**Terms of Reference – External Advisory Committee**

**on Executive Compensation**

**A Proposal to the President of the Treasury Board of Canada**

**by the Association of Professional Executives of the**

**Public Service of Canada**

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# Preamble

The Executive Group is comprised of over 8,500[[1]](#footnote-1) individuals having significant executive managerial or policy roles and responsibilities, influencing the direction of 89 Government of Canada departments and agencies. Positions in this group are responsible and accountable for exercising executive managerial authority over 327,451[[2]](#footnote-2) employees and providing recommendations and advice on the exercise of that authority.

These executives are essential to the proper management and operations of the public service and in the provision of programs and services provided to Canadians. Executives are essential to the success of the public service by managing tens of billions of dollars in benefit programs for Canadians, ensuring orderly and safe borders crossed by millions of travellers and billions of dollars of goods, ensuring Canadians’ safety and security, collecting hundreds of billions of dollars in tax revenue that ensures the stability of government programs, negotiating and administering numerous trade agreements, facilitating the transfer of billions of dollars in support of provinces and territories through the Canada Health Transfer, Canada Social Transfer, Equalization and Territorial Formula Financing and during the COVID pandemic, securing and distributing ample vaccine for all Canadians. The value and importance of the executive cadre is uncontested and requires attention and treatment equal to its value to Canada and Canadians.

From 1997 to 2015, an External Advisory Committee on Senior Level Retention and Compensation provided independent, expert advice to the government, through the President of the Treasury Board, on total compensation of executives and Governor in Council appointees. The committee considered the context and nature of executives' work, and the composition and size of executive groups. It also considered compensation principles and strategies, salaries, performance pay, leave and other benefits, and other aspects of human resources management in establishing total compensation levels for executives. The Association of Professional Executives of the Public Service of Canada (APEX) is of the opinion that since 2015, this specific knowledge, strategies, and insight into the terms and conditions of employment for executives has been absent in decisions taken regarding executive compensation. In doing so, the true value of the executive cadre to Canada and Canadians has not been recognized. It is essential that an External Advisory Committee be reconstituted in the spring of 2023 in acknowledgment of the Executive’s Group important role in supporting and providing advice to government and delivering highly valued services to Canadians.

# Terms of Reference – External Advisory Committee on Executive Compensation

## Purpose

Taking into consideration the value of the Executive Group to the Government of Canada and Canadians, the context and nature of their work, the composition of the Group and other aspects of human resources management in establishing total compensation levels, the External Advisory Committee on Executive Total Compensation (the Committee) is to provide independent advice and recommendations to the President of the Treasury Board to strengthen the executive cadre and ensure quality leadership and delivery of programs and services to Canadians.

## Mandate

The mandate of the Committee is to advise the President of the Treasury Board in the review, modification, and implementation of the Treasury Board Secretariat (TBS) compensation framework and strategy and propose fundamental principles and guidelines to guide the Government on decisions regarding executive compensation, policies and benefits and terms and conditions of employment. The Committee is to provide to the President of the Treasury Board annual total compensation recommendations that are based on these principles and guidelines in order to strengthen the executive cadre, ensure a constant attraction to become an executive by top talent, and provide high quality services and programs to Canadians.

## Duties

The Committee is responsible to execute the following:

* Reviewing the current TBS total compensation framework applicable to executives and recommending Executive Group specific amendments.
* Determining fair and appropriate internal feeder groups and external comparators to be used in ensuring a competitive total compensation package for executives.
* Establishing means by which to differentiate total compensation and benefits between the executive and non-executive groups.
* Annually reviewing and providing recommendations to government on compensation and terms and conditions of employment for executives.
* Periodically, reviewing the executive policies, levels and types of benefits, including other entitlements, that may be newly granted or amended.
* Annually measuring and reviewing the effectiveness of the executive total compensation package as a means of ensuring appropriate and constant attraction and retention of top talent to the Executive Group.
* Annually publishing publicly on the TBS website the recommendations made to the President of the Treasury Board, as well as the rationales.
* Periodically reviewing the methodology used by the Committee and by TBS to guide and inform recommendations to the President of the Treasury Board on total compensation for executives.
* Reviewing and monitoring exposure to risks associated with the compensation regime and policies and identifying mitigation.
* Offer APEX the opportunity to provide advice and pertinent information on behalf of the executive group to the Committee prior to their presentation of annual recommendations on total compensation to the President of the Treasury Board.
* The Committee, through the support of TBS, is to retain the services of an independent consulting firm to conduct an annual total compensation data and labour market study for the Executive Group using the internal and external comparators approved by the committee.
* The Committee will periodically review the at-risk performance pay regime, with a mandatory review in the first year of the committee’s existence.
* The Committee will review periodically the suitability and effectiveness of the classification structure and classification assessment methodology for the Executive Group.

## Guiding Principles

The Committee’s work and recommendations to guide the Government on decisions regarding executive compensation, policies and benefits and terms and conditions of employment are to be based on the following principles:

* Total compensation, including performance pay and terms and conditions of employment for executives are fair, objective, timely, transparent, and effective in attracting and retaining top talent to the executive cadre.
* Recognition of the value of the Executive Group to Canadians and Canada will guide the Committee’s recommendations to the President of the Treasury Board.
* Total compensation provided to the Executive Group must not be governed by the results of collectively bargained groups, or delayed due to collective bargaining.
* The independent annual data and labour market studies used to inform compensation recommendations are of the highest quality ensuring fairness.
* The results of the independent annual data and labour market studies are shared in a timely manner with APEX for transparency and input provision to the Committee prior to recommendations being provided to the President of the Treasury Board.
* Compensation recommendations and decisions must be timely and thus reviewed, recommended and adjusted annually.
* The implementation of the Committee’s recommendations on executive compensation must also be timely.
* A regime of at-risk pay, based on performance measured against predetermined targets and behaviours, must be effective in attracting and retaining top talent, as well as addressing measured effort-reward imbalance.
* Total compensation recommendations must ensure and maintain appropriate relativity with internal feeder groups, with special attention paid to salary compression and inversion in order to generate and maintain a high level of interest in the Executive Group.
* Enhancing the distinction between Executive and non-executive Groups must guide and inform the Committee’s recommendations on total compensation, terms and conditions of employment, benefits, perquisites, and policies.
* The Executive Group classification structure must be best suited to support the delivery of programs and services to Canadians.

## Methodology

To ensure total compensation recommendations and decisions for executives are fair, objective, timely, transparent, and effective in attracting and retaining top talent, the following methodological components shall be applied:

* The Committee will review the current TBS total compensation methodology applicable to executives and recommend appropriate changes in support of the guiding principles and methodology provided in this document.
* The Committee shall provide annual total compensation recommendations to the President of the Treasury Board of Canada.
* The Committee shall periodically review and recommend amendments to the Executive Group’s terms and conditions of employment, policies and benefits. The frequency of these reviews will be determined by the Committee to ensure recommendations are fair, objective, timely, transparent, and effective in attracting and retaining top talent.
* A benchmarking data labour market study comparing total compensation for the EX-01 level with key internal feeder groups, as well as relevant private and public sector external comparators, is to be conducted by an independent external firm and provided annually to the Committee.
* The data labour market study and the Committee recommendations to adjust of executive total compensation are to be based on no less than the 50th percentile of the selected public and private external comparators.
* Results of the benchmarking data labour market study are to be provided to the Committee sufficiently early, allowing time to make recommendations and allow Government decisions to be announced each year, in April.
* The results of the EX-01 benchmarking data labour market study are to be applied annually to all executive levels.
* Total compensation is to include the total value of salary, performance pay, benefits (e.g., leave provisions, pension, insurance and other entitlements).
* The Committee will provide recommendations that ensure an appropriate and effective compensation gap between the maximum EX-01 salary and the maximum salary of the key feeder groups, to avoid salary compression that negatively impacts attraction and retention.
* For greater clarity, the Committee is not to have authority to provide a recommendation on executive compensation that would lead to a maximum rate of pay at the EX-01 level that is less than 10% greater than the average of the top five feeder groups with highest maximum rates of pay.
* The Committee must annually offer APEX the opportunity to provide advice and pertinent information on behalf of the executive group to the Committee prior to their presentation of annual recommendations on total compensation to the President of the Treasury Board.
* The implementation of the Committee’s recommendations on executive compensation must include a pay implementation of no more than 12 months following the Government decision in April of each year.

## Expected Outcome

The design and implementation of a total compensation scheme that is competitive with comparators, generates interest and facilitates attraction and retention to the executive cadre by top talent from feeder groups. This scheme is effective in recognizing effort, increased responsibility, and value and impact of the role of executives. It provides a clear distinction between the executive and non-executive Groups. Further, this total compensation scheme is independent from collective bargaining and results in annual adjustments and contributes to establishing a healthy effort-reward balance and allows the executive cadre to maximize its support to the Government and the delivery of high-quality programs and services to Canadians.

## Review of Terms of Reference

The Terms of Reference for the Committee will be reviewed and assessed following the initial year of operation and a report will be provided to the President of the Treasury Board with recommendations on amendments, if any. Subsequent reviews and assessments will be conducted every five years thereafter, to ensure the Terms of Reference are up to date and relevant.

# Glossary of Terms

**Base salary:**

The fixed recurring portion of an employee’s cash compensation received for the performance of the regular duties of a position, exclusive of allowances, performance pay or other compensation or entitlements.

**Classification Methodology**

A point factor job evaluation system that evaluates jobs with respect to "know-how", "problem-solving" and "accountability”. Currently the Hay Guide Chart and Profile methodology, commonly called the Hay Plan, is the property of global consulting firm Korn Ferry.

**Competitive**

The Executive group will be considered competitive when their total compensation package ((comprised of the total dollar value of the combined elements of a compensation package including base salary, performance pay, benefits (e.g., leave, pension, insurance and other entitlements)) is sufficient to consistently attract top talent from feeder groups and retain it.

With respect to external comparators, P50 or greater is to be used as an indicator of competitiveness.

With respect to feeder groups, the maximum rate of pay at the EX-01 level is competitive when it is 10% or greater than the average of the top five feeder groups with highest maximum rates of pay.

**Executive Group**

The occupational group, as defined in the [Canada Gazette, Part 1, March 27, 1999](http://www.gazette.gc.ca/rp-pr/p1/1999/1999-03-27/pdf/g1-13313.pdf), as amended from time to time, including an employee appointed or deployed to an excluded and unrepresented position in one of the following groups and levels:

* Executive (EX) Group, levels 01 to 05;
* Defence Scientific Service (DS) Group, levels 7A, 7B, and 8;
* Medical Officer (MD-MOF) Group, levels 04 and 05;
* Medical Specialist (MD-MSP) Group, level 3; or
* Law Management (LC) Group, levels 01 to 04.

**Executive Group Structure**

The Executive (EX) Group structure includes jobs classified at EX levels 01 to 05.

**Key Feeder Group**

Key feeder Groups are defined as EX equivalents and EX minus 1s that predominately fill EX vacancies.

Top feeder groups, which accounted for 72.0% of all candidates appointed to fill 592 EX vacancies in the core public administration, include EC-07, EC-08, PM-06, AS-07, FI-04, PE-06, IT-05, IS-06, ENG-06 and ES-04.

**Other Executive Entitlements**

Additional elements of a compensation package provided based on status or income level, that serves to further distinguish executives from non-executives.

**Performance Pay and Award**

Performance pay/awards are by their nature, at risk, and entirely dependent on a systematic collection, analysis and evaluation of how effectively an individual is contributing based on pre-defined measures. A well-designed and well-administered plan should recognize effort and offer an appropriate reward, motivate, improve their overall job satisfaction, increase productivity and positively influence top talent attraction and retention.

**Salary Compression**

This exists when there is less than 10% difference between the maximum salary of a feeder group compared to the maximum salary of the EX-01. A difference of less than 10 percent can hinder top talent attraction and retention.

**Salary Inversion**

This exists when the maximum potential salary of the feeder group exceeds the maximum potential salary of the EX-01.

**Executive Total Compensation**

The total dollar value of the compensation package including base salary, performance pay, benefits (e.g., leave, pension, insurance and other entitlements).

1. As of March 31, 2022, source: People Information Management Automated Request Tracker (PIMART), Treasury Board of Canada Secretariat [↑](#footnote-ref-1)
2. As of March 31, 2022, source: People Information Management Automated Request Tracker (PIMART), Treasury Board of Canada Secretariat [↑](#footnote-ref-2)