

Chapter

3

**Modernization of Human Resources
Management**

Managing the Reforms

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

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Modernization of Human Resources Management

Managing the Reforms

Main Points

3.1 The government is making satisfactory progress in the early stages of its implementation of a new legislative framework for human resources management in the federal public service. The new framework will not be fully implemented until December 2005 at the earliest, and the full impact of the changes will not be evident until several years later. This is the most significant legislative change to the framework since the mid-1960s. The government has established a good foundation for the management of its human resource reforms, and we found leadership and a sense of purpose.

3.2 For the most part, roles and responsibilities for human resources management have been clarified. However, the Treasury Board needs to ensure that the three agencies that now carry out the various aspects of its role as employer (the Treasury Board Secretariat, the Public Service Human Resources Agency, and the Canada School of Public Service) integrate their activities more formally and fully. In particular, the role of the new Public Service Human Resources Management Agency of Canada needs to be further clarified to define its expected contribution to human resources governance and its relationship to the other stakeholders.

3.3 Some of the major organizational changes required by the legislation (the transfer of certain functions from the Public Service Commission and the creation of the Canada School of Public Service) occurred relatively smoothly. A strong project management process has been put in place to manage the many changes needed, and it has received strong leadership from the deputy minister community.

3.4 As the full impact of changes envisioned by the legislation will take some years, the government will need to maintain the focus and momentum of this significant reform initiative. This will be a challenge given the many demands on the public service today. The government needs to clearly define the outcomes it expects from this reform, and it needs to monitor and report on ongoing progress. It also needs to ensure that it monitors, controls, and reports on the full costs of this reform.

Background and other observations

3.5 Parliament passed the new *Public Service Modernization Act* in November 2003. The Act made significant amendments to four related pieces of legislation affecting human resources management in the public service: the *Public Service Employment Act*, the *Financial Administration Act*, a new *Public Service Labour Relations Act* (replacing the *Public Service Staff Relations Act*), and the new *Canada School of Public Service Act* (replacing the *Canadian Centre for Management Development Act*).

The departments have responded. The Treasury Board of Canada Secretariat, the Public Service Human Resources Management Agency of Canada, and the Public Service Commission have generally agreed with our recommendations.

Introduction

A call for a new human resources management regime

3.6 The federal public service delivers programs and services to Canadians and provides advice to ministers and officials on a wide range of matters. The salaries and related costs of maintaining a public service are a major government expenditure. Given the major changes occurring in the public service in terms of a shift in the nature of work, its demographics, and an increasingly tight market for talent, the government must be able to manage its human resources effectively. The public service needs to be organized and well managed in order to maintain its tradition of excellence.

3.7 In our April 2000 Report, Chapter 9, Streamlining the Human Resources Management Regime: A Study of Changing Roles and Responsibilities, we noted long-standing concerns about the fragmentation of roles and responsibilities for human resources management in the federal public service. We also noted, as we had in a number of previous reports, that the current human resources management regime was cumbersome, complex, inflexible, and outdated.

3.8 The Public Accounts Committee held hearings on this matter in 2000 and 2001 and recommended a legislative review to streamline the staffing function, clarify the roles and responsibilities of the various stakeholders, and generally modernize human resources management.

3.9 In April 2001, the government indicated its intent to reform the public service and, to that end, initiated a two-pronged approach to modernizing human resources management, including legislative and non-legislative changes. The Prime Minister announced the formation of the Task Force on Modernizing Human Resources Management in the Public Service. Its mandate was to recommend a modern institutional framework for managing human resources. The Clerk of the Privy Council listed three guiding principles as the foundation for reforms: protecting the merit principle, delegating human resource management matters to the lowest possible managerial level, and ensuring that managers were accountable for results. The work of the Task Force resulted in the tabling of the *Public Service Modernization Act* in February 2003. It received royal assent on 7 November 2003.

A summary of legislative changes

3.10 The new *Public Service Modernization Act* (PSMA) made significant changes to the existing legislative framework. Part 1 of the Act replaces the *Public Service Staff Relations Act* with the *Public Service Labour Relations Act* (PSLRA). The changes reflect many of the recommendations of the 2001 report on labour management relations, *Working together in the Public Interest* (the Fryer Report). For example, the new PSLRA calls for labour relations based on greater co-operation and consultation between the employer and bargaining agents. It establishes the Public Service Labour Relations Board as a mechanism for resolving disputes. The new Board replaces the old Public

Service Staff Relations Board but has a broader mandate, including a compensation research function and increased mediation services.

3.11 Part 2 of the PSMA amends the *Financial Administration Act*. It makes deputy ministers directly responsible for certain aspects of human resources management, while the Treasury Board of Canada remains the employer. Other amendments further improve reporting to Parliament by the Treasury Board on human resource management issues.

3.12 Part 3 of the PSMA makes significant amendments to the existing *Public Service Employment Act* (PSEA). The intent of these amendments is to modernize staffing by defining merit and providing more flexibility and creating new rules to govern the political activities of public servants. The revised PSEA creates new arrangements for handling internal staffing complaints. The Act encourages the discussion and resolution of employee concerns at the departmental level, as soon as possible. The PSEA creates the Public Service Staffing Tribunal, which will consider and resolve complaints related to lay-offs, revocation, and allegations of abuse of authority. The Tribunal is a new, formal stakeholder in human resources management.

3.13 Part 4 of the PSMA creates the Canada School of Public Service, which intends to integrate and better co-ordinate common training and development activities of the federal public service.

3.14 The nature of many provisions of the various acts is enabling rather than prescriptive. That is, they provide options rather than rules to allow more discretion in managing human resources to meet specific business needs of government departments.

3.15 The Appendix provides a more detailed explanation of the major changes in the legislation.

3.16 Although the *Public Service Modernization Act* was adopted in November 2003, its various legislative components come into force at different times. For example, the Canada School of Public Service was created in April 2004; amendments to the *Public Service Labour Relations Act* and the *Financial Administration Act* take effect in April 2005. These amendments set out the respective responsibilities of the Treasury Board and deputy heads in human resources management. The *Public Service Employment Act* is scheduled to be fully implemented in December 2005.

3.17 An important feature of the new legislative framework is the use of preambles in the PSLRA and the new PSEA. These preambles set out the core values and principles for the management of human resources. The Fryer Report recommended a preamble to outline a set of principles to guide the relationships among the parties, thus limiting the need for prescriptive lists of conditions. Both acts also require a review five years after coming into force.

3.18 The legislative changes are the most extensive since the mid-1960s. In testimony before a parliamentary committee studying the legislation, we said that we considered the legislative proposals to be improvements over the

existing systems and that they would contribute to reforming human resources management.

Other changes were identified to support a new regime

3.19 Over several years, the government identified areas of human resources management that needed improvement but did not require legislative change. It committed to continue working in these areas, which include classification reform, integration of human resources planning with business planning, values and ethics, national areas of selection, and the term employment policy. Exhibit 3.1 provides details of some of these projects.

3.20 The government expected that collectively, the legislative changes and other reforms would simplify human resources management and allow more flexibility. It also expected, as a result, better labour relations and human resources management systems and practices based on values such as merit and non-partisanship.

Organizational changes were announced after the passage of legislation

3.21 On 12 December 2003, the government announced changes that directly affected human resources management. In particular, it created the Public Service Human Resources Management Agency of Canada, reporting to the President of the Privy Council. This was changed by an order-in-council on 20 July 2004; the Agency now reports to the President of the Treasury Board.

Focus of the follow-up

3.22 Our follow-up audit examined the management of the implementation of the new human resources legislation, and assessed the government's progress on its other human resources modernization initiatives. We expected that the new legislation would clarify the roles and responsibilities of central agencies and deputy ministers in human resources management. We also expected that the legislative changes and other modernization initiatives would be supported and managed effectively. We looked for clear plans outlining accountabilities for implementing those other initiatives.

3.23 We recognize that it will take some time to fully implement the new legislative and administrative frameworks. This follow-up sought to assess the government's progress toward establishing a solid foundation for reforming human resources management at an early stage in implementation. Our Office committed to reporting back to Parliament on that progress and we will continue to monitor it. Our follow-up scope and criteria are set out in **About the Follow-Up** at the end of the chapter.

Exhibit 3.1 A sample of non-legislative initiatives underway or completed

Non-legislative initiative	Description and status
Classification reform: Modernizing the standards (Public Service Human Resources Management Agency of Canada [PSHRMAC])	<ul style="list-style-type: none"> • To modernize, on an ongoing basis, classification standards as a basis for effective staffing and compensation across the public service. • The foreign service officer standard design is complete and is at the collective bargaining stage; draft standards of the economics, statistics and sociology, and border services groups are complete. • PSHRMAC has yet to release its annual update to Parliament on the progress of classification reform.
Compensation policy framework (Treasury Board Secretariat [TBS])	<ul style="list-style-type: none"> • Framework for determining and implementing negotiated settlements to improve the government's ability to attract and retain employees to the public service. Considers internal and external comparability, individual/group performance, and affordability. • A draft of the policy is complete.
Core learning for employees, managers, and functional specialists (PSHRMAC/Canada School of Public Service)	<ul style="list-style-type: none"> • Five year project that identifies the core learning needs of employees, management, and functional specialists to work efficiently and to effectively manage the business operations in the public service toward the achievement of results for Canadians. • Library of core knowledge of middle managers is complete; currently piloting core knowledge requirements of middle managers in financial management.
Values and Ethics Code for the Public Service (TBS)	<ul style="list-style-type: none"> • Code that sets forth the values and ethics of the public service to guide and support public servants in their professional activities. • The Code came into force on 1 September 2003.
Term Employment Policy (TBS/ Public Service Commission [PSC])	<ul style="list-style-type: none"> • Policy to balance the fair treatment of term employees with the need for operational flexibility. Replaces the Long-term Specified Period Employment Policy and reduces the cumulative working period of term employees to qualify for indeterminate employment from 5 years to 3 years. • The policy came into force between 1 April 2003 and 1 April 2004.
National areas of selection (PSC)	<ul style="list-style-type: none"> • A plan to expand the use of national areas of selection for jobs open to the general public, thereby removing geographical limits and enhancing Canadians' access to jobs in the federal public service. • National areas of selection for open competitions of senior officer-level jobs were implemented in the fall of 2001. In 2002, a pilot project was conducted for middle and junior officer-level jobs.
e-Recruitment (PSC)	<ul style="list-style-type: none"> • A plan to adopt modern recruitment technology to expand the use of national areas of selection for jobs in the public service. Modern recruitment technology is required to process a much higher volume of applications received under an expanded area of selection. • Piloted an existing electronic recruitment system in 2002 and launched an interim in-house technology solution (public service resourcing system) in April 2003. • Require long-term funding (\$40 million) to implement the plan.
Pre-qualified pools (PSC)	<ul style="list-style-type: none"> • Delegated the authority to establish pre-qualified pools to four departments on a pilot basis to test possible options that new legislation will open up.

Source: Public Service Human Resources Management Agency of Canada, Public Service Commission, and Treasury Board Secretariat

Observations and Recommendations

Positive legislative changes

3.24 In our April 2000 Report, Chapter 9, Streamlining the Human Resources Management Regime: A Study of Changing Roles and Responsibilities, we found that the roles and responsibilities for managing the government's human resources were fragmented. In particular, we noted that the respective roles of central agencies and deputy heads in this vital area needed to be clarified. The new *Public Service Modernization Act* (PSMA) contributes significantly to that clarification.

3.25 The PSMA essentially consolidated and re-assigned a number of human resource management functions (Exhibit 3.2).

Treasury Board's role as employer was consolidated

3.26 The new PSMA clarifies and reinforces the Treasury Board of Canada's role, as employer, in developing policies and monitoring and overseeing all key aspects of human resources management except for staffing. As the government's general manager, the Treasury Board Secretariat of Canada was expected to guide the implementation of the changes.

3.27 The Treasury Board retained many of its powers, particularly in the areas of labour relations and collective bargaining, pensions and benefits, employment policies, human resource requirements, classification of positions and rates of pay. It also retained its powers to establish qualifications for professional development programs and to make regulations on deployments and **appointments to level**. The Board will have full responsibility for planning for the human resource needs of the public service (a function that had been split between the Public Service Commission and the Board).

3.28 The revisions to the *Public Service Employment Act* (PSEA) also transfer certain powers to the Board from the Commission. For example, the Treasury Board will be responsible for setting the qualification standards used in the staffing of positions, setting probationary and notice periods, and determining rates of pay on appointment. Finally, as a new requirement, the Board must report on human resource matters that fall under its authority, which increases its oversight role in matters of human resource management.

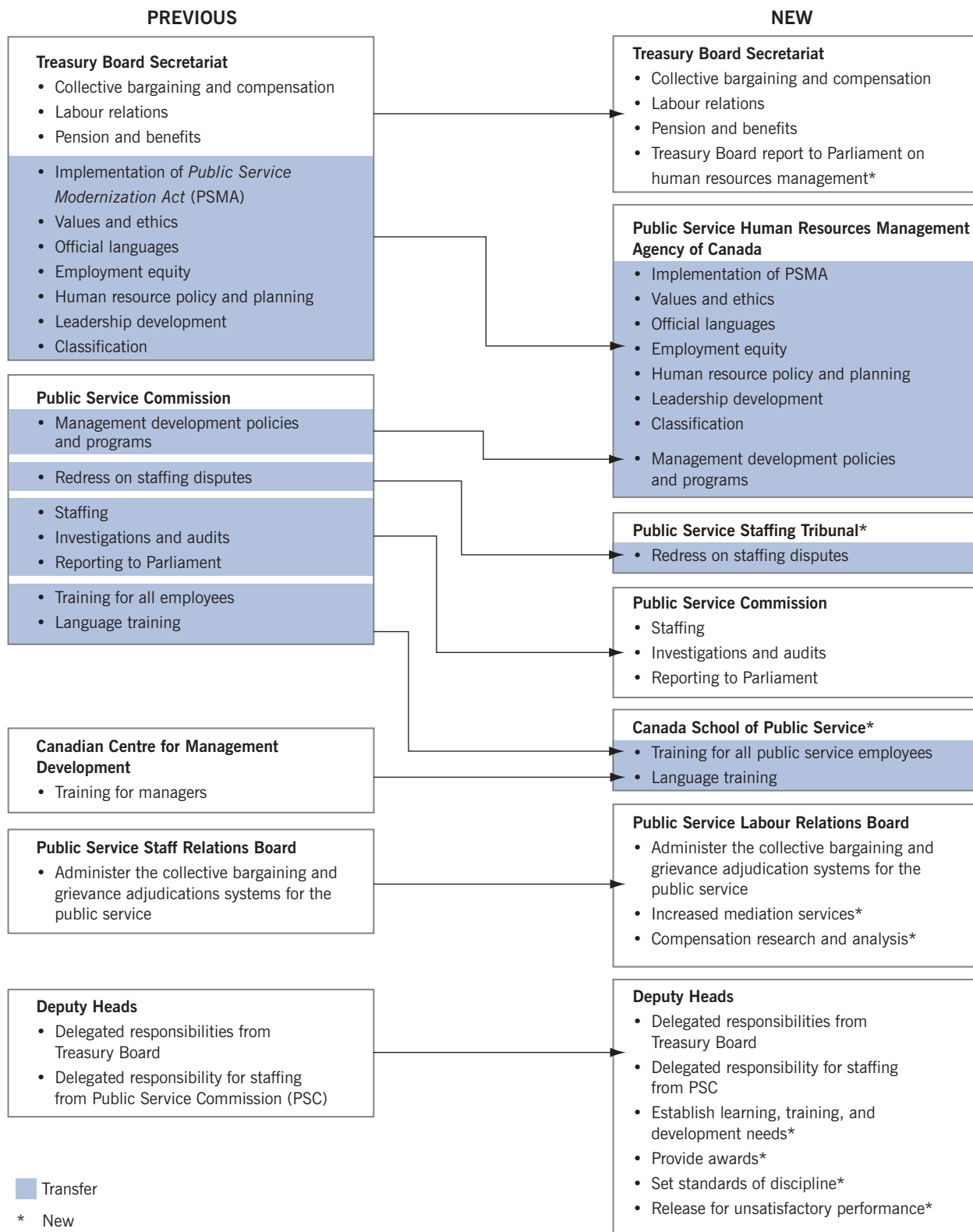
3.29 Consistent with principles of increased delegation, deputy heads now have some direct powers over human resources management. However, to ensure consistency and accountability across the public service, the Board is still responsible for establishing policies and issuing guidelines on deputy heads' use of their powers and their reporting obligations.

3.30 The intent is an integrated approach to human resources management that clearly defines responsibility and accountability for key functions—an approach that we reported was lacking in 2000.

3.31 We note that although the Treasury Board remains responsible for human resources management under law, some of its functions managed by the Treasury Board Secretariat were moved by the government to the Public Service Human Resources Management Agency of Canada in December 2003. We discuss some concerns with this in paragraphs 3.65 to 3.73.

Appointment to level—An appointment based on an employee's ability to function at a certain level rather than the level of the position the employee occupies.

Exhibit 3.2 Human resources management structure—Transfer and creating responsibilities



The new legislation means the Public Service Commission can focus on its key roles

3.32 In the past, our Office has commented on the many roles played by the Public Service Commission that created a potential for conflict. In earlier studies, the Commission pointed to the potential conflict in finding itself “increasingly present at tables comprising the very officials whose staffing decisions it may be adjudicating, reviewing or auditing.”

3.33 Several of the Commission’s non-core, operational functions have been transferred to other organizations (Exhibit 3.2). What the Commission retains is sole responsibility for staffing, carrying out investigations and audits, and reporting to Parliament. The new *Public Service Employment Act* (PSEA) proposes that all staffing responsibilities be delegated to deputy heads, except those relating to the political activities of public servants. The Commission is working on a revised delegation and accountability framework that will clearly spell out the responsibilities and accountabilities of deputy heads under the new regime.

3.34 In its key role of protecting the merit principle, the Commission is increasing its oversight activities and rebuilding its audit function through the reallocation of its existing resources. It will need to manage the appeals process for some time after the new PSEA comes into force, because staffing actions begun before that point are to be dealt with under the current system.

3.35 Although many of the Public Service Commission’s former operational roles have been shifted to others, it retains some of those responsibilities. For example, it is still responsible for general advertising of positions in the government. The Commission expects to provide some operational assistance to small agencies that lack the resources of larger departments. It will also have to address how to provide services to departments whose delegated authority for staffing has been withdrawn. To address the challenges posed by its ongoing dual role for operations and oversight, it is placing its operational responsibilities in one area as a service agency, headed by a vice-president reporting directly to the president. This arrangement is designed to separate the Commission’s service and oversight roles. However, the challenges posed by its dual roles will have to be carefully managed.

The learning function is consolidated

3.36 The *Public Service Modernization Act* created the Canada School of Public Service to provide a single focal point for all training and professional development in the public service. It replaces the Canadian Centre for Management Development and takes over the Public Service Commission’s previous roles in training. It also brings a more unified approach to meeting the common learning and development needs of public servants, such as training in financial and human resources and information management, procurement and other professional development areas, orientation to the public service, ethics and values, supervision/leadership/management practices, and language training. As of 20 July 2004, the president of the School reports to the president of the Treasury Board. Given that the Board is responsible for policies on learning, this adds more coherence to training and professional development.

Deputy heads will have more direct responsibility for human resources management

3.37 For the first time, deputy heads' responsibility for human resources management is defined in the revisions to the *Financial Administration Act* (FAA), the PSEA, and the PSLRA. We note that many of the provisions enable rather than prescribe; this will allow departments to move forward with new initiatives as they develop their capacity to take advantage of flexibilities. Many of the provisions allow for a more direct and immediate response to workplace issues, stronger relationships with unions and employees, and earlier resolution or reduction of conflict. Specifically, deputy heads must establish effective union-management committees to deal with immediate concerns, and to set up processes for early dispute resolution. More information on the new roles for deputy heads can be found at www.publiservice.hrma-agrh.gc.ca.

Implementing the reforms

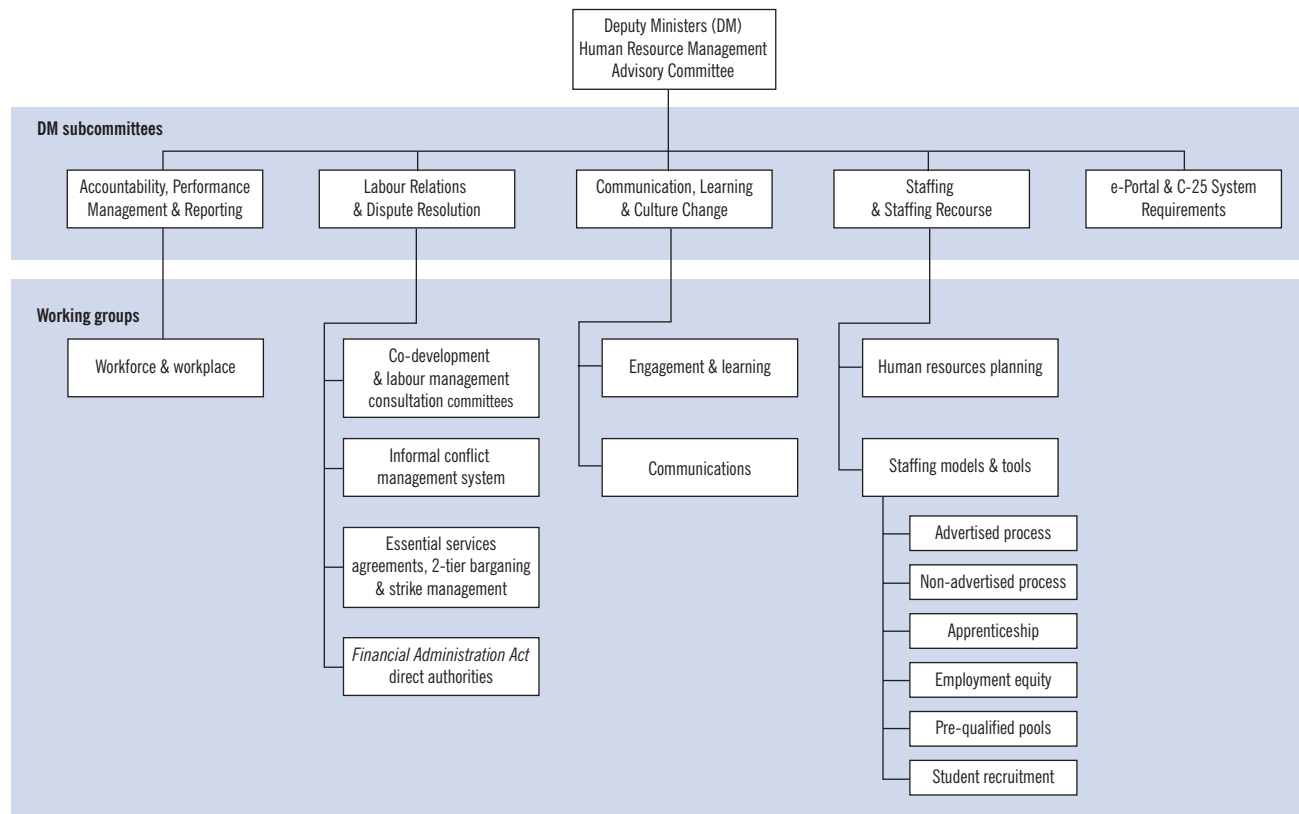
3.38 Along with its recommendations for modernizing human resources management, the Public Accounts Committee said the government had to ensure the clear definition of the roles and accountability for implementing the legislative reforms. To that end, the government set up a committee structure for co-ordinating the many aspects of implementing the PSMA. It also implemented a strong project management structure consistent with the accountability principles that our Office outlined in our 2002 Report, Chapter 9, *Modernizing Accountability in the Public Service*; it is also consistent with the Treasury Board's policy on project management.

The new management and co-ordination structure is guiding implementation

3.39 In 2003, the Treasury Board Secretariat established the Deputy Ministers Human Resource Management Advisory Committee (known as the MAC). The membership of the Committee and its subcommittees, chaired or co-chaired by deputy heads (Exhibit 3.3), reflects the importance the government has attached to implementing the PSMA and reforming the management of its human resources. The amount of time deputies are investing to support the modernization of human resources management among their many competing demands and priorities reflects their commitment to support the new regime. The MAC has become a permanent subcommittee of COSO, the Committee of senior officials (senior deputy ministers) that provides advice to the Clerk of the Privy Council on the management of the public service.

3.40 The MAC was initially established to oversee the implementation of the PSMA. However, in the spring of 2004, its role was expanded to reviewing all changes in human resources management as many of the non-legislative concerns have an impact on the legislative changes. An example of this interdependency is the linking of human resources planning with business planning. Because the new legislation allows departments to consider future requirements when they hire for existing positions, they need good planning and a sound understanding of human resources they will require in the future. The case study, *Human Resource Planning*, describes the work being done to improve human resources planning.

Exhibit 3.3 Deputy Ministers Human Resource Management Advisory Committee



Source: Public Service Human Resources Management Agency of Canada

3.41 A committee of assistant deputy ministers mirrors the MAC. Its job is to ensure the horizontal integration of project plans and priorities, identify corporate resources allocated to projects, and monitor challenges and priorities. It acts as the main “traffic controller” for the information flow among committees and the items going forward to the MAC.

3.42 Each subcommittee has a network of working groups that enables line managers, representatives from the regions, and bargaining agents to provide input. The subcommittees provide strategic advice on carrying out the PSMA, while the working groups provide options for implementing policy guidance and the detailed content for practical tools, guidance, and direction needed to support the use of the PSMA in departments. Final approval of any policy remains with the organization responsible for the policy. For example, all policies and issues on staffing require the approval of the Public Service Commission while the policies and issues on labour relations are under the authority of the Treasury Board Secretariat. These measures are significant because they reinforce the accountability of those who are responsible for the policies.

Human resources planning

Human resources planning is now seen as a critical enabler to achieve the full flexibility of the new *Public Service Employment Act*.

The Treasury Board (as employer) is responsible under the *Financial Administration Act* for identifying the current and future needs of the public service, and for establishing basic qualification standards for positions. The new *Public Service Employment Act* enables deputy heads to fill positions based on essential qualifications and considerations for current and future needs at the organizational level. In light of this, the capacity for building a more systematic approach to human resources planning has become a priority.

An interdepartmental human resources planning working group was created in October 2003. Its mandate was twofold: develop a generic planning template that departments and agencies could adapt to their needs and prepare a discussion paper outlining the current state of human resources planning in the public service, improvements needed, and the steps required to rebuild capacity across the public service. The working group has made significant progress on both fronts.

Based on extensive consultation and research, the working group drafted a number of planning tools, including a planning calendar and checklist, tool kit, and guide. These tools are intended to support integrated human resources planning and business planning practices in departments and agencies. In April 2004, the working group also published a discussion paper with several recommendations to help improve the state of planning practices and capacity across the public service. The working group expects to formally roll out the planning tools to departments and agencies in December 2004, and to work on re-building planning capacity and an improved process over the next three to five years.

In addition to the working group, the Public Service Human Resources Management Agency of Canada recently established a planning team and a Centre of Excellence to help support departments and agencies in re-building their human resources planning capacity.

3.43 As they stated in parliamentary hearings on the legislation and subsequently, the unions have significant concerns about what they view as shortcomings in the legislation. Despite this, some unions have seconded some of their staff to work with the government's project management team, and others have participated in working groups and subcommittees. Officials from the Public Service Human Resources Management Agency of Canada and the Public Service Commission have commented on the positive working relationship and useful input that the unions have brought to the process.

3.44 The heads of the Treasury Board Secretariat, the Public Service Human Resources Management Agency of Canada, the Public Service Commission, and the Canada School for Public Service meet informally but regularly to discuss the implementation of the PSMA, other change initiatives, and requirements for additional support. Their collaboration at the top has sent a message to their respective staffs to work together toward the common goal of modernizing human resources management.

3.45 The structure of the MAC with its subcommittees and working groups, the reasonably broad participation of stakeholders, and the meetings of

central agency deputy heads has permitted a collaborative approach to managing implementation activities. Clearly the “tone at the top” is appropriate, with support at the highest levels of management and in the central agencies.

Consistent project management practices have been implemented

3.46 Implementing a new regime for human resources management requires the government to follow sound project management practices. These practices are critical to ensuring the integration of many projects and activities directed toward reform, whether the changes are legislative or non-legislative.

3.47 We found that the basic elements of project management are either present or being addressed. These elements include assessment of risk areas, action plans, schedules and timelines, and performance measures.

3.48 Several committees are involved in project management. For example, the Public Service Human Resources Management Agency of Canada, which is responsible for implementing the *Public Service Modernization Act*, has a project management committee. This committee oversees the approach to project management across all the central agencies involved in implementing pieces of the new legislation or supporting other initiatives. An interdepartmental project management committee has developed a generic project management plan to help departments implement the Act.

3.49 We found mechanisms in place to ensure that the priorities and plans for implementation projects are integrated across the human resource management agencies, and that resources are allocated by priority.

Management of the non-legislative initiatives has improved

3.50 Several non-legislative initiatives (initiatives that do not require legislation) have been under way since 2000. We conducted some preliminary audit work of these initiatives from fall 2002 to February 2003—the results of which caused us concern about their management. Our concerns included a lack of stated priorities, measurable goals, outputs, and outcomes for individual projects. Often, accountability for the projects was not specified, nor were the costs, timelines, and scheduled dates of completion of work. We shared our concerns with central agencies in May 2003 and, to a large extent, they have addressed those concerns.

3.51 We found that work plans were developed to manage many of the non-legislative reform projects under way. The work plans contain information that the individual reform projects lacked initially, including expected outcomes and outputs, accountability for the project, key milestones and expected completion dates, and the resources (human and financial) required to complete the work.

3.52 We also found that in developing the workplans for the non-legislative projects, priorities had been set and links made to legislative projects. For example, the development of a compensation planning framework is a non-legislative initiative that has links to a number of legislative elements. These

include new PSMA requirements for compensation research, labour relations, and establishment of rates of pay on appointment. Links were also made among non-legislative reform projects; for example, classification reform is linked to reforms in areas such as labour relations, compensation, employment equity, and pay equity.

3.53 Together, these improved practices in project management encourage coherence and complementary relationships among the many legislative and non-legislative projects under way to modernize the management of human resources. Projects are not being carried out in isolation from one another.

Tracking costs is essential

3.54 The government has set aside \$238 million in additional funding to implement the *Public Service Modernization Act*. At the time of our follow-up audit, about \$38 million had been spent on early work and project management; the remaining \$200 million will be managed through a strategic investment framework. Under the framework, money provided to departments will be based on the business cases they make to the Treasury Board for access to these funds.

3.55 This process is a good first step to control spending and allocate funding. However, we noted that some stakeholders are concerned about the adequacy of funding. The \$238 million set aside will not pay for the total cost of implementing what will likely mean major cultural, organizational, and procedural changes in human resources management. Officials told us that departments will be expected to fund some of these modernization costs by reallocating funds internally. However, given that the government wants more than \$12 billion over four years to meet its commitments to health care and other priorities, identifying funds for supporting human resources management changes internally could be a challenge.

3.56 In the past, we have noted problems in identifying and tracking the total amounts spent across government on various initiatives, above and beyond funds allocated specifically for those purposes. All the costs of modernizing human resources management—the legislative and the non-legislative reforms—need to be determined according to the principles of sound financial management and the government’s Management Accountability Framework. The total cost will include various “soft” costs that departments must incur in areas such as training, information technology, conflict-management systems, and cultural change.

3.57 We note that the government did not identify and monitor the complete costs of two fairly recent initiatives: implementing a universal classification system and downsizing. We urge the government to track its expenditures on the reform of human resources management carefully. Doing so will make it possible both to assess the adequacy of current funding for implementing the PMSA and to determine the longer-term financial requirements of the reforms.

New dispute resolution agencies face challenges

3.58 A new organization, the Public Service Staffing Tribunal, will resolve staffing complaints. At this writing, no chairperson had been appointed to the Tribunal, although the position was advertised in October 2004, and we were told an appointment could be expected by January 2005. Once the head of the Tribunal is appointed, an organizational structure will have to be established and the organization staffed, and regulations and procedures will need to be developed and communicated to managers, employees, and unions.

3.59 Initially, 18 months was considered the timeframe needed for the tribunal to become operational. If a new head is appointed to the Tribunal in January 2005, under the present plans, the organization will have 11 months to become operational.

3.60 While some work has been done to develop the organizational structure for the Tribunal, we believe the timeframe for establishing the new organization is tight and any delay in appointing the head could jeopardize the date at which the new *Public Service Employment Act* comes into effect.

3.61 The legislation also creates the Public Service Labour Relations Board (PSLRB) for dispute resolution; essentially, a renamed Public Service Staff Relations Board with an expanded mandate and additional responsibilities. This part of the legislation is scheduled to become effective on 1 April 2005.

3.62 Most of the work required for the labour relations board to meet its new mandate has been done (for example, consultation and drafting of regulations, establishment of the new governance structure, preparation for new public interest commissions). But there is still concern about a couple of areas. A key aspect of the Board's new responsibilities is the establishment of a compensation research and analysis function that will provide information to both parties in collective bargaining to help them reach agreement on compensation. This function has not yet moved from conception to operational because of delays in receiving funding for its implementation and delays in creating an advisory board to provide advice to the chairperson on the compensation research and analysis services. Similarly, the PSLRB will be required to expand its existing mediation services considerably, and this aspect of work also needs incremental funding to progress. Funding was approved by the Treasury Board in October 2004, and the Staff Relations Board is taking the necessary steps to establish and enhance those services.

3.63 While the Public Service Staff Relations Board, as an independent quasi-judicial body, has remained separate from the overall management of the implementation of the legislation, we note that it had in place its own planning, project management, and control frameworks, as well as mechanisms for consultation with both employer and bargaining agents to ensure that it would be able to meet the requirements of the new *Public Service Labour Relations Act*.

Prerequisites for continuing success

3.64 In our view, the government has a good foundation for managing the legislative and non-legislative elements of the reform of human resources management. This represents an important change from the way two other such initiatives—PS 2000 and La Relève—were managed. Although much has been accomplished in a relatively short time, we do have some concerns. We believe that the government needs to address them if it is to maintain the present momentum of the reforms and ensure that it can implement them effectively in the coming years.

Human resources management is split

3.65 While the new *Public Service Modernization Act* consolidates the Treasury Board's role as employer, organizational decisions taken after the legislation was passed have split the human resources management functions among many stakeholders. As noted earlier, in December 2003, the government announced the creation of the Public Service Human Resources Management Agency of Canada, a separate organization reporting to the president of the Queen's Privy Council. In July 2004, the new Agency's reporting relationship was changed; it now reports to the president of the Treasury Board.

3.66 The December 2003 announcement indicated the possibility of transferring collective bargaining to Public Works and Government Services Canada after consultation with unions and the current round of negotiations. No further announcement on this point has been made; labour relations and collective bargaining remain the Treasury Board Secretariat's responsibility. Compensation planning, pension and benefits policies, and administration also remain with the Secretariat.

3.67 While the creation of the new Agency, headed by a president at the deputy minister level and focussed on human resources management, indicates more emphasis on the management of people—the government's key, and one of its most expensive, resources—the splitting of roles and responsibilities without compensating co-ordination mechanisms raises some concerns.

3.68 Our 2003 Status Report, Chapter 6, Reform of Classification and Job Evaluation in the Federal Public Service, noted that responsibility for three interrelated key functions—classification, compensation, and labour relations—was divided among three divisions in the Treasury Board Secretariat that worked independently. Because the classification of a job directly affects the salary, the management of these three functions is generally integrated, particularly in response to proposals for changes to a classification plan. In the rounds of negotiation leading to new classification plans, much work is often done to try and reduce the cost of any reforms. We noted in May 2003 that the separation of these three functions was hindering the Secretariat's efforts to reform the classification system. At the time, the Secretariat had recognized that clustering classification, compensation, and labour relations, along with pay equity, would allow for better information sharing and a more integrated approach to these functions.

3.69 We have been told of frequent consultations between the people responsible for collective bargaining in the Secretariat and the classification group at the Agency, but we did not find any formal mechanisms for aligning classification reform with collective bargaining. Given that there were problems when the divisions worked independently within one organization, dividing functions that are normally integrated between two separate organizations creates the potential for more difficulties. In our opinion, strong formal mechanisms for integrating and co-ordinating the efforts of the Secretariat and the Agency will be needed to overcome the effects of splitting human resource responsibilities.

3.70 The Agency retains responsibility for policies for learning and training, and for establishing professional development programs, while the Canada School of Public Service is the key arm for training and learning. Co-ordination between these two organizations will be critical to ensure that policy direction is carried out.

3.71 The Treasury Board is increasing its focus on financial management and implementing the Management Accountability Framework. This framework includes a key people component. Issues of human resources management thus become more complex, given the requirements of co-ordinating, managing, and assigning accountability for programs and activities that are split among different organizations.

3.72 Legislation introduced in Parliament in October 2004 would allow the Treasury Board to delegate to the president of the Public Service Human Resources Management Agency of Canada any powers over human resources management. The legislation also proposed that the president of the Treasury Board play a co-ordination role. In our view, the relationship between the Agency and the Secretariat (operating as the Treasury Board's general manager) needs to be clarified and communicated. Officials we spoke with indicated that they were not clear on the change in roles in the Secretariat and the Agency, where they should go for advice on various human resource issues and how the decision making processes were managed. Without further explanation of how human resource issues will be co-ordinated and managed in an integrated way, our previous concerns about the fragmentation of roles and responsibilities remain.

3.73 Recommendation. In carrying out the human resources role of the Treasury Board as the employer, the Treasury Board Secretariat and the Public Service Human Resources Management Agency of Canada should clarify how they will formally co-ordinate, integrate, and manage human resource functions and initiatives.

The Secretariat and the Agency's response. As recognized in Exhibit 3.3 and elsewhere in this chapter, a formal governance structure has been established to ensure the horizontal integration of plans and priorities, to identify corporate resources allocated to projects, and to monitor challenges and priorities. In addition to the formal mechanism, co-ordination, integration, and management occur on an informal basis and close working relations exist between the two organizations. The heads of these two

organizations and the President of the Public Service Commission meet regularly to discuss *Public Service Modernization Act* implementation, other change initiatives, and requirements for mutual support. Similarly, at the working levels, frequent consultation occurs between the parts of the organizations involved in, and affected by, human resource management issues; for example, the organizations involved in classification and collective bargaining. Both organizations report to the president of the Treasury Board and constitute part of the Treasury Board portfolio. The secretary of the Treasury Board Secretariat is responsible for providing advice on the coherent policy development and management of his portfolio.

3.74 Under the new *Financial Administration Act*, the Treasury Board must report annually to Parliament on the discharge of its human resource management responsibilities and those of deputy ministers. In the past, we have called for more comprehensive reporting on human resources management.

3.75 However, with the management of these responsibilities split between two organizations (the Treasury Board Secretariat and the Public Service Human Resources Management Agency of Canada), it is imperative that these two organizations develop mechanisms to produce an integrated report. In addition, the Public Service Commission is to report on the health of the staffing system.

3.76 Department officials we spoke with expressed concern about possibly having to provide multiple reports to various bodies on different timelines, requiring similar but not identical information. While some preliminary work was done to develop integrated reporting through the Management Accountability Framework, this is an area where more work is needed.

3.77 Another concern is the need to establish meaningful performance measures now and gather benchmark data in order for the Treasury Board and the Public Service Commission to report on whether the new human resources management regime is meeting expectations. This is a critical step, particularly given the mandated five-year legislative review.

3.78 Work on a performance measurement and reporting framework has been started but is not yet complete. A mechanism for integrated reporting that does not unduly burden departments also needs to be established.

3.79 Recommendation. The Treasury Board Secretariat and the Public Service Human Resources Management Agency of Canada should produce regular integrated reports on the progress of reforms to human resources management against established performance measures, and these reports should include interim achievements with the ongoing costs of implementation. The Public Service Commission should also establish performance measures and report regularly on progress in implementing the new staffing regime.

The Secretariat and the Agency's response. We agree with the recommendation and work is well under way on the development of a performance measurement and reporting framework for the people

component of the government's overall Management Accountability Framework (MAF). The Deputy Minister Human Resources Management Committee endorsed this component of the MAF on 26 October 2004. It describes the outcomes for sound people management in terms of both the workplace and the workforce. The Public Service Human Resources Management Agency of Canada is now focussing its work on developing the indicators, measures, and data sources that will permit the organization to determine progress on realizing these outcomes.

The Commission's response. The Commission supports the recommendation to establish performance measures and report regularly on progress in implementing the new staffing regime. This will be achieved through the Commission's Staffing Management Accountability Framework, which will set out the requirements, indicators, and measures to evaluate departmental performance in implementing the new regime.

Communications and learning

3.80 The government has recognized that effective communication will be crucial to successfully implementing these reforms. In the fall of 2003, several communication activities coincided with the passage of the new human resources management legislation. While efforts since then have focussed on policy and content development, various efforts have also been made to inform senior executives and departments about the coming changes. For example, the Public Service Commission led a consultative process in June 2004 with line managers and human resource professionals on issues relating to the implementation of the revised *Public Service Employment Act*. In September 2004, the Commission followed this with a conference for over 300 line managers and human resources professionals from across the country concerning various PSEA implementation issues. A further follow-up conference was planned for November 2004. The Public Service Human Resources Management Agency of Canada published a detailed information package on the full PSMA in July, with further elaboration sent out in October. This outlines mandatory requirements under the new acts (PSEA and PSLRA) as well as flexibilities that provide opportunities for doing things differently. The Treasury Board Secretariat planned meetings on changes under the *Public Service Labour Relations Act* for late 2004.

3.81 Although senior management is receiving information, we are concerned that more detailed information may not be circulating at lower levels in departments and, particularly, in the regions. In our view, a prerequisite to implementing the reforms effectively is ensuring that staff throughout departments are properly informed about them. As we were finishing our examination, work began at the Agency on a strategy to engage staff, starting at the assistant deputy minister level. We think much more work is needed to communicate with line managers, human resource professionals, unions, and employees if the PSMA is to be implemented successfully. The Agency indicated that it will intensify its communications in the fall of 2004.

3.82 We note that the Public Service Human Resources Management Agency of Canada, through the work of the various committees, has identified training as a high-risk area that must be carefully managed at all levels. The Agency, in collaboration with the Canada School of Public Service, is working to define the learning needed and is identifying knowledge gaps to develop appropriate, effective content for training programs. A learning strategy has been developed and the new Canada School of Public Service will design the training. This development was still in too early a stage for us to comment on its adequacy, but we recognize that much of the success of the reforms will rest on extensive training and communication.

Developing capacity in departments

3.83 If the government is to successfully modernize its human resource management systems, departments must have the capacity to implement the reforms as planned. This is a key concern that all stakeholders share. Cutbacks in the 1990s in areas such as human resources planning have left skill gaps in this area, now a key underpinning of new initiatives. The demographics of the human resources community indicate that some 47 percent of those professionals are eligible to retire by 2008, compared with 35 percent of the rest of the public service. In a recent report, the Public Service Commission noted possible shortages in the availability of people with the knowledge needed for human resources management at the department level.

3.84 The roles of both human resource professionals and line managers are changing. Human resource professionals will need to assume a role that is more strategic rather than transactional, as we noted in our 2001 Report, Chapter 3, Recruitment for Canada's Future Public Service: Changing the Practices, on recruitment. Line managers will have more responsibility and accountability for human resources. These shifts will be significant for many human resource practitioners and managers.

3.85 The lack of people with the right skills could hinder the government's efforts to translate the provisions of the PSMA into concrete reforms. We note the concern among all stakeholders that a lack of capacity could lead departments to revert to their old systems, stalling progress toward modernized human resources management.

3.86 One of the many implementation projects we noted involves developing criteria for assessing an organization's readiness for certain human resource management activities. The criteria need to be developed further, although the work to date is a reasonable first step toward measuring capacity to implement such reforms.

The need for sustained momentum

3.87 The government's priorities are continually evolving. Reforming human resources management is only one priority among many with which this initiative must compete. We believe it is essential to maintain momentum and ensure that modernization of human resources management remains a priority and an important element in the government's larger agenda. Only then will it be possible to institute reforms and embed them in the operations of government.

3.88 That this initiative will require a big cultural change makes it a particular challenge, one that will need sustained attention over more than five years. In the past, the government has had mixed success at maintaining a focus on long-term projects and keeping them a priority. We note also that many other change initiatives were launched at the same time, and the government is looking to reallocate its budget significantly.

3.89 Officials told us that the MAC would continue to exist after the legislation comes into force. However, it is not clear what other committee structure or mechanisms, if any, will be needed once that happens or what course corrections will be needed as implementation proceeds. Senior officials recognize that work is needed in this area.

Conclusion

3.90 We have described the many positive steps to manage both the implementation of new legislation and the supporting non-legislative initiatives the government has taken since our last Report in 2000 on reforming human resources management. One of the most important is the foundation it has put in place for managing this complex undertaking. We found leadership and a sense of purpose present. With some exceptions, the approach is integrated and emphasizes co-operation and co-ordination. We also note that the committees and working groups involved in implementing the *Public Service Modernization Act* and other reform initiatives have both identified the key risks and challenges to reforming human resources management and developed strategies for dealing with them.

3.91 Despite these efforts, the government will have to monitor progress constantly and be agile enough to make any changes needed to maintain steady progress. In our view, the government must maintain the momentum that has already been established to prevent the growth of cynicism in the public service and ensure that the reforms are implemented successfully.

3.92 We have recommended annual progress reports on reforms. Consideration of these reports by a parliamentary committee would be important as a means of influencing the nature, direction, and pace of change: an opportunity for Parliament to ensure that momentum is maintained and that change is real rather than illusory—and that Canadians are benefiting.

About the Follow-Up

Objective

We examined the management of implementation of the new legislation and continued our assessment of the progress on non-legislated modernization initiatives for human resources management.

Scope

Following our tabling of our April 2000 Report, Chapter 9, Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities, the government initiated several projects to modernize human resources management. This included the tabling of Bill C-25, the *Public Service Modernization Act*, and numerous non-legislative initiatives.

We examined the management and support provided for implementation of the new legislation. We also updated our work on how the non-legislated modernization initiatives contribute to the stated strategic objectives for human resources management and how they are being managed, co-ordinated, and integrated with legislative changes. We looked, for example, at the objectives of these initiatives, the rationale supporting them, their status and priority, the resources required, their timetable, and other costs, as appropriate. We also looked at the government's capacity to move on a number of fronts, to select priorities, and to assign resources to make the necessary organizational adjustments.

Our work consisted of interviews and reviews of documentation mostly in the Privy Council Office, the Treasury Board Secretariat, the Public Service Commission, the Canada School of Public Service, the Public Service Human Resources Management Agency of Canada, and the Public Service Staff Relations Board.

Criteria

Criteria for this component of the follow-up were drawn from several sources, including past Office of the Auditor General reports and studies, particularly Chapter 9 of the April 2000 Report.

Our criteria consisted of the following:

- The roles and responsibilities of central agencies and deputy ministers for managing human resources are clarified by the new legislation.
- The implementation of the new legislation is supported and managed effectively.
- Clear plans and accountabilities are in place to ensure the achievement of non-legislative modernization initiatives that support a streamlined and simplified human resources management regime.

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Appendix Excerpt from the *Public Service Modernization Act*

Summary

Part 1 enacts the *Public Service Labour Relations Act* to provide for a labour relations regime in the public service which is based on greater cooperation and consultation between the employer and bargaining agents, notably by requiring labour-management consultation committees, enabling co-development, enhancing conciliation and providing for negotiated essential services agreements. This new Act eliminates certain managerial and confidential exclusions and brings unfair labour practices up-to-date. It provides for the establishment of conflict management capacity within departments and more comprehensive grievance provisions. It also establishes the Public Service Labour Relations Board whose mandate is to provide adjudication services, mediation services and compensation analysis and research services.

Part 2 amends the *Financial Administration Act* to put direct responsibility for certain aspects of human resources management in the hands of deputy heads, subject to policies and directives of the Treasury Board. New deputy head responsibilities include determining learning and developmental requirements, providing awards and setting standards of discipline. Part 2 also amends that Act to provide for annual reporting to Parliament by the President of the Treasury Board on the application of the human resources management provisions of the Act.

Division 1 of Part 3 enacts a new *Public Service Employment Act* to modernize staffing in the public service while retaining the core values of merit, excellence, non-partisanship, representativeness and the ability to serve members of the public with integrity in the official language of their choice. The Act gives a new meaning to merit and creates new arrangements for staffing recourse, one of the features of which is the Public Service Staffing Tribunal. The Public Service Commission will continue to conduct investigations and audits on matters within its jurisdiction. The Act establishes, in addition to the annual reporting by the Public Service Commission, a requirement for the President of the Treasury Board to report annually to Parliament on the Treasury Board's responsibilities under the Act.

Division 2 of Part 3 amends the existing *Public Service Employment Act* to permit certain elements of the new Act to come into force sooner. The amendments establish a new Public Service Commission to administer the existing Act and to prepare the regulatory and policy framework for the new Act. They also establish a new Public Service Staffing Tribunal to prepare for the coming into force of the new Act and establish a new regime governing the political activities of public servants in a manner that balances their right to engage in those activities while maintaining the principle of political impartiality in the public service.

Part 4 amends the *Canadian Centre for Management Development Act*, which becomes the *Canada School of Public Service Act*. The School becomes responsible for learning and development activities for employees in the public service.

