public Service Health Care Plan are estimated to have been about \$84 million in 1990–91, rising to around \$175 million in 1997–98, and to \$422 million in 2002–03. Claims paid per member rose from \$300 in 1990, to \$560 in 1997, to \$841 in 2002. Between 1997 and 2002, prescription drug costs rose from \$129 million to \$267 million, accounting for most of the increase in program expenditure. ^[18]

Employer costs for the Public Service Dental Care Plan more than doubled from \$77 million in 1990 to \$156 million in 2002. Claims paid per member rose from \$250 in 1990 to \$472 in 2002. Most of the increase related to increasing charges for routine preventative care.

Disability claims for the federal public sector's two main insurance plans more than doubled between 1990 and 2002. Claims paid by the larger plan, that for unionized employees, rose from \$85 million in 1990 to \$172 million in 2002; in the plan for unrepresented employees claims rose from \$12 million in 1990 to \$29 million in 2002. The number on disability claim increased as a proportion of members from 2.88% in 1990 in the main plan (1.68% in the unrepresented plan) to 4.28% in 2002 (2.84% in the other plan). Much of the increase resulted from growth in cases relating to depression and anxiety.

For the RCMP there was little change in the nature of major allowances. However, their cost rose through rate increases. For example, the shift differential/stand by category rose from \$3.7 million in 1990–91 to \$14.5 million in 2002–03. The Senior Constable Allowance grew from \$3.3 million in the earlier year to \$13.4 in 2002–03. The plainclothes/kit upkeep category expanded from \$4.8 million in 1990–91 to \$16.1 million in the later year.

In a few areas employer expenditures declined in relative terms. A key example is overtime. In the combined core public service and separate employer domains, this item declined from 3.2% of payroll in 1991–92 to 2.8% in 2002–03. The amount paid (about \$350 million) was nearly the same in constant 2003 dollars in the two years. With the understandable exception of the Program Review years in the mid-1990s, severance pay and termination benefits have declined somewhat, both absolutely and in constant dollars.

Some observations on changes since 1990–91

Collective bargaining and salary controls

As Figure 5 illustrates, over the 36 years between the introduction of collective bargaining in the federal public service in 1967 and 2003, the collective bargaining process was suspended in whole or in part for at least 11 years in three distinct periods. In addition, in 1999 the Government acted to force settlements on two particular groups.

The relative instability of the collective bargaining system raises questions about its effectiveness. Apparently, the system is only capable of yielding salary and benefit increases, typically above the rate inflation or the growth in the economy, whatever else is happening in the external labour market or general economic conditions.

Since 1997–98 and the end of the last period of controls, salaries have increased in real terms in a way not seen since at least the early 1980s. If this has not created pressure for new controls, two explanations suggest themselves. First, similar real after-tax family income increases in the general Canadian economy over the same years imply that some real income increase was not extraordinary. Second, the string of federal budget surpluses since 1998 has meant that pressure to scrutinize federal operational costs has not been intense. If overall economic conditions or the state of federal finances weaken, it remains to be seen how the collective bargaining system in the federal public service will respond. With employees and unions habituated to continued increases in real salaries, it might prove difficult to accept restraint voluntarily.

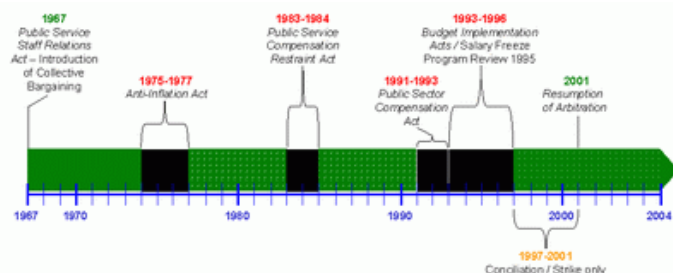
Total compensation and compensation management

Another key point that emerges is the fragmentation of decisions affecting compensation. Collective bargaining in the federal public service is usually limited to dealing with salaries, allowances and leave. Classification and pensions are excluded by statute from bargaining, although they are often discussed informally with the unions. Other benefits such as insurance, health and dental plans are negotiated separately, and then included in the collective agreements. Such a system discourages transparency, and provides little scope for trade-offs among compensation elements. Since the cost of pensions and other benefits mainly falls on the employer, dealing with compensation components in different forums at different times is likely disadvantageous from the perspective of controlling costs. This practice may also make it more difficult to achieve a balance in compensation elements that best suits employees.

Figure 5

Periods of collective bargaining and compensation controls, 1967 to 2003

[Display full size graphic](#)



Developing and pursuing a holistic view of compensation, across both the domains of the federal public sector and the various components of compensation, has been hampered by a fragmentation of responsibility on the employer side. As is often the case in large organizations, distinct groups have managed different aspects of compensation such as collective bargaining, salary determination for unrepresented groups, executive compensation, classification, pensions, and insurance and health and dental plans, generally with light coordination at most. In the absence of greater integration in compensation management, both coherence and control are difficult to attain.

During the 1980s, the Treasury Board Secretariat attempted to design analytical means to track total compensation costs and to use this information to influence collective bargaining. However, this was easily turned aside by the unions. First, several elements of compensation such as pensions were off limits, so they were not on the negotiating table. Second, the calculations tended to be abstract estimates of value to the employee, as opposed to costs to the employer. The concept of total compensation as the framework for determining salaries and other benefits persisted only with groups, such as the Canadian Forces, the RCMP or Executives, for whom the Treasury Board determined compensation directly, albeit taking account of advisory groups in most cases.

Comparability of federal compensation with the Canadian labour market

Historical context

Over the past century, successive federal governments have acknowledged the importance of maintaining comparability with the external labour market when determining federal public service compensation. The general idea has been that in the absence of a bottom line, there is no inherent discipline in the level of public sector compensation. The private sector, however, can be relied upon to pay only what is necessary to secure needed talent, because failure to do so would threaten a private business's ability to compete and survive in the marketplace. By maintaining comparability with the external labour market, the public sector can both attract and retain the employees it needs, and assure taxpayers that what it spends is reasonable.

In practice, however, other factors have tended to displace comparability as a determinant of salaries and benefits. These have varied in importance over time, depending on changing circumstances. Among these factors we noted pressure to maintain internal relativities, pragmatic considerations such as finding a saleable deal, the *Human Rights Act* requirement of equal pay for work of equal value, and the desire to set an example as an enlightened employer, as well as such national imperatives as controlling inflation or reducing government spending.

So where was federal public sector compensation in 2002–03 in comparison with the broader Canadian labour market?

Salary comparability

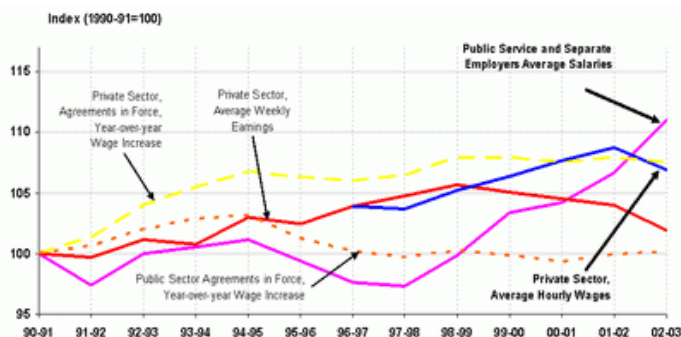
Available data suggest that as of 2003, there was likely a small premium on average in favour of federal public sector salaries versus those paid in the Canadian private sector. However, in the early 2000s, the rate of increase in average salaries in the federal public sector was greater than for broad indicators of salary increase in the private sector such as year-over-year wage increases for private sector collective agreements in force, average weekly earnings, or average hourly earnings. If this pattern of faster growth persists, federal salaries on average will surpass those in the private sector by an increasingly significant margin. Figure 6 illustrates the relative rate of growth of salaries in the federal public sector and the overall Canadian private sector between 1990–91 and 2002–03.

Some studies put forward in recent years suggest that there is already a substantial wage premium in the federal public sector versus the Canadian private sector. These studies generally rely on broad sources such as the Census or the Labour Force Survey.

Figure 6

Comparison of the rate of change in key average income indicators in the federal public sector and the private sector in Canada, 1990-91 to 2002-03

[Display full size graphic](#)



However, we found that as these comparisons were tailored more and more rigorously to track the actual characteristics of particular jobs and occupations in the federal public service, the purported salary premiums shrank in significance. The one survey which matches specific jobs, that conducted by the Institut de la statistique du Québec, indicated a federal public service premium of only about 1% versus the Quebec private sector in its 2003 report. Nevertheless, all these general studies found, as we did, a trend toward relatively faster increases in average salaries in the federal public service than in the broader economy in the early 2000s.

We also looked at several studies comparing salaries in the federal public service and the private sector for particular occupational groups. All these studies found that public service salaries lagged their private sector comparators. In our view, these studies were questionable in that they tended to be undertaken in the lead up to collective bargaining, and they appeared to be unbalanced in the points highlighted. In general, there is an absence of established approaches or standards to discipline such studies.

The distribution of federal public sector wages by level of annual earnings is much more concentrated than for the overall Canadian private sector. According to data from the 2001 Census, over half of private sector workers earned less than \$40,000 per year, compared with only about one third of federal public sector employees. At the top end, about 13% earned more than \$80,000 in the private sector, versus 8% in the federal public sector. In the range between \$40,000 and \$80,000, then, we found 59% of the federal public sector, but only 35% in the private sector.

Consistent with this distribution, the prevailing pattern in the federal public service over several decades has been to pay equal or better salaries than for comparable jobs in the private sector in the lower grades except for the trades, while paying less for those in executive positions and some professional posts.

Pay equity settlements in the federal public service appear to have accentuated this pattern. The ongoing share of the wage bill for pay equity in the combined core public service and separate employer domains is estimated to be in the range of 2% to 3% overall. Federal public service investments in pay equity appear to have been as large as or larger than those implemented in other jurisdictions. Settlements in Ontario, for example, for organizations with 500 or more employees were reported to equal 0.6% of payroll in the private sector, and 2.2% in the public sector.

Pension comparability

The Federal Public Service Pension Plan can reasonably be considered to be in the top 10% of all registered pension plans in Canada in terms of its value to employees and cost to the employer. While employee contributions are generally higher than for employees enrolled in major private sector plans, the federal plan's benefits are also better than all but a small group of private sector plans. The federal plan is particularly favourable in regard to ancillary benefits such as early retirement, normally with at least 30 years' service at age 55, and full indexation to compensate for inflation. Other federal pension plans, namely those for the Canadian Forces, the Royal Canadian Mounted Police, Members of Parliament and Senators, and federally appointed judges, provide even better value in that pensions may be earned in fewer years of service (mainly for judges and parliamentarians), or commenced earlier than age 55 in certain cases for members of the military or the RCMP.

Employees pay relatively high pension contribution rates: 4% of earnings for that part of salary below the amount covered by the Canada and Quebec Pension Plans (\$39,900 in 2003), and 7.5% above that income level. However, these contributions are lower than what most provincial public service pension plans require for

similar benefits. Overall, in the early 2000s, federal public servants paid no more than 28% of the current service costs of their pensions, significantly below the 40% to 50% shares set for most other public sector plans in Canada. [\[19\]](#)

Comparability of other benefits

Although some aspects of other benefits are less favourable than for employees of large private sector enterprises, overall the other benefits provided for federal public sector employees compare very well with what is offered in the Canadian private sector.

Public Service Health Care Plan

In general, the Public Service Health Care Plan (PSHCP) provided for active employees and their dependants was comparable with middle-of-the-road private sector plans. Areas that were somewhat less competitive included the absence of a drug card, reimbursement and deductible levels, hospital room coverage, limits on many paramedical specialists, vision care limits, as well as private duty nursing and out-of-country coverage.

Few employers provide the same level of coverage for retirees as for active employees. Thus, PSHCP coverage for public service retirees was very competitive, especially in the scope of coverage and in the area of cost-sharing for hospital coverage.

Public Service Dental Care Plan

The Public Service Dental Care Plan (PSDCP) was less competitive in areas such as the waiting period, deductible, and the combined maximum for basic and major dental services. The PSDCP was more competitive, however, on the lifetime maximum for orthodontics.

Again, employer support for a retirees' dental plan is not common. Thus, the federal public sector Pensioners' Dental Services Plan was advantageous.

Long-term disability

The long-term disability plans for the federal public sector were quite competitive compared with those offered by other employers, especially in regard to the benefit level, inflation protection and maximum coverage.

Severance pay

Severance pay at the time of leaving the federal public service was relatively generous in that only about two thirds of private sector collective agreements include such a benefit, and it is rare in the broader Canadian labour market.

Paid leave

The federal public sector was generally more generous than most private sector employers in its policies on paid leave. It was particularly generous in the duration (up to a full year) of the top-up of Employment Insurance benefits (to 93% of regular income) for the combination of maternity and parental leave.

Some observations on comparability

Difficulties in assessing comparability

Comparability seems to be a simple concept, but it is not. Some issues that require consideration include:

- *What* is being compared, salaries or all aspects of compensation?
- *How* are we to compare, on the basis of value to the employee or cost to the employer?
- *To whom* do we compare, all employers, some average standard, or large, unionized employers only?
- *To what extent* do regional differences matter, or the variation in compensation across different types of business for the same occupation?
- *Over what timeframe* are we comparing, just the past year, or do we track multi-year trends?
- *What data sources* should we use, available macro data or only specific surveys matching particular jobs?

In our view, the best approach to comparability is to examine all the available evidence and weigh it together to formulate an overall judgement. No one study can be expected to tell the whole story. Working for the largest employer in Canada, federal public servants will naturally compare their compensation to that offered by other large, unionized employers. However, the majority of taxpaying workers in Canada do not work for such organizations. So we need to take a broad view of the evidence to develop credible comparisons.

An interesting way to gauge the attractiveness of the federal public sector as an employer would be the number of qualified candidates who apply for competitions open to the public. Available statistics do not permit us to measure this rigorously. However, anecdotal evidence suggests that there is no trouble attracting more than enough good candidates, except for certain specialized jobs, or those in occupations in high demand in the private sector. Conversely, the rate of attrition is an indicator of the attractiveness of employment and compensation in the federal public service. In the core public service in the early 2000s, for example, separations for reasons other than retirement were about 1.5% of the full-time indeterminate population, a level that suggests reasonable acceptance of the current compensation levels.

Significance of changes in the relative size and occupational composition of the federal public service

Among the interesting points of comparison we examined was the proportion of total Canadian employment provided by the federal public sector. From 2.7% in the early 1990s, this proportion declined to 1.9% in 1999–2000, and increased only marginally to 2.0% in 2002–03.

At the same time, the occupational composition of the combined core public service and the separate employer domains has been shifting importantly towards greater relative focus on occupations associated with high knowledge content, at the expense of administrative and operational jobs.

Both points, especially the second, suggest that the relevant comparisons for the federal public service may be shifting. The types of workers now filling an increasing share of public service jobs are less likely to work for traditional unionized employers than those groups that are declining within the public service.

General conclusion on comparability

Comparability in the end must consider all aspects of compensation and working conditions. Overall, employees in the lower ranks of the federal public service enjoy advantageous compensation, especially if they work outside major metropolitan areas. They combine salaries that are well ahead of the private sector on average, an exceptional pension plan, and solid benefits, as well as strong job security. For middle-level public servants, salaries are more likely to be in line with those of private sector counterparts. In any case, when the public service pension plan, other benefits, and relative job security are taken into account, their overall compensation is attractive.

For top officials, compensation lags what private sector colleagues earn. The excellent pension plan and suite of benefits both during employment and in retirement mitigate the comparison only in part. Consequently, the more senior the public service executive, the less competitive is the total compensation package, and the more attraction and retention must depend on motivational factors such as the opportunity to influence the future of the country.

Recommendations on managing federal compensation

Our essential message is that this whole area of federal compensation should be managed in a unified and strategic manner in support of ensuring we have the public service we need at an appropriate cost. This is for two reasons: first, compensation cost about \$25 billion in total in 2002–03, a large sum certainly, and more than one third of discretionary spending; and second, the components of compensation are closely interrelated, and movement in one part of the system will almost certainly affect other parts.

Work on this Report has underlined how piecemeal our current management regime remains, despite recent efforts to promote greater coherence. Even the data needed to answer basic questions in this field are subject to confused definitions and inconsistent reporting. Given the magnitude of the sums involved, and their importance to the well-being of the public service, there must be clear reporting and accountability for federal government compensation costs. Sound public management demands it.

Trends evident in the broader Canadian society that the federal public service serves will require us to rethink aspects of our compensation regime. An ageing and increasingly diverse population, omnipresent information technology, globalization, and the inescapable interconnectedness of issues all point to an intensifying need for the government of Canada to anticipate, interpret and adapt to rapid and unexpected change. It will be challenged to absorb, understand and lever increasingly vast and complex information. It must become nimble at reconfiguring itself in order to respond rapidly as demands shift.

These phenomena suggest ways in which our management of people must evolve. Among the main implications are these:

- greater need for specialized expertise,
- emphasis on continuous learning,
- balancing of specialist and generalist competencies,
- encouraging long careers while welcoming temporary engagements,
- more flexible structures and assignments, and
- less hierarchy.

In compensation terms, these tendencies suggest a greater need, for example, to:

- allow for people to enter and leave the public service easily, perhaps several times in a career;
- tailor their benefits to increasingly varied family situations;
- create organizations that can adjust readily to altered work requirements;
- compensate for knowledge and skills in high demand; and to
- ensure that the federal public sector can access its fair share of the best and the brightest.

In the years ahead, whatever the demands on us, compensation must continue to be driven by such principles as external comparability and internal equity—fairness to both employees and to taxpayers. We must apply these principles to ensure that we can meet our future business needs and operational realities. Our compensation arrangements must be generous enough to attract, retain and motivate the talent we need, and modest enough to ensure fiscal prudence, while reflecting our collective commitment to remaining a socially progressive employer. Such a balance can never be easy, and will always require us to make choices. Better information and more systematic management will permit us to juggle these trade-offs in the best way possible.

The Report sets out 77 proposals grouped into 17 sets of substantive recommendations, under five broad themes:

- transparency and accountability;
- coherent management of compensation;
- specific substantive compensation issues relating to salaries;
- specific compensation issues relating to pensions and other benefits; and
- possible areas for updating the legislative framework for managing compensation.

These proposals vary widely in the difficulty, impact and feasibility of their implementation. Many are interconnected, and would need to be sequenced appropriately. Although the bulk of the recommendations fall under the responsibility of the President of the Treasury Board or the Treasury Board Secretariat, several are addressed to other organizations such as the Public Service Human Resources Management Agency, the Department of Finance, or public service managers generally. Substantially complete implementation of our main proposals would demand sustained attention over many years, in some cases a decade or more.

In effect, we are calling for a fundamental rethinking and modernizing of the compensation regime governing the federal public service. In our view this is overdue. No such thorough-going review has been undertaken since the Glassco Commission over 40 years ago, before preparations were made for the implementation of collective bargaining in 1967. Yet the Canadian workplace and the Canadian federal public service have changed dramatically in the intervening years, and we can expect continued transformation as such phenomena as information technology, citizen expectations, and globalization intensify their impacts. To remain successful in serving Canadians, the federal public service needs to ensure that its compensation policies and practices support the flexibility and increasing knowledge intensity demanded by changing business needs and methods.

Transparency and accountability

The single most effective step toward better management of federal compensation would be to collect, analyze and publicize the principal data routinely. An annual report on federal compensation would serve as the most visible product, as well as the main driver, of an improved regime for transparency and accountability for federal compensation. Among the major indicators the annual report would track are these:

- employee population,
- total spending on salaries and total compensation,
- average salaries,
- changes in workforce composition,
- reclassification,
- performance pay,
- value of negotiated and managed salary increases,
- pension contributions,
- insurance and health expenditures,

- other paid compensation, and
- contributions to statutory programs.

These indicators would be tracked separately for the core public service, the separate employers, members of the Canadian Forces, regular and civilian members of the RCMP, federally appointed judges, and parliamentarians. For the core public service, the annual report would examine changes affecting unionized employees, executives, and other unrepresented employees.

To support this central recommendation, it would be important to repair the unsatisfactory state of data relating to federal compensation. Consistent definitions, compatible reporting systems, and careful management of the field would provide the technical underpinning needed to ensure the credibility of the annual report. Consideration could also be given by the Department of Finance to including in the annual federal budget an expected track for total spending on Personnel in the federal public sector (except for Crown corporations), aggregating planned spending changes for more or fewer employees, changes in average salaries from all causes, and changes in benefits of all kinds.

Presenting this information clearly each year would raise questions and provoke debate about the appropriateness of federal compensation trends, in the context of the evolution of the broader Canadian labour market. There is, of course, a danger of selective reading and unjust attacks resulting from the recommended reporting. All transparency entails the risk of misuse of the information provided. However, a full presentation that is updated annually is itself the best defence against unbalanced critiques.

Coherent management of federal compensation

Coherence in managing federal public sector compensation requires a clear compensation policy framework, careful management of changes in the size and composition of the public service, a more unified approach to managing various elements of total compensation, a central analytical and strategic leadership capacity to oversee the application of the policy framework, and a more workable policy on relations among separate federal government employers. In essence, the government needs to see compensation as one subject, with each of the pieces influencing the others, and therefore demanding systematic management of the whole.

No compensation policy can prescribe what an employer should do in a given situation. But by clarifying what factors must be weighed in deciding what to do, such a policy is indispensable. For the federal public sector, the first set of considerations are those motivating any employer:

- alignment with relevant external labour markets in order to attract and retain needed talent;
- internal fairness between related groups of employees,
- encouragement of individual and group performance, and
- affordability.

But as a very large public institution with national leadership responsibilities, the federal government must also take account of broader public policy objectives such as curbing inflation, encouraging desirable social policy outcomes, complying with relevant laws, and responding to public expectations. Blending these factors wisely, in an environment dominated by collective bargaining, is clearly more art than science.

Employee population change is an important driver of compensation costs. Accordingly, attentive management of both the size and composition of the workforce is crucial. While the Treasury Board approves most increases or decreases in population, a substantial portion is financed through department-initiated transfers from non-salary to salary budgets. The mark-up on such transfers needs to be increased to reflect the full ancillary costs to the employer.

The existing fragmented approach to determining the various components of federal public service compensation works against cost control and discourages an appropriate weighing by both unions and the employer of trade-offs among elements. It would therefore be advantageous to broaden the effective scope of collective bargaining so that negotiations draw both parties into responsibility for the overall level and balance of compensation components.

To ensure a unified employer outlook will require a central strategic capacity to conduct comprehensive analysis and provide coordinated direction and advice. Several agencies, and distinct groups within these agencies, currently manage parts of the compensation puzzle, without systematic coordination. Reorganization to consolidate all these players into one entity is almost certainly infeasible. So the more realistic option is a central planning and coordination unit reporting to the Secretary of the Treasury Board. The Secretary should chair a Compensation Council comprised of the most senior leaders of those parts of the federal public service with substantial responsibilities in the compensation field, to assist in ensuring the needed coherence.

The emergence of large separate employers in the late 1990s, most notably the Canada Customs and Revenue Agency (CCRA) ^[20], has rendered management of federal public sector compensation more complex. There is

evidence of "ratcheting" between collective bargaining outcomes at CCRA and in the core public service, for which the Treasury Board is the employer. To reduce the prospect of such an effect, it would make sense either to create additional separate employers, or to coordinate collective bargaining more closely among the existing large federal employers. The option of additional separate employers^[21], provided they have relatively focused mandates and homogeneous workforces, would be to permit collective bargaining to link compensation negotiations to issues of productivity and work rules, as commonly occurs between private sector employers and their unions.

Specific substantive compensation issues relating to salaries

The Report suggests reforms in many specific areas of salary policy.

Modernize the occupational group structure

Most importantly, we recommend that each federal employer modernize the occupational group structure into which its employees are organized for classification and collective bargaining or pay determination purposes. The existing structure, introduced in 1999, is in effect a consolidation into 29 groups of the 70 groups established when collective bargaining was first introduced in 1967. Too many groups combine sets of employees with little or no common interest; conversely, closely allied sets of employees in some cases find themselves in different occupational groups. Getting the basic structure of the workforce right in terms of current realities is fundamental to sound compensation and human resources management, including both comparisons to the external labour market, and sensible collective bargaining. While the needed restructuring should take account of union perspectives, existing union boundaries should not be allowed to prevent designing the soundest possible structure for the coming years.

Modernize classification standards

As a complement to this recommendation, we reiterate the need to modernize our classification standards, both to minimize any gender bias, and to ensure the standards reflect current workforce realities. The current effort to renew the standards began in 2002, and has resulted in two completed standards: the Foreign Service (FS) group, and the Border Services (FB) group. As the lengthy process of modernization of standards proceeds, interim steps to improve classification include: direction to use short job descriptions, increased use of generic descriptions, updating of key benchmarks, and guidance on how to classify jobs with reference to the benchmarks. Recent initiatives to introduce risk-based auditing of classification decisions need to be reinforced.

Compensate executives comparably to the private sector

We offer as well recommendations on pay determination for special groups. For executives and deputy ministers, we argue that we should pay compensation closer to that offered in the private sector for similar responsibilities, especially at the level of Assistant Deputy Minister and Deputy Minister. At the same time, we should limit the Executive group to positions that involve managing significant resources or high-level advice, and make it explicit in Executives' terms and conditions of work that they can be dismissed for unsatisfactory performance. In effect, we are proposing real executive pay for real executives, by making federal public service executives more accountable for the performance of their organizations in return for higher compensation, consistent with the principle of comparability with the private sector. Success in this would improve the overall performance of the public service.

The future of executive pay for performance needs to be considered in light of what is decided on overall compensation. In the private sector, bonuses or variable pay based on performance (often a substantial proportion of annual pay) are generally used to reward success. In the federal public sector, relatively small levels of pay that are re-earnable based on performance—generally not more than 10% of pay—have proven to be controversial.

Critics cite the fact that over 90% of executives receive some performance pay. It has not been well understood that this is built into the design of the current system, which holds back 7% on average from the comparison of total compensation with the private sector (at the first level of the Executive group) with between 0% and 10% to be paid depending on performance. Only those receiving more than 7% (about one-third in 2002–03) can really be considered to have been awarded a bonus.

From the point of view of encouraging strong performance, it would be sensible to reserve a greater proportion of total pay than at present (especially if it is decided to raise Executive group pay, commensurate with private sector counterparts), which is available to be re-earned each year based on performance. Any performance pay at this level should be available only to a small portion (perhaps 20%) of executives, but could be substantial where outstanding performance warrants it.

Canadian Forces Compensation Advisory Committee

For the Canadian Forces, our main recommendation is to establish a Canadian Forces Compensation Advisory Committee, modelled generally on the United Kingdom Armed Forces Pay Review Body. Such a transparent approach would reassure members of the armed forces that remuneration decisions affecting them take full account of their circumstances and needs, as well as increase the credibility of the process with Parliament and the general public. The Committee would be required to weigh desirable increases in military compensation against the need to ration public funds wisely, within appropriate fiscal limits. The expectation would be that well-supported proposals would be implemented by the Government, although final decisions on Canadian Forces compensation would remain with the Treasury Board to ensure fiscal prudence.

Ensure that matching of RCMP pay to comparator forces is sound

Compensation for regular and civilian members of the Royal Canadian Mounted Police has been set for several years now with the benefit of advice from the RCMP Pay Council. While this process has generally worked well and should continue, it would be wise to ensure that the method for comparing RCMP total compensation with that of major Canadian police forces remains sound. Further work is required on how to deal with situations where compensation increases for one or more key comparator police forces are unusually high.

Address issue of comparators for judges

In regard to federally appointed judges, successive Quadrennial Commissions (an ad hoc body set up every four years to advise on the adequacy of judicial compensation) have wrestled with the value and relevance of various possible comparators in setting judges' pay and benefits. The next Commission should be asked to address this basic issue in more depth.

Independent commission for parliamentary salaries and benefits

Now that compensation for parliamentarians has been de-linked from that of federally appointed judges, there will be pressure to find another way to review salaries and benefits for Members of Parliament and Senators from time to time. An independent commission every four or five years, such as that used in regard to judicial compensation, is likely to be the most effective option.

Use pay design to foster excellence

We also examine several issues relating to the design of pay in the federal public service:

- pay for performance for groups beyond the executives,
- pay for knowledge,
- special pay for exceptional expertise,
- recruitment and retention allowances,
- the structure of pay bands, and
- regional pay.

In most cases, unions view such approaches with suspicion at best. We argue, however, that each of these ideas has merit, and would deserve to be experimented with, in the context of attracting essential talent and fostering individual excellence. Particularly if the recommendation to restrict the Executive group to those with substantial management responsibilities is accepted, it would make sense to provide for more cases where specialist pay overlaps with that offered Executives.

Restore reasonable pay bands

For several groups, the structure of pay bands has strayed far from reasonable norms of progression from level to another. Such anomalies can distort human resource management and the career paths of individuals. Care is needed to restore and maintain an appropriate pattern of pay bands across the public service.

Replace regional pay with cost-of-living differentials

For a national employer, regional differences in cost of living and in pay levels for certain occupations are a challenge. Mobility from low to high cost areas is impeded, and local employers in relatively low wage regions complain about high public service salaries distorting the local labour market. Through successive rounds of collective bargaining, the federal public service has all but eliminated regional differences in pay, so reversing direction would be problematic. In the long run, use of a cost-of-living differential such as adopted in 2000–01 by the Canadian Forces (and used by the United States Civil Service) could make sense. This would require, however, careful consideration of the issue of what is the reference region for base salary.

Specific substantive compensation issues relating to pensions and other benefits

Address pension suitability

On the subject of federal public sector pensions, the most important step has already been approved by the Treasury Board: gradually raising the level of employee contributions to cover at least 40% of current service costs. Steps are also planned to ensure that the integration of the Public Service Pension Plan and the Canada and Quebec Pension Plans at age 65 does not disadvantage public servants, especially those with relatively low incomes. An excellent public service pension plan is sound public policy in that it encourages loyalty and honest dealing, as well as compensating for the inability to invest freely as private sector workers can. However, for such a plan to be sustained, employees must pay a fair share of the costs.

More broadly it is time to take a new look at the contemporary suitability of the existing design of the Public Service Pension Plan. Among the issues warranting attention are these:

- Should the Plan continue to encourage long-service employees to retire as early as age 55?
- Should there be more flexibility in survivor benefits?
- Is the Public Service Pension Plan sufficiently adapted to facilitating career movement into and out of the public service over many years?
- Is the balance of Plan financing and benefits equitable for different groups of employees?

Moreover, governance of the Plan deserves attention. Unlike many other large pension plans in Canada, employee representatives have no formal role, and hence no responsibility, for the Plan's financial health. Consideration should be given to establishing some form of joint governance between the employer and employee representatives, taking account of lessons learned in recent years with such pension governance models.

Consider a flexible "benefits allowance"

In the area of other public service benefits, especially insurance against death and disability, and health and dental benefits beyond those generally available to Canadians, a fundamental rethinking is overdue. The present set of benefit plans and their financing arrangements have emerged over many years, without the benefit of a strategic assessment of needs and costs. With the nature of families in Canada changing profoundly, with a likely increase in the proportion of employees who move into and out of the public service over the course of a career, and with rapidly escalating costs in areas such as drugs, the proposed rethinking should assess the feasibility of offering employees a set of choices for coverage that best suits their needs and preferences.

In parallel with this rethinking, and in the context of broadening the scope of collective bargaining, the Treasury Board Secretariat should discuss with the public service unions the possibility of establishing an annual "benefits allowance" that would be used to purchase benefits from a jointly defined menu. Such an allowance would be set to permit employees to maintain their current level of protection. For the future, collective bargaining would determine how fast the allowance would grow, as a trade-off against salary increases. Obviously, there would be cost issues to manage if universal programs were replaced in whole (or more likely, in part) by a variety of benefit options. However, the principles of employee choice, and of managing overall salary and benefit costs, push powerfully toward developing an approach along these lines.

Sickness and disability programs

The continuum of programs dealing with sickness and disability deserves particular attention. Consideration should be given to replacing the existing sick leave policy with a combination of non-accumulating sick leave for brief illnesses, and a form of short-term disability insurance. Under the existing scheme, long-term employees are tempted to use up their accumulated sick leave as they approach retirement, while short-term employees with serious illnesses find themselves with inadequate protection unless they meet the onerous criteria for long-term disability income support.

The governance of federal public service benefit plans should be consistent with accountability for financing the plans. Thus, joint union-employer management should apply only in the cases of plans for which both the employer and the employees (through their representative unions) share in responsibility for their financial health.

Ensure all overtime is paid

One surprising finding on the evolution of compensation between 1990–91 and 2002–03 is that the level of expenditure on overtime did not grow, despite substantial increases in most other categories of compensation spending. This does not jibe with anecdotal evidence of increasingly longer hours of work in many parts of the public service. Public service managers should ensure that employees receive the overtime pay for which they are eligible. Along a similar line, managers should encourage employees to use the annual leave to which they are entitled. This makes good sense both from the perspectives of individual well-being and organizational effectiveness.

Possible legislative changes—Collective bargaining

There will no doubt always be controversy about the relationship between collective bargaining and compensation outcomes. Actual experience in the federal public service since 1967 has on balance been positive, despite many bumps along the road, most notably the suspension of the process for a total of at least 11 years. Looking to the future, however, we may reasonably ask whether similar results could not be achieved with a system better adapted to serving the public without interruption, while assuring public servants of fair treatment.

It has been argued that the federal employer enjoys the upper hand in negotiations because as the Government, it can resort to legislation to impose an outcome it was unable to negotiate at the bargaining table. There is some truth to this, and one can easily point to examples. However, in normal times it is not so easy for the Government to gain parliamentary endorsement for such legislation.

On the other hand, public service employees deliver many services that are critical to the public, and often it is tempting simply to buy peace at the bargaining table. Neither situation is really in the public interest. Public sector employees should not find their compensation determined unilaterally. But neither should the public pay premiums to groups of employees whose bargaining strength arises from their position as public servants supplying services no one else is authorized to provide.

In principle, the idea at the root of classic collective bargaining involving the right to strike is one of an economic trial by combat. Such an approach may suit the private sector, where excessive compensation outcomes can threaten the size or even the survival of a private company. But in the public sector no such sanctions apply. Over time, however, if public service compensation is judged excessive, or if economic conditions lead governments to set an example of restraint in their own backyard, general and arbitrary restrictions on negotiations may be applied.

Nearly 40 years after collective bargaining involving the right to strike was introduced into the federal public service, it is legitimate to ask whether there is a better model. Since unilateral determination of compensation by the employer would never be accepted as fair, the obvious alternative is some form of determination of the issues in dispute by an independent third party.

However, experience shows that replacing the right to strike with compulsory arbitration fundamentally alters the process of wage determination in the public sector. In practice, it appears that arbitration results in a decline in the proportion of contracts settled through direct bargaining; that there is likely an upward bias in arbitration outcomes; that there is significant variance in the weight that arbitrators attach to different criteria; and that arbitrators are disinclined to accept direction, for example, to consider total compensation in their decisions.

We have no panacea to offer. Broadly, however, we suggest that it would make sense either to embrace the power struggle approach more fully, or to renew intensively the search for new models that would permit the responsible use of third parties to assist in resolving disputes. Our present approach has proven unstable over time.

Search for an alternative to strikes and traditional arbitration

With the intimate knowledge of government operations possessed by union members, it is not difficult for them to plan strike activities that inflict maximum disruption with minimum pain to the union and its members. On the side of becoming tougher as an adversary, therefore, federal employers at a minimum should dock employees' wages rigorously when they engage in strike activity such as rotating work stoppages. The pay system should be adjusted so that employees see immediately on their next pay cheque the reduction resulting from strike action. Consideration could also be given to permitting departments to lock out employees who go out on a rotating strike.

While the tougher approach to strikes is a logical option, it is unlikely to improve either labour-management relations in the federal public service, or the appropriateness of compensation outcomes. The better course almost certainly lies in seeking variations on the use of third parties to resolve labour disputes that resist settlement through direct bargaining.

One such approach is that of the "Public Interest Dispute Resolution Commission" (PIDRC) proposed in 2001 by the Advisory Committee on Labour Management Relations in the Federal Public Service. In essence, the suggestion was that by employing a wide variety of established dispute-resolution techniques, the Commission

would keep the parties in a sufficient state of uncertainty to encourage a voluntary resolution of disputes between the parties. The new *Public Service Labour Relations Act* adopts the term "Public Interest Commission," but little of the specifics or spirit of the Advisory Committee's recommendation found their way into the new Act.

We propose that the President of the Treasury Board should sponsor an active public debate about possible designs for viable third-party dispute resolution approaches. We would be seeking a credible and sustainable model that would permit us to abandon the strike and traditional arbitration options, while reassuring public servants that they will be treated fairly on compensation matters.

To encourage such a debate, we sketch elements of a possible model as follows:

- Reliable information on comparable compensation elsewhere in the Canadian labour market would need to be available.
- The *Public Service Labour Relations Act* would need to specify the compensation policy to be applied.
- Adjudicators mandated to resolve disputes would need to serve for a single fixed term so they could maintain appropriate independence.
- Adjudicators would be required to give a detailed written rationale for their decision.
- Decisions would be subject to appeal to a panel of experienced Appeal Adjudicators on the grounds of failing to apply the statutory criteria.

The criteria would be designed essentially to promote comparability of public service compensation with appropriate comparators in the Canadian private sector, while respecting the principle of equal pay for work of equal value.

The right to strike is viewed in most union circles as sacred, so we can expect the public service unions to be suspicious of an active search for alternatives. On the other hand, raising money for strike pay forces substantial union dues, and aside from militants, it appears that federal public servants are uncomfortable with leaving their work serving the public. So if a credible alternative to strikes could be developed it might be attractive to all concerned. It would be timely to propose such an alternative, if it can be developed, at the time of the statutory review of the *Public Service Labour Relations Act*, scheduled for 2010.

Possible legislative changes—Applying pay equity in the federal public service

"Pay equity" is the shorthand term normally used to express the principle of equal pay for work of equal value. This principle, first embraced in international law in 1951 through the International Labour Organization's Convention 100, was incorporated into Canadian federal law in 1977 through the passage of the *Canadian Human Rights Act*. Section 11 of that Act states that it is discriminatory to establish or maintain different wages for men and women doing work of equal value in the same establishment. This applies to the federally regulated private sector as well as the federal public sector, in this case including federal business enterprises and other Crown corporations.

Statistics Canada data on income by gender show that on average women do earn less than men in the Canadian labour market. According to the 2001 Census, women earners aged 15 and over made 64 cents for every dollar earned by their male counterparts. As we compare women and men with increasingly similar characteristics, however, this gap shrinks. Within the 10 most common occupations chosen by men, for example, university-educated women aged 25 to 29 earned 89 cents compared with each dollar earned by male workers.

As stated earlier, by March 2003, affected employees in the federal public service had received a cumulative total of about \$5.2 billion relating to pay equity settlements, with an ongoing annual cost in the core public service of over \$200 million. This was equivalent to between 2% and 2.5% of the relevant public service salary mass, broadly similar to the impact on public sector employers elsewhere in Canada, and much greater than for private employers.

While the concept of equal pay for work of equal value may appear simple, applying it raises difficult and complex philosophical and practical challenges. Among the most important issues are listed below.

How do we measure "value" in comparing different types of work?

The approach pursued over most of the 1980s and 1990s was a universal classification system. In 2002, this approach was discontinued as too inflexible for a workforce as diverse as that in the federal public service.

To what extent are wage differences between male-dominated and female-dominated groups the result of discrimination?

A 2002 Statistics Canada study concluded that over 60% of observable differences in male and female wages in Canada can be explained by factors other than discrimination.

How does pay equity relate to collective bargaining?

If collective bargaining and pay equity complaints operate as separate systems, with one ratcheting the other in pushing up salaries, employers could be expected to lose faith in collective bargaining as a credible wage determination approach.

What is the appropriate scope of comparison for determining equal value?

Pay equity advocates generally seek the most expansive possible definition of "establishment" in seeking pay equity comparators. However, the more diverse an establishment is, and the more varied its business lines and areas of operation, the less likely it is that the value to the employer of a particular set of skills would in fact be uniform throughout.

What is an appropriate group for undertaking comparisons?

There can be strong disagreements over which groups of employees to compare with which.

The 2004 *Final Report* of the Pay Equity Task Force commissioned by the federal Ministers of Justice and Labour has recommended various legislative amendments to the *Canadian Human Rights Act*, particularly relating to institutional and process issues, such as moving to a proactive responsibility on employers to implement pay equity with the guidance of a specialized Pay Equity Commission. However, the Task Force Report does not deal substantively with the fundamental issues enumerated above. Accordingly, in our view, it does not provide a sound basis for legislative reform.

Any legislative revisions should respect the following key premises. Pay equity should:

- aim to redress that portion of the male/female wage gap that is attributable to discrimination by the employer, and not to other factors.
- operate at a systemic level to detect and remedy patterns of differential pay for men and women performing work of equal value within an establishment.
- function within a collective bargaining wage determination system with multiple bargaining groups based on community of interest, and should disrupt that system as little as possible.
- recognize that Canada is a market economy in which salaries generally reflect the forces of supply and demand. Federal jurisdiction employers should not be expected to stray far from market norms in implementing pay equity.
- For large employers with diverse workforces, pay equity should permit appropriate partitioning of jobs into groupings with broadly similar characteristics, especially required skill levels.

If revised legislation clearly embraced these principles, it would be reasonable to address as well the Task Force recommendations on process and institutional arrangements at the same time.

We expect that the development of a legislative proposal satisfying the criteria proposed will take some time. Meanwhile, however, we advocate an active approach within the federal public service along the following lines:

- Complete the process of ensuring that current classification standards minimize gender bias.
- Decide on a sensible framework for comparing groups for pay equity purposes. A promising tool is the National Occupational Classification structure developed and maintained by Human Resources and Social Development Canada.
- Conduct an analysis of significant differences in male and female salaries within federal employers' establishments. This analysis should start with the existing classification groups and levels. The broad skill levels set out in the National Occupational Classification offers a framework for comparisons across groups.
- Include in collective bargaining mandates solutions to issues that cannot be explained by factors other than discrimination.

We emphasize as well, that progress on employment equity since 1981 has greatly improved the relative position of women in numerous professional, well remunerated occupations such as economist, lawyer, and scientist. In such groups gender representation has achieved, or is approaching parity. While some (generally small), and not necessarily well-paid occupational groups remain male-dominated, a few groups (most notably the Clerical and Regulatory group) do remain overwhelmingly female. Thus the nature of the pay equity challenge has become more focused over the past three decades since the *Canadian Human Rights Act* was first enacted.

In essence, then, we recommend a pragmatic approach to equal pay for work of equal value. Federal employers should undertake the analysis to pinpoint discrimination affecting women in the federal public sector, and take action to reduce or eliminate gender differences that cannot be explained by factors other than discrimination. This is more likely to deal with pay equity effectively, without distorting either the collective bargaining process, or our ability to maintain comparability with the external labour market as far as possible.

Suggestions for following up on the recommendations

Even in the summary form presented in this Overview, our recommendations are clearly wide-ranging, and implementation will be challenging. Accordingly, it will be essential to plan and manage wisely the follow up to this Report.

The first step is to establish a governance and management framework capable of planning, directing, and controlling the process, and of delivering results for a reasonable investment of money and energy. The essential components of such a framework are:

- Sponsorship by the Treasury Board itself and the President of the Treasury Board.
- Direction by the Secretary of the Treasury Board, supported by a Deputy Minister level Compensation Council, composed of leaders with substantial responsibility and expertise in the compensation field.
- A dedicated project management team, with responsibility to design and manage the implementation process.

Before deciding on a plan, key stakeholders such as the public service unions should be given an opportunity to consider the Report and offer their comments, perhaps through a series of facilitated roundtables.

Looking at the substance of the recommendations, we can distinguish four "baskets" corresponding to the relative sensitivity or difficulty of implementation. The first such basket would comprise those recommendations that can have a significant benefit at relatively low cost, and which are primarily in the discretion of the Treasury Board or the Treasury Board Secretariat. Key examples in this area are:

- The **Annual Report to Parliament on Federal Compensation**. This is likely our most potent single proposal. Systematic transparency on key trends will instigate public debate and more rigorous management regarding how federal compensation is evolving in comparison with the broader Canadian labour market.
- Related recommendations on data and research would be indispensable to support the Annual Report proposal.
- The proposed **Compensation Framework for the Federal Public Service** is ready for adoption, and would help frame debates on compensation trends.
- Adoption of stronger management practices regarding total salary budgets needs early attention. As part of this, the "mark up" for converting approved non-salary funds to salaries should be increased as soon as possible, from 20% to 30% most likely.
- Establishment of a **Canadian Forces Compensation Advisory Committee** is urgently needed to put the determination of military compensation on a sounder foundation.

Implementation of the items in this basket could be initiated with a minimum of external discussion, ideally by early 2007.

The second basket involves critical, but more difficult subjects that would require setting up some kind of advisory process to develop more specific options and recommendations for later decisions. Among the topics grouped here are these:

- Development of a revised occupational and bargaining structure for each federal employer that appropriately combines employees with common interests and working conditions, and that facilitates comparisons with the external labour market.
- Determining the most appropriate approach and sequence for developing modernized classification standards, that will minimize gender bias.
- Adopting an approach to Executive compensation that combines greater comparability with the private sector, with a more restrictive definition of who is an executive, and easier provisions for executives to be dismissed for inadequate performance.
- Considering an appropriate form of joint union-employer governance of the Public Service Pension Plan, once the current lawsuit on the pension "surplus" is resolved.
- Reviewing the suitability of the existing Pension Plan design in meeting the needs of current and future employees, in view of changes in families, a growing interest in working beyond the period of eligibility for a pension, and a likely increase in the proportion of employees who may enter and leave the federal public service over the course of their career.
- Reviewing in a similar vein, the insurance, health and dental benefits available to federal public servants.
- Examining how to expand the scope of collective bargaining to provide more explicitly for trade-offs across the full range of compensation elements, including the idea of an annual benefits allowance that could be used to purchase from a menu of benefit plan choices. Such an approach would provide more flexibility to employees in meeting their needs, while bringing greater accountability to the growth of overall compensation.
- Reviewing the complex set of existing plans relating to sickness and disability.

All of these subjects are controversial and difficult, for various reasons. The temptation will be to "let the cup pass." However, each of these areas is in its own way urgently in need of attention, if we are to renew our compensation regime to support our employees wisely as the great generational shift from the baby boom generation to its successors unfolds over the next decade. A clear view of what is needed, and a determination to act, combined with a respectful and consultative style will overcome the undeniable obstacles.

The third basket includes the two key areas of statutory framework affecting compensation in the federal public service: collective bargaining and pay equity. We argue that the laws governing these areas are flawed and deserve deeper thinking. We do not suggest specific amendments to the *Public Service Labour Relations Act* or the *Canadian Human Rights Act*. We do propose, however, that it is time to take a clear-minded look at how to shape these laws for the next generation of public servants, and in the broader public interest. Decades of experience with both laws has exposed fundamental issues that cry out for intensive public debate and judicious reform.

Finally, a modest fourth basket of proposals touches matters that are clearly in the discretion of authorities outside the Treasury Board portfolio. We suggest that those responsible simply be invited to consider the points that are raised in our recommendations. These cover such topics as:

- the possibility of including an expected track of total personnel spending in federal Budget forecasts;
- the development of a credible compensation research function;
- the possibility of establishing additional separate employers in order to improve organizational performance by aligning more closely human resource management policies, including compensation, with each employer's business needs; and
- suggestions relating to how compensation is set for federally appointed judges and for parliamentarians.

Conclusion

In effect, we are calling for a fundamental rethinking and modernizing of the compensation regime in place in the federal public sector. In our view this is overdue. No such thorough-going review has been undertaken in more than 40 years, since before the implementation of collective bargaining in 1967. Yet the nature of the federal government and its workplaces has altered dramatically in the intervening years, and we can foresee continued transformation as information technology, citizen expectations, and globalization intensify their impacts. To remain successful in serving Canadians, the federal public service needs to ensure that its compensation policies and practices support the flexibility and increasing knowledge intensity demanded by changing circumstances.

Perhaps the best way to conclude is simply to emphasize seven perspectives that have hardened into convictions over the course of drafting this Report:

- The future of the federal public service depends importantly on how employees are compensated.
- All aspects of compensation are connected for the employees, and so the employer needs to manage the field coherently.
- The proper standard for fair compensation is comparability with appropriate comparators in the Canadian private sector.
- Collective bargaining in the federal public service is a healthy way to balance the interests of employees and taxpayers, but it cannot be used to justify excessive compensation.
- Collective bargaining in the federal public sector should be about productivity as much as compensation.
- The time has come to rethink the design and balance among non-salary benefits, from pensions to insurance to health and dental plans.
- Transparency is the best way to bring discipline to the compensation field.

Compensation is at once of vital interest to everyone, and an arcane field that few can fathom. How people are paid and protected from risk is easily taken for granted, particularly when times are good. But the cost to taxpayers of federal compensation is large in absolute terms; and our policies in this area are critical to how well we either attract good people or drive them to cynicism or even to leave the organization.

Compensation is too important to be left to the specialists in the hope they will look after us all at a fair expense to the public. We need to explain clearly and openly the issues and opportunities, and then act to make sure the system as a whole, and in its parts, is understood, reasonable and sustainable. This Report offers a portrait of what exists and how we got here, as well as a blueprint for shaping a sound compensation regime for the future.

Consolidation of recommendations

1. Recommendations on Transparency and Accountability

Recommendation 1

1.1 The Treasury Board Secretariat should present to Parliament annually a report on federal compensation. The report should provide data on indicators such as those described in this section [Vol. 1, Chap. 11] for the current year, and in historical perspective. The report itself should be brief and easy to read, with ample use of visual aids.

1.2 Appendices should provide more detailed information on collective bargaining outcomes for key groups, as well as decisions on compensation for unrepresented groups, and policy changes affecting compensation. It would be useful to include a more in-depth study of a particular topic each year. More detailed data for specific occupational and classification groups, as well as for individual separate employers should be accessible on line.

1.3 A summary of the report should be incorporated in the annual benefit reports provided to employees.

Recommendation 2

2.1 The Department of Finance should consider including in the annual federal Budget an expected track for total spending on Personnel in the federal public sector, except for Crown corporations. This should aggregate planned spending changes for more or fewer employees, changes in average salaries from all causes, and changes in benefits of all kinds.

Recommendation 3

3.1 The Treasury Board Secretariat should define in detail each data element required for inclusion in the Annual Report on Federal Compensation. For elements that must be created through estimation, the definition should specify the method to be used. For all elements, the data sources should be stated. The definitions should be publicly available on the Secretariat's Web site and updated as necessary.

3.2 In preparing and revising these compensation data element definitions, the Treasury Board Secretariat should consult with all groups with a professional interest, including within the Treasury Board portfolio, the Public Service Human Resources Management Agency and the Office of the Comptroller General, as well as Statistics Canada, Finance Canada, Public Works and Government Services, the Public Service Commission, the separate employers, the Canadian Forces, the RCMP, the Public Service Labour Relations Board, the public service unions and interested academics. Where there is no consensus, the Treasury Board Secretariat should make an appropriate determination.

3.3 The Treasury Board should authorize the investments in systems and analytical capacity necessary to implement a consistent approach to estimating and reporting compensation data elements. In view of the size of this area of federal spending (about \$25 billion in 2002–03), and its annual growth, appropriate ^[22] investments in understanding where our compensation dollars go, and how spending in this area evolves will almost certainly pay for themselves many times over.

Recommendation 4

4.1 The Treasury Board Secretariat should participate actively with the public sector unions in supporting the Public Service Labour Relations Board to establish an authoritative compensation research function, as soon as practicable. The scope of reporting should include all aspects of compensation, not just salaries and wages.

4.2 The Treasury Board Secretariat, as well as the other partners, should take the time and care needed to think through and fully argue methodological issues at the outset, recognizing as well the need to learn from experience. The parties should take care to recommend well-qualified representatives, including independent experts, for appointment to the Advisory Board designed to assist in ensuring high quality research methodology is employed.

4.3 The leadership of the Public Service Labour Relations Board should consult fully with both employer and union representatives in establishing and managing the new compensation research function authorized by the new *Public Service Labour Relations Act*. Drawing on the experience of the Quebec Institut de la Statistique, however, as well as the Advisory Board provided for under the Act, the PSLRB should itself ensure the soundness of the comparison survey and reporting methods adopted.

4.4 Until the PSLRB is ready to publish sufficiently complete information on the comparability of federal compensation to the broader Canadian labour market, the Treasury Board Secretariat (if possible, in partnership with the public sector unions through the National Joint Council) should publish at least every three years appropriate macro perspectives on comparability.

4.5 For other federal employee groups that are non-unionized or unrepresented, comparability studies should be commissioned and published by the Treasury Board Secretariat on an appropriate cycle. For established reports of this type, such as those relating to public service executives or the regular and civilian members of the RCMP, the methodology for comparisons to the external labour market should be reviewed by objective third party compensation experts to ensure they remain sound and pertinent to current circumstances.

4.6 As a complement to documenting comparability of salaries and benefits, data on job security and the attractiveness of working for surveyed employers should be compiled and reported publicly.

2. Coherent Management of Federal Compensation

Recommendation 5

5.1 The Treasury Board should approve the proposed Compensation Policy Framework for the Federal Public Service as the public expression of the considerations that should be balanced in determining the federal government's approach to compensation.

5.2 To facilitate an ongoing public conversation about the appropriate way to balance the factors affecting compensation, the Treasury Board Secretariat should publish annually a summary of the most pertinent indicators related to each factor. This would best form an Appendix to the Treasury Board Secretariat's Report on Plans and Priorities that must be tabled in Parliament each year, normally in February or March.

Recommendation 6

6.1 The Treasury Board Secretariat should maintain and consolidate detailed records of approved increases in salary budgets and their rationale.

6.2 Deputy ministers should retain the ability to transfer money from approved non-salary budgets to salaries. However, the transfer mark-up price should be raised from 20% to 30%, and that amount should be reviewed annually and adjusted to reflect the real cost of non-salary employee benefits, taking account of their actual accrual cost.

6.3 Deputy ministers should retain the authority to classify positions up to the EX 3 level, and for EX 4 or EX 5 positions within the existing departmental complement at those levels. The Public Service Human Resources Management Agency should expand to all parts of the core public service its risk-based approach to audits of departmental decisions on reclassification of existing positions and classification of new positions.

6.4 At least annually, an overview and analysis of trends in employment levels and the composition of the public service workforce, as well as the quality of departmental classification decisions, should be presented to the Treasury Board. The Annual Report on Federal Compensation should summarize the results for Parliament and the public.

Recommendation 7

7.1 The Treasury Board President should commission a high-level Advisory Panel on the scope of federal public service collective bargaining. The Panel's mandate should be to recommend how best to expand the scope of normal collective bargaining to cover most or all of the elements of compensation, other than those relating to employer contributions to programs of general application such as Employment Insurance. The Panel should include former senior public servants, union leaders and external experts, and be chaired by an eminent Canadian well versed in public and private sector collective bargaining practices.

Recommendation 8

8.1 The Treasury Board Secretary should create a Compensation Planning and Coordination Secretariat with the mandate and capacity to conduct the necessary analysis and provide strategic advice on the overall management of federal public sector compensation. This Secretariat should report directly to the Secretary. It should be led at the Assistant Secretary level, and include seconded key staff from all of the central agencies with a role in managing federal compensation (i.e. the relevant Treasury Board Secretariat Branches, the Public Service Human Resources Management Office, the Department of Finance, and the Privy Council Office), in order to ensure easy communications among the players. The Secretariat itself, however, should not take responsibility for any of the substantive elements of compensation management, so that it can preserve a clear view of the whole scene.

8.2 The new Compensation Secretariat should be responsible for preparing the Annual Report on Federal Compensation proposed in Recommendation 1, and for preparing the compensation policy indicators report proposed in Recommendation 4 for inclusion in the Treasury Board Secretariat's Report on Plans and Priorities, relying on the data and analytical expertise available in various parts of the Treasury Board portfolio and elsewhere.

8.3 To complement the work of the Compensation Secretariat, the Treasury Board Secretary should chair a deputy minister-level Compensation Council comprised of the most senior representatives of those parts of the federal public service with substantial responsibilities in the compensation field. The Council would advise on the Compensation Secretariat's work plan and substantive products.

Recommendation 9

9.1 The Federal Government should consider establishing further separate employers to improve organizational performance by aligning human resources management practices, including compensation, with each employer's business needs. Criteria for creating separate employers would include staff complements of at least 5,000 and a focused business mandate. Possible examples include the Canada Border Services Agency, Service Canada, Correctional Service Canada, and Statistics Canada.

9.2 In the meantime, or if the Government decides against setting up additional separate employers, the core public service and the principal separate employers should use a form of coordinated bargaining with the public service unions to reduce the risk of salary increases being driven by ratcheting within the federal public sector. Two-tier bargaining could be used to treat distinctly with overall salary levels and with compensation elements specific to a particular employer.

9.3 Federal separate employers should renew their efforts to set up occupational group structures that are well suited to their particular business missions.

3. Specific Substantive Compensation Issues Relating to Salaries

Recommendation 10

10.1 The Treasury Board, after consultation with the public service unions and appropriate external experts, should publish a proposed occupational and bargaining structure that appropriately combines employees with common interests and working conditions, and that will facilitate compensation comparisons with the external Canadian labour market. This work should be completed within 12 months.

10.2 Within six months of publishing this proposal, after an opportunity for public debate, the Governor-in-Council should proclaim a new occupational group structure for the core public service.

10.3 If, for whatever reason, the responsible Treasury Board portfolio officials cannot complete the project expeditiously, the President of the Treasury Board should consider establishing an expert panel to develop an independent proposal as the basis for the Governor-in-Council to proclaim a new occupational group structure.

10.4 The Public Service Labour Relations Board should determine the appropriate bargaining unit structure in relation to the new occupational group structure as soon as practicable thereafter.

10.5 As a last resort, if there is no other way to move within three years to an appropriate new structure, the government should consider using legislation to implement such a framework.

10.6 The other federal separate employers should proceed with parallel but distinct processes to adapt their occupational and bargaining group structures to the nature of their businesses, also within the next three years.

Recommendation 11

11.1 In parallel with the design of a new occupational group structure, the Treasury Board should determine, in consultation with the public service unions, the most appropriate approach and sequence for developing modern classification standards that reflect the current realities of public service work, and that minimize gender bias.

11.2 In the meantime, the Public Service Human Resources Management Agency should focus on supporting departments to simplify the management of classification by directing that job descriptions not exceed five pages, by encouraging the use of generic job descriptions, by updating the most suitable benchmark positions for the most numerous groups, and by providing guidance on how to use overall rationales for classifying positions by comparison with the benchmarks.

11.3 Consideration should be given to expanding the use of appointment to level for employees in groups or situations where their skills, knowledge, and performance can be assessed objectively in relation to well-defined standards.

11.4 As practicable, the Public Service Human Resources Management Agency, in consultation with the relevant public service unions, should give priority to complete the updating of the classification standards for priority occupational groups that are not likely to be changed as a result of the reform of the occupational group structure proposed in Recommendation 10.

11.5 Once the Treasury Board has decided on the occupational group structure for the core public service, the Public Service Human Resources Management Agency should publish its planned timetable for modernizing classification standards to correspond with the recommended occupational group structure, and report to Parliament annually through the Agency's Report on Plans and Priorities.

Recommendation 12

12.1 On pay for performance, we should focus first on strengthening our culture and capacity for performance management, including developing mature skills in defining organization objectives and standards, setting individual goals, assessing performance, giving feedback, and taking necessary action.

12.2 Deputy ministers should propose to the Treasury Board selective experiments in making greater use of pay for performance in cases where the organizational capacity and culture are suitable and credible with both managers and employees.

12.3 The Treasury Board should similarly work with willing departments and the appropriate unions to experiment also with one or more well-defined pilot projects to test the utility of pay for knowledge in such areas as language skills and advanced qualifications for specialized groups.

12.4 The Public Service Human Resources Management Agency should propose for Treasury Board approval ground rules for cases where the Treasury Board could authorize a higher maximum salary for specific executive or other employees bringing exceptional expertise to the public service, in situations where interchange programs are inappropriate as a means to access the required expertise.

12.5 As part of the review of executive salaries proposed later in this section, the overlap of top level specialist pay with Executive pay ranges should be reviewed and rationalized so that high level technical expertise can be appropriately remunerated without the need to resort to Executive classifications for jobs that focus mainly on advice and relatively little on executive management.

12.6 Recruitment and retention (terminable) allowances should generally be avoided. If there is clear evidence in the external labour market of a sustained relative salary level increase for a particular group, this should be included in public service salary levels. If rapid increases occur in a hot market externally, and there is doubt whether the change is temporary or structural, one-time bonuses should be used to recruit or retain essential staff in as targeted a manner as feasible.

12.7 As part of the process of modernizing classification standards recommended earlier in this section, the Treasury Board Secretariat and the Public Service Human Resources Management Agency should work together with the relevant unions to ensure that the structure of pay bands for these groups makes sense according to accepted salary administration norms.

12.8 In recommending on how best to modernize the public service's occupational and bargaining group structure, consideration should be given to the suitability of applying regional pay to some parts of the suggested new structure. Criteria for identifying such groups would include an emphasis on local hiring, substantial salary differences across the country, availability of credible data on these differences, and negligible geographic mobility in the group.

12.9 Once the more pressing pay management and compensation issues covered in this chapter have been resolved, the Treasury Board should examine the desirability and feasibility of introducing a system of national salary rates with regional supplements based on substantial cost of living differentials.

Recommendation 13

13.1 The Treasury Board President should ask the Advisory Committee on Senior Level Retention and Compensation to review and offer recommendations on the extent to which federal public sector executives should be compensated at levels equivalent to their private sector counterparts. It would likely make most sense to focus initially on the salaries of Assistant Deputy Ministers and Deputy Ministers. In doing so, the Committee should assure itself that the method of comparison is conceptually sound, and that the comparability data is reliable. It should also consider proposing a narrowing of the definition of positions that can be included in the Executive group to exclude those without substantial management responsibilities, and recommending terms and conditions of employment that acknowledge that an executive may be let go for inadequate performance.

13.2 The Committee should at the same time reconsider the appropriate role of pay for performance in the overall executive compensation package.

13.3 If the Treasury Board President decides to ask for the review proposed in recommendation 13.1, the Privy Council Office should request the Advisory Committee to undertake a similar review and offer recommendations with regard to our positioning of compensation for heads of Crown corporations and others appointed by Order-in-Council vis-à-vis private sector counterpart compensation.

13.4 The Minister of National Defence and the President of the Treasury Board should jointly appoint an eminent Canadian public figure to propose how best to establish a Canadian Forces Compensation Advisory Committee, modelled generally on the United Kingdom Armed Forces Pay Review Body.

13.5 The Minister of Public Safety and Emergency Preparedness and the President of the Treasury Board should invite a reputable consulting firm^[23] specializing in compensation issues to review how the RCMP Pay Council measures total compensation, what considerations other than comparability ought to be weighed in determining RCMP compensation, and how the Treasury Board should deal with situations where compensation increases for one or more police forces are unusually high.

13.6 The Minister of Justice and the Canadian Judicial Council should ask the next Quadrennial Commission, scheduled to report in 2008, to conduct as part of its deliberations an in-depth analysis of the value and relevance of various possible comparators in determining the appropriate level of compensation for federal judges.

13.7 If, in the future, there is a sense that parliamentarians' salaries are out of step with what is paid for other senior federal public sector positions, an independent commission, similar to that appointed every four years to recommend changes to judicial compensation, could provide a transparent and independent means to advise Parliament on how best to update parliamentary compensation.

13.8 In mandating all the various advisory groups on compensation, the principle should be respected that they are independent in regard to their analysis and formulation of recommendations, but that the final decision on compensation rests with the Government or Parliament, as appropriate.

4. Specific Compensation Issues Relating to Pensions and Other Benefits

Recommendation 14

14.1 The President of the Treasury Board should ask the existing Pension Advisory Committee, involving representatives of the employer, the public service unions, and pensioners to review the suitability of the existing Plan design in terms of how it deals with such issues as the existing incentives to retire as soon as a member can receive a pension without a penalty, whether we need a more flexible approach to survivor benefits, how the Plan affects career movement into and out of the public service, and how equitable the existing Plan is to various groups of employees, and to make appropriate recommendations.

14.2 After the current litigation on the pension account surplus is resolved, the President of the Treasury Board should renew discussions with the public service unions with a view to involving the unions more directly in the governance of the Public Service Pension Plan, on the basis of a greater sharing of responsibility for pension policy and financing.

Recommendation 15

15.1 The President of the Treasury Board should commission external experts, including members with experience on both the union and the management sides of benefits design and management, to undertake a fundamental rethinking of how best to insure employees in the event of death or disability, and to supplement generally available health and dental coverage, taking account of the current and future needs of employees and their dependants. The scope of the review should include the purpose and design of the Supplementary Death Benefit under the *Public Service Superannuation Act*. In particular, the rethinking should assess the feasibility of offering employees a set of choices for coverage that best suits their needs and preferences, at reasonable cost. Consideration should also be given to the desirability of purchasing insurance programs underwritten by external insurers (such as the existing Disability Insurance Plan), or programs administered by third parties where the government assumes direct responsibility for benefits (such as the Public Service Dental Care Plan).

15.2 Based on this external study, the Treasury Board Secretariat should discuss with the public service unions how to establish an annual benefits allowance that would be available exclusively to purchase benefits from a menu defined jointly. The initial amount of the benefits allowance should be set to maintain overall equivalence with the value of existing benefits, with an appropriate annual escalator. Collective bargaining, or compensation decisions affecting unrepresented employees, could lead to changes in the allowance up or down. Consideration could also be given to a hybrid approach whereby some benefits covered by the allowance would be mandatory for all employees, and some would be available according to employee choices.

15.3 Employees should be able to purchase coverage beyond that covered by the benefit allowance on the same terms with their own money.

15.4 The President of the Treasury Board should commission a specialized assessment contributing to the study proposed in Recommendation 15.1, again led by external experts from the full spectrum of union and management viewpoints in the public service, to examine how to consolidate plans protecting employees in the

case of prolonged disability, both to improve service to employees and to reduce administrative costs. The review should include an examination of the option of replacing the existing practice of earning and accumulating unused sick leave with a form of short-term disability insurance.

15.5 The Treasury Board should harmonize the rate of disability insurance income replacement and annual inflation protection across the various federal public sector plans, except where there is a compelling policy-related case for maintaining distinctions.

15.6 Depending on the result of the rethinking proposed in recommendation 15.1, the President of the Treasury Board should commission the Office of the Superintendent of Financial Institutions to assess what level of contribution would need to be recorded in the Supplementary Death Benefit Account in order to ensure its long-term financial health. Any amounts in excess of what is required could factor into broader discussions with the public service unions on the future of benefit plans.

15.7 Governance of public service benefit plans should be consistent with the allocation of accountability for financing the plans. Joint union-employer management should only apply in the case of plans for which both the employer and the employees, through their representative unions, are responsible for the plan's financial health.

15.8 Employer representatives on plan boards should be selected and trained so as to ensure that they act to implement the employer's policy on employee benefits, including a prudent approach to financing, and not on their interest as plan members. To underline the seriousness of this role, such representatives should be appointed by the Governor-in-Council.

15.9 Public service managers should ensure that employees normally use the annual leave to which they are entitled, and that employees are paid for overtime for which they are eligible to be paid.

15.10 The President of the Treasury Board should commission an independent review of the appropriate level of employer contributions to life insurance, health and dental benefits for public service pensioners, taking account in particular of the practices of other major Canadian public and private sector employers. Representatives of public service pensioners, and the public service unions, should be invited to contribute to this review.

5. Possible Areas for Legislative Change

Recommendation 16

16.1 The President of the Treasury Board should sponsor a series of expert studies and conferences over the next few years to foster broad public debate about a possible alternative model for collective bargaining dispute resolution that would replace the existing conciliation/strike and arbitration routes under the existing *Public Service Labour Relations Act*. Such a model would provide for third-party dispute resolution--instead of a right to strike or traditional arbitration--in a way that would apply the principle of comparability with the Canadian private labour market to the determination of total public service compensation for particular groups of employees, in a way that would be credible to taxpayers, employees, the public service unions, and the Government.

16.2 Any such model should respect the *Canadian Human Rights Act* requirement of equal pay for work of equal value, based on a clearer method for interpreting and applying this principle in the federal public service. Refer to Recommendation 17 below for further proposals in this regard.

16.3 If a suitable model can be developed, the Government should propose draft legislation for consideration by the time of the parliamentary review of the *Public Service Labour Relations Act*, required for 2010.

16.4 In the meantime, the Treasury Board Secretariat and public service managers should apply the new provisions of the *Public Service Labour Relations Act* relating to essential employees diligently.

16.5 All those with a role in implementing the Public Interest Commission provisions of the new *Public Service Labour Relations Act*, including the President of the Treasury Board, the Treasury Board Secretariat, the public service unions, and the Chairperson of the Public Service Labour Relations Board, should take advantage of the opportunity to invite distinguished Canadians to bring their experience and wisdom to bear on resolving labour disputes in the federal public sector.

Recommendation 17

17.1 The Government of Canada should consider proposing amendments to the statutory framework for pay equity, to ensure clarity in the way pay equity is implemented in the modern workplace. Such amendments should, among other goals, respect these five premises:

- Pay equity should aim to redress that portion of the male/female wage gap that is attributable to discrimination, and not to other factors.

- Pay equity should operate at a systemic level to detect and remedy patterns of differential pay for men and women performing work of equal value within an establishment.
- Pay equity should function within a collective bargaining wage determination system with multiple bargaining units based on community of interest, and should disrupt that system as little as possible.
- Pay equity should recognize that Canada is a market economy in which salaries generally reflect the forces of supply and demand; federal jurisdiction employers should not be expected to stray far from market norms in implementing pay equity.
- For large employers with diverse workforces, pay equity should permit appropriate partitioning of jobs into groupings with broadly similar characteristics, especially required skill levels.

17.2 Although it has contributed greatly to public understanding of pay equity issues in the federal labour jurisdiction, the 2004 Pay Equity Task Force Report entitled *Pay Equity: A New Approach to a Fundamental Right* should not be accepted as an adequate basis for revising the statutory framework. In particular, greater clarity is required in such areas as the fundamental purpose of the legislation within a broader competitive labour market, how knowledge can be better accepted as the central employer value in modern workplaces, how to distinguish what part of any male/female wage gap is a result of gender discrimination, and how pay equity can coexist constructively with collective bargaining.

17.3 Until such time as the statutory framework governing the implementation of equal pay for work of equal value in the federal labour jurisdiction is amended, the Treasury Board Secretariat, in collaboration with the Public Service Human Resources Management Agency, should implement a pragmatic, proactive approach to identifying and eliminating male/female wage differences resulting from gender discrimination. This approach should include:

- Ensuring that new classification standards minimize gender bias.
- Assisting managers and others involved in classification to minimize gender bias in the application of existing classification standards.
- Deciding on a sensible framework for comparing groups for pay equity purposes. The potential for the National Occupational Classification published by Human Resources and Social Development Canada to assist in this work should be fully explored.
- Conducting an analysis of significant differences in male and female salaries in the core public service.

17.4 In conducting the analysis referred to in the fourth point of Recommendation 17.3, the following steps should be undertaken:

- Document the proportion of male and female employees by existing classification group and level, and the related average salaries.
- Document the work-related characteristics of male and female employees in these groups and levels, according to the criteria used by Statistics Canada and other social researchers, in evaluating to what extent salary differences may be explained by factors other than discrimination.
- Assess to what extent there are group salary differences that cannot be reasonably explained by factors other than discrimination.
- Develop appropriate comparison domains, based mainly on the NOC framework, particularly the skill levels, to facilitate cross-group comparisons.
- To the extent that the above analyses yield significant discrepancies that may be the result of gender discrimination, include these as issues for priority consideration in the next round of collective bargaining for the affected groups.

17.5 Whatever methods are adopted, the Treasury Board Secretariat and the Public Service Human Resources Management Agency should ensure that measures to implement equal pay for work of equal value complement, and do not distort, a balanced approach to managing the full range of compensation issues in the federal public service.

17.6 The federal public service should continue to pursue employment equity as a key component in bringing greater equality of incomes to men and women in the federal public service.

Appendix

Total Compensation Summary*					
		EMPLOYER COST (\$ Million)			
		COMPONENT	1990-91*	1997-98	2002-03
1.	Salaries and Wages (Regular Payroll)	CPS & SE	9,080	8,199	12,489

		CF	3,309	2,888	3,669
		RCMP	939	867	1,080
		Total	13,328	11,954	17,238
2.	Performance (at risk) Pay-lump sums only	CPS & SE	18	18	59
		CF	2	2	3
		RCMP	-	0.2	1
		Total	20	20.2	63
3.	Recruitment and Retention Allowances and Other Allowances and Premiums	CPS & SE	355	293	526
		CF	133	115	185
		RCMP	79	30	79
		Total	567	438	790
4.	Overtime Premiums	CPS & SE	286	207	352
		CF	n/a	n/a	n/a
		RCMP	66	59	99
		Total	352	266	451
5.	Payroll Deductions for CPP/QPP; EI; provincial health premiums	CPS & SE	317	405	649
		CF	229	-	228
		RCMP	18	-	56
		Total	564	405	933
6.	Pensions	CPS & SE	561	826	1,761
		CF	392	393	571
		RCMP	105	126	195
		Total	1,058	1,345	2,527
7.	Life and Disability Insurance: (Supplementary Death Benefit; PSMIP Life Insurance; Workers' Compensation; Disability Insurance; PSMIP Long-Term Disability)	CPS & SE	197	181	207
		CF	13	-	43
		RCMP	3	8	11
		Total	213	189	261
8.	Health and Dental Plans (Provincial health payroll taxes; Public Service Health Care Plan (PSHCP); Dental Care	CPS & SE	396	382	554

	Plan (DCP); Quebec Sales Tax)	CF	318	325	457
		RCMP	17	10	67
		Total	731	717	1,078
9.	Severance Pay & Cash-Out	CPS & SE	155	264	163
		CF	80	42	94
		RCMP	20	40	32
		Total	255	346	289
	TOTALS		17,088	15,680	23,630
* The total compensation figures given in the introduction to Volume Two of the Report are \$17.8 billion for 1990-91, \$16.6 billion for 1997-98, and \$24.8 billion for 2002-03. The major difference between those figures and those in the table above is that the figures here do not include the "other" domain. These figures are based on expenditures.					

Endnotes

[1] The Public Service Human Resources Management Agency, whose President (like the Secretary of the Treasury Board) reports to the President of the Treasury Board, oversees the classification of positions in the core public service, as well as supporting an independent Advisory Committee on Senior Level Retention and Compensation.

[2] This average "total compensation" cost for the core public service slightly overstates the case since some benefit costs attributed to the core public service also cover employees of separate employers, for example. We have tried to apportion such costs by domain, but we likely did not succeed fully.

[3] This includes costs incurred for members serving overseas, often in difficult conditions.

[4] Most employees accumulate severance entitlement at the rate of one week's pay per year of service to a maximum of 30 years for unionized employees, and 28 for excluded employees.

[5] In setting Executive salaries, the policy is to match total compensation at the EX 1 level with remuneration paid to employees with equivalent responsibilities by other Canadian employers. The salary level is intended to match total federal compensation for the first level of public service executives to the total compensation earned elsewhere. From this level, 7% is reserved as re-earnable each year, provided an executive's performance meets expectations. For exceptional performance, up to an additional 3% can be paid. For higher executive levels, total compensation lags that paid for similarly difficult jobs in the broader Canadian labour market by an increasingly larger proportion as you rise in the federal hierarchy.

[6] It must be noted that in 2005, parliamentarians' salaries were de-coupled from the salaries for federally appointed judges.

[7] In this case, we limit the "federal public sector" to the core public service, the separate employers, the regular members of the Canadian Forces, and the regular and civilian members of the Royal Canadian Mounted police. We exclude the "other organizations" domain in this instance because our data is less complete for this domain than for the other four.

[8] According to the available data, the category "payroll deductions" was also an important contributor to the growth of total compensation. However, data in this area for 1997-98 appears to be incomplete in that no figures are available for the Canadian Forces or the RCMP.

[9] In looking at historical trends we are forced to analyse the core public service together with the separate employers. This is because the principal separate employers, notably the Canada Customs and Revenue Agency as it was known in 2002-03, were created in the late 1990s.

[10] Reserve members also declined, from over 33,000 in 1990-91 to 22,000 in 2001-02 and 2002-03.

[11] Such transfers are permitted provided a mark-up of 20% is paid to cover, in principal, corresponding benefit costs.

[12] It is important to note that in Canadian society as a whole, median family after-tax income in constant dollars exhibited a similar pattern of stability from the early 1980s through the late 1990s, followed by an increase of similar magnitude to that experienced by average federal public service real salaries. Although average individual before-tax salaries are quite different conceptually from family after-tax income, it surely cannot be coincidental that the pattern of change is so close.

[13] The calculation for parliamentarians' salaries converts the "non-taxable allowance" in place before 2002 to an equivalent taxable salary to permit a proper comparison.

[14] Note that these figures do not correspond with these figures in Appendix P since these figures relate strictly to the portion of contributions that pertains to current service. Also note that what is called an "actuarial surplus" was reported in the late 1990s regarding the Public Service Pension Plan. In 1999, the Government was authorized by legislation to reduce the surplus by debiting the Superannuation Accounts. The public service unions are contesting in court the legality of this legislation.

[15] In this sentence we refer to the portion of salary covered by the Canada and Quebec Pension Plans. In 2003, this was up to \$39,900. Above this level, employee contributions were always 7.5% of salary. Because something like two thirds of the salary mass falls in this area, the reduced employee contribution rate for the Public Service Pension Plan had a material impact on employer contributions.

[16] Because this area comprises many elements managed by various parties, our expenditure figures are more than usually subject to error. Nevertheless, we report here on a consistent basis the best information we were able to assemble. In general, the older the data, the more it is problematic. For the health and dental plans in the regular public service, for example, we had to use 1993-94 figures in the 1990-91 total, since records on these expenditures for earlier years are not available. We may reasonably assume, however, that if anything the 1993-94 costs in this area were greater than the 1990-91 actuals would have been, so we are likely not overstating the changes over time.

[17] Except for what is known as level II and level III hospital coverage, which assists in paying for semi-private or private hospital rooms.

[18] PSHCP costs were \$271 million in 1997 and \$466 million in 2002. Thus the increase in drug costs accounted for over two thirds of the change.

[19] Starting in 2006, as the result of a recent Treasury Board decision, federal public servants will pay 0.3% of salary more each year until their share of current service pension costs reaches 40%.

[20] As of December 2003, this was split into two organizations: the Canada Revenue Agency, which has remained as a separate employer, and the Canada Border Services Agency, which has been reabsorbed into the core public service.

[21] Possible examples of organizations that would meet these criteria include: the Canada Border Services Agency, Service Canada, Foreign Affairs and International Trade, the refocused Public Works and Government Services, Correctional Service Canada, and Statistics Canada.

[22] We would expect such costs to total as much as \$10 million or more to get things on a sound foundation, and several millions of dollars annually to operate the system.

[23] For objectivity, this should not be the firm that has conducted the total compensation surveys over the past decade.