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**Designing the Canada Revenue Agency human  
resources management regime:  
insights for public sector modernization?**

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Canadian Political Science Association Annual Meeting  
Public Administration Workshop  
Vancouver, BC  
June 6, 2008

On November 1, 1999, Revenue Canada became the Canada Customs and Revenue Agency (CCRA)<sup>1</sup>. This change in institutional status involved the introduction of a new governance regime, implementing a legislated Alternative Service Delivery (ASD) model that was a hybrid of traditional ministerial responsibility in program areas and Crown corporation governance in agency management. ASD's basic premise is that replacing central public service controls with customized – often shared – governance and management arrangements can lead to improvements in the efficiency and quality of public programs and services (Ford and Zussman: 6; d'Ombrain: 92-93). In a labour-intensive organization such as Revenue Canada, whose 45,000 employees constituted one fifth of the federal public service, the earliest and most visible changes in the move to Agency status were the establishment of a new human resources management regime designed to meet the requirements of the new agency's revenue collection functions as well as those of its managers and staff.

Generally speaking, the reviews for the move to Agency have been positive, certainly in CRA's own assessment but in the eyes of others as well (CRA, Brown and Barclay, Brown and Murphy). Tax collection in Canada is based on the voluntary compliance of taxpayers, and a basic premise has been that taxpayers who feel they are well served and treated fairly are more likely to pay their taxes willingly and honestly. The Agency has been assiduous in measuring client satisfaction and consulting stakeholders, and this largely favourable picture has been a central feature of its reporting to Parliament. The changes in organizational governance and in the human resources management regime are seen as major contributory factors.

Several questions arise from this experience. The move to ASD agency status was not universally supported, notably in the central agencies (Brown and Barclay) and unions, so the decision to take this step needs to be explained. It is also useful to consider the factors that contributed to implementation of a new human resources management environment in a large organization whose mandate and workforce were unchanged. A frequently raised issue is whether separate employer status and the associated degrees of institutional freedom accorded to CCRA were in fact necessary. A third line of enquiry is whether the circumstances of CCRA were unique, or whether there are lessons of general application to the wider public service.

Nicholas d'Ombrain raises two other points that are woven through this discussion. The first is to ask how easy it in fact is to detach management of an individual institution from central control, especially in areas affecting wage settlements and the fiscal environment (d'Ombrain:120); the second is to question whether an inherently coercive and multipurpose function of state such as tax collection is in fact well suited to the ASD model (147).

This paper begins by looking at the decision to create CCRA, the most ambitious of the federal government's ASD initiatives. It then describes the development and implementation of the CCRA governance model and of the Agency human resources management regime. The following section discusses the elements of the regime, as implemented on the Agency's "Day 1." It also considers the underlying critique of human resources management in the "mainstream" public service. The paper concludes with a discussion of more recent developments, noting areas where further research is warranted.

The paper is based on the premise that organizational change is an important policy and planning instrument and that a conjunction of external forces and agendas within the government and Revenue Canada created a window of opportunity that permitted major changes in the governance of the institution and in the psychology of its employees. While many – but not all – of the individual changes, and the change process itself, could likely have been undertaken within the public service management environment, it is argued that the shock provoked by the move to agency status provided a more comprehensive and even transformative change than would have been possible within the public service. There are, and have been, some demonstration effects for management of the mainstream public service, but CRA's agency experience also bears out d'Ombrain's scepticism about how many degrees of freedom there actually are in ASD status. Paradoxically, however, its particular circumstances appear to have made CRA a suitable candidate for ASD agency status.

### ***The decision to establish the Canada Customs and Revenue Agency***

The 1996 Budget announced that Revenue Canada would be reconstituted as a “service agency,” the Canada Revenue Commission (Finance 1996). This decision can be ascribed to three sets of reasons cited in the Budget papers. The first was the goal of more cost-effective service delivery, complementing announcements in the same Budget of continued Program Review cuts and of ASD as a new organizational policy instrument. A second reason was a desire to continue the consolidation of revenue collection functions within Revenue Canada that was already well advanced, and the third related to the Department of Finance's efforts to work with the provinces to maintain a national tax collection system. These factors are discussed in this section of the paper.

The 1996 Budget was the third in a row to introduce major cuts, based on Program Review's policy-driven approach to eliminating the federal deficit and reduce the national debt. Given the importance of maintaining government revenues, Revenue Canada was not subjected to major cuts, but it was placed under the same pressure as the rest of the government to make better use of the resources available to it. These included the public service wage freeze which was in place from 1991-97 and which particularly affected professionals such as accountants and lawyers, who formed a significant part of the Revenue Canada workforce and had employment alternatives outside the public service.

The ASD concept was also announced in the 1996 Budget, to encourage government departments to look for more cost-effective approaches to delivering public services for which they continued to be responsible. Influenced by New Public Management and the British Executive Agencies model, ASD offered departments a range of tools to structure management systems around the “business” needs of the organization and to replace or mitigate central public service controls. A wide range of ASD arrangements was eventually adopted (Zussman: 60-61). In Revenue Canada's case a particularly attractive mechanism was the possibility of becoming a separate employer and gaining more flexibility in wage determination and greater sensitivity to the labour market. The 1996 Budget announced the Revenue agency in parallel with ASD, under the heading of “New ways of doing business” along with the Canadian Food Inspection Agency and the Parks Canada Agency, but fairly quickly all three were catalogued as ASD initiatives.<sup>2</sup>

The Revenue agency announcement also built on a history of institutional evolution, reflecting the changing nature of government revenue collection. Over time, three major sources have influenced federal government institutional arrangements: customs duties, excise taxes, and income taxes. The first two belong exclusively to the federal government, while the provinces can also levy income taxes. In early years, Customs revenues dominated, and the institutional foundation for current federal government revenue collection was laid with the establishment of a consolidated Customs function in the 1850s. After Confederation it was split into two departments: Customs and Inland Revenue, which was responsible for collecting excise taxes (McIntosh). An Income Tax Branch was created in the Department of Finance to administer income taxes when they were introduced in 1917. The following year Customs and Inland Revenue were amalgamated into a single department; it absorbed the Income Tax Branch in 1924, and in 1927 was restructured as the Department of National Revenue (Osbaldeston: 409-410), with two deputy ministers, one for Customs and Excise and the other for Taxation. This arrangement continued until the 1990s.

The modern evolution of National Revenue (known as Revenue Canada under the Federal Identity Program), began in the 1960s when Canada Customs assumed primary inspection functions at ports of entry for immigration and other federal programs (410), an early example of “single window” service delivery. In the 1980s, the Excise branch became responsible for collecting the Goods and Services Tax.

Two other events provided the backdrop to the 1996 announcement. In 1991, a single deputy minister was appointed for the department and began to consolidate internal administrative services. Two years later, Prime Minister Kim Campbell transferred Canada Customs to the new Department of Public Security, reflecting a gradual shift in its role from revenue collection to border management. This was quickly undone by the Chrétien government, resulting in intensified administrative consolidation in Revenue Canada, involving integration of GST and excise taxes with other tax collection, linking Customs and taxation through a common planning and regional structure, and bringing together the two sets of departmental corporate services, including human resources management. As the 1996 Budget announcement made clear, agency status was seen as continuing this consolidation process in order to realize efficiency gains (and, it might be speculated, to stave off further attempts to sever Customs).

The third strand lying behind the decision to create a Revenue agency was a long history of federal revenue sharing and coordination with the provinces (Leblanc). In 1962, the federal Department of Finance, which is responsible for tax policy, negotiated Tax Collection Agreements (TCAs) with the provinces other than Quebec. Under the TCAs, Revenue Canada collected personal income taxes for participating provinces and corporate income taxes for all but Ontario and Alberta. The provinces set their tax rates as a percentage of federal rates (“tax on tax,”), greatly simplifying tax administration; in return, Revenue Canada collected provincial taxes at no cost to them. This arrangement came under pressure in the early 1990s with major downloading of federal costs to the provinces under Program Review, combined with the prospect of federal tax cuts. The cumulative effect was a double jeopardy of rising provincial expenditures and a risk of lowered revenues, leading several provinces to consider opting out of the TCAs.

The federal Department of Finance responded along two lines: it sought to harmonize or consolidate collection of GST and provincial sales taxes<sup>3</sup>, and it renegotiated the TCAs on the basis of “tax on income,” using the federal definition of taxable income but permitting the provinces to set their own rates. In return, provincial taxes continued to be collected without charge (Finance 2000), representing savings both to the provinces and in the cost of compliance to taxpayers (Plamondon). The 1996 Budget announcement sought to reinforce these arrangements by offering provincial governments a role in Revenue agency governance. Building on the renewed TCAs and HST/GST agreements, it was hoped that the Agency would be in a position to broaden its revenue collection activities on behalf of the provinces and to develop new clients among First Nations and even municipalities – in effect to move Revenue Canada from being a federal to a more genuinely national institution.

### *The CCRA governance model*

After the 1996 Budget announcement, an Agency Implementation Team headed by a Revenue Canada Assistant Deputy Minister (ADM) and reporting to the Deputy Minister began to work out the details of the agency governance regime and draft the enabling legislation. Two early decisions shaped this process. One was that Revenue Canada would be its own project manager in developing and implementing the agency governance and human resources management regimes, with private sector consultants “on tap but not on top.” The second was that the key elements of the agency governance and management policy framework would be put in place before the transition to agency status. Priority was given to human resources management, where it was considered that the greatest opportunity for significant policy and cultural change was at the moment of transition to Agency status. An over-arching concern was to ensure that there was no disruption in the flow of tax revenue.

A critical question was how much autonomy the agency could hope to obtain. ASD doctrine permits considerable choice in organizational arrangements, and the Budget announcement of a Canada Revenue Commission offered the possibility of an institution on the Crown Corporation model, with an empowered Board of Directors and a limited role for the responsible Minister. This was considered to be realistic, given that the Minister of National Revenue is prohibited by statute from dealing with individual tax files, while tax policy direction is provided by the Minister of Finance.

Consultations with the provinces and private sector tax professionals revealed considerable unease with the possible removal of a Minister who could ensure accountability and serve as a point of contact for outside organizations. This resulted in a hybrid model being adopted – an Agency rather than a Commission – with the Minister of National Revenue continuing to be accountable to Parliament for the operations of tax legislation but working with a Board of Management empowered to set management policies for the Agency in most areas of administration, including human resources management, contracting and real property management. The deputy minister of National Revenue became the Commissioner of Customs and Revenue and CRA Chief Executive Officer. The one significant area where the agency remained under Treasury Board rules applying to government departments was financial management, where the agency’s role in collecting the government’s finances meant that it needed to be financed by

parliamentary appropriations and therefore under the same accounting and audit rules as the rest of the public service.<sup>4</sup>

A second issue that arose during the agency planning process was the terms of its separate employer status. The more autonomous Crown Corporations, including Canada Post (the major previous example of a government department leaving the public service), conduct their labour relations under the *Canada Labour Code (CLC)*, which also applies to the federally-regulated private sector, rather than the *Public Service Labour Relations Act (PSLRA)*<sup>5</sup>. Public service unions consider that a critical difference between the *CLC* and the *PSLRA* is that the latter excludes staffing, classification and pensions from the scope of bargaining, while under the *CLC* all such matters are bargainable. The public service unions – notably the Professional Institute of the Public Service of Canada (PIPSC), which represents the majority of CRA auditors, lawyers and other professionals – have made no secret of their goal to repeal the *PSLRA* (Bird). They lobbied intensively to have the Revenue agency brought under the *CLC* and in early planning for the agency this possibility was left open. When the *CCRA* bill was tabled in Parliament in early 1998, the agency remained under the *PSLRA*, provoking the unions to oppose it in committee hearings.

The *CCRA Act* was passed in April 1999 after limited parliamentary discussion. Implementation of agency status was set for six months later, on November 1<sup>st</sup>, 1999, to allow time to finalize a “Day 1” management policy framework to replace or carry over policies previously set by Treasury Board Ministers and the Public Service Commission. These policies were approved by the *CCRA* Board of Management, which was set up in the Summer of 1999, and the new human resources management regime was used to brief employees, managers and human resources professionals in the lead-up to their collective and individual change in status. The development of this regime and the related transition process are discussed in the next section.

### ***Development and implementation of the Agency human resources management regime***

In developing the Revenue agency’s governance and management environment, high priority was given to establishing a human resources management regime that would meet the operational needs of the Agency and justify the considerable disruption inherent in the change of institutional status. The design of the regime and related legislative provisions sought to make a significant departure from the traditional public service system. While the substance of the new regime was important, the process by which it was developed also contributed to the prospect of successful implementation. This section of the paper reviews the human resources management provisions in the *CRA Act*, and then gives an account of the design process for the new regime, fleshing out this statutory framework, and of the steps to implement it. The next section discusses the substance of the regime.

Reflecting the hybrid Agency governance model, human resource management responsibilities are based on interlocking authorities under the *CRA Act*. The *Act* follows the model of departmental legislation in assigning the Minister of National Revenue the “powers, duties and functions” for the Agency’s tax collection and related programs, but it departs from that model by not giving the Minister “control and supervision” of the Agency. Instead, s. 6(2) states that the Minister “is responsible for the Agency,” while

management authorities are assigned to “the Agency” (s. 30) and the Board of Management oversees “the organization and administration of the Agency and the management of its ... personnel” (s. 31). The Commissioner, as CEO (and a member of the Board of Management), is responsible for “day-to-day management and direction of the Agency” (s. 36). The Minister may issue a written directive to the Chair of the Board with respect to any area of the Board’s responsibilities “that affects public policy or could materially affect public finances” (s. 11(1)). The Minister’s primary management role, however, is approval of the Agency Corporate Business Plan, which is prepared by the Commissioner and Agency staff under the Board’s direction and then taken by the Minister to Treasury Board for endorsement.

The most significant change from the departmental model was that the major statutory powers for human resources management are consolidated in a single authority structure. Authority to manage Agency staff, including classifying their positions and paying, training and disciplining them is incorporated in ss. 50-59 of the *CRA Act*, copying Treasury Board’s authority under s. 11 of the *Financial Administration Act (FAA)*. The Commissioner is assigned the authority to appoint staff, and the space occupied by the *Public Service Employment Act (PSEA)*, including its definition of merit and provisions for appointments and staffing appeals, is replaced by four brief sub-sections in the *CRA Act*<sup>6</sup>. As the third leg of the stool, the Board of Management is given the authority – normally held by Treasury Board for non-Crown Corporation separate employers – to mandate collective bargaining with the unions representing Agency staff and to ratify the resulting contracts. Taken together, these authorities represent what was considered to be the greatest degree of autonomy possible in human resources management short of moving to a full-fledged Crown Corporation model<sup>7</sup>.

Conditions were attached to this autonomy. Symbolically, the most important were linked to the departure from the *PSEA* and the public service merit and staffing system. Although movement of staff between Revenue Canada and the rest of the public service was quite limited<sup>8</sup>, Revenue Canada and central agency senior management agreed that continued two-way mobility was desirable, both to reassure staff nervous about leaving the mainstream public service and to underscore that the Agency remained part of the public service writ large. The *CRA Act* therefore includes provisions assuring public service and agency staff access to competitions in both spheres (ss. 55 (1) & (3)). The Public Service Commission can attach conditions to this access if it considers that the Agency’s appointment standards are not compatible with public service merit and to audit of Agency staffing practices if it has cause for concern (ss. 55 (2) & 56 (2)). The Agency was also required to institute a recourse system to replace the one in the *PSEA*; while the details are not specified in the *CRA Act*, an independent assessment was called for after three years (ss. 54 (1) & 59).

The other major constraint was in the area of labour relations. Although the Agency was under the *PSLRA*, its nearly \$2B staff budget was large enough to have an impact on the fiscal framework and therefore to attract the interest of the Department of Finance. Formally, the *CRA Act* requires CRA to include a statement of its strategy for upcoming collective bargaining in its annual Corporate Business Plan (s. 47 (2) (b) (ii)). In practice, staff costs are the largest single part of the CRA budget and therefore a central part of the annual budget negotiations with Treasury Board and Finance.

A pragmatic concern in developing the Agency human resources management regime was the requirement to obtain the informed consent of each employee in order to take them out of the public service. The *CCRA Act* wound up the Department of National Revenue and replaced it with a new organization, CCRA. Legally all jobs in Revenue Canada were thereby eliminated and staff entitled to a reasonable job offer under the government's workforce adjustment directive. In order to simplify the process, s. 91 of the *CRA Act* provided that staff were deemed to have been made a reasonable job offer – their existing jobs – when they moved to the Agency on “Day 1” and to have accepted this offer, unless they turned it down in writing within 60 days. This requirement became a symbolic litmus test for the degree of acceptance among Revenue Canada staff for the move to Agency. Several measures were therefore taken in the planning leading up to Day 1.

A crucial element was active management leadership. The tone was set by the Deputy Minister, who made clear that human resources management and Agency planning were his top priorities. The highly decentralized nature of tax administration and the relatively limited involvement of the Minister in departmental management also gave the Deputy Minister more time to devote to Agency preparations. For the two years before Day 1, Agency preparations were a standing agenda item on all senior-level management committees, and achieving Agency objectives was a common accountability goal for all managers in the executive category. These measures were supported by an extensive internal communications campaign.

The substance of the Agency human resources management regime was provided by a highly visible process aimed at developing staff and management ownership for the results. This began in 1997 with five internal task forces, led by ADMs but with members from all levels of the organization including human resources staff, that looked at the key areas of human resources management and problems that needed to be addressed. When the departmental unions asked to be involved in the follow up to the task forces, an agreement was reached in late 1997 to establish joint design teams to develop the detailed design for individual components of the new regime. These design teams had participation from all the Revenue Canada unions as well as a cross-section of staff and were led by independent professional facilitators rather than by a senior manager. In the end, ten design teams were set up, with over seventy staff involved, drawn from a cross-section of volunteers from across the department. In order to promote “outside the box” thinking, human resources professional staff were not included in the design teams, serving instead as resources to brief them on current arrangements and issues.

In January 1998, a separate project office, the Agency Human Resources Team, was established in the Human Resources Branch to support the development and implementation of the agency human resources management regime, working closely with the Agency Implementation Team. This office provided logistical support to the design teams and worked with policy centres in the human resources branch and the unions. While the design teams were being organized, the draft *CCRA* bill was released, with its provision to keep the Agency under the *PSLRA*. This led the two largest union groups – PIPSC and the Taxation component of the Public Service Alliance of Canada (PSAC) – to withdraw formally from the design team process. The Customs component of PSAC stayed in, however, on the understanding that the Agency would adopt its own



version of the Universal Classification System then under discussion in the public service in response to pay equity settlements, as did the half dozen smaller unions with members in Revenue Canada.

After three months of intensive work, the design teams reported in the late spring of 1998 to a joint workshop chaired by the Deputy Minister. Building on that input, the Agency Human Resources Team then prepared a draft comprehensive blueprint for a new human resources management regime that was developed in greater detail over the following year, using internal working groups and external consultants. (The elements of the regime are discussed in the next section.) The design teams stayed involved in fleshing out the details, a process that in some areas continued well past Day 1.

Once the *CCRA Act* was passed in April 1999, the design process focused on the components that needed to be in operational on Day 1. Priority was given to three areas: developing a staffing process and related recourse mechanisms in order to replace the *PSEA*,<sup>9</sup> establishing a headquarters capacity to play the employer role, and developing an Agency job classification and occupational group structure to serve as the basis for recertifying the bargaining agents representing Agency staff so that collective bargaining could begin. In the weeks before Day 1, the Board of Management approved a human resources policy manual that was considerably slimmer than the Treasury Board and Public Service Commission manuals that it replaced and contained fully developed or interim policies in all of the areas of the human resources management regime.

These measures provided the context for a massive briefing and training effort for staff, managers and human resources professionals on the details of the new human resources management regime. This included distributing an information booklet to all staff, combined with briefing sessions in all the workplaces across the country. In the event only a few hundred employees – well under 1% – refused the job offer, many of them approaching retirement and eligible for an additional week's severance pay if they were laid off in the transition to Agency as opposed to retiring from the Agency.

### ***The elements of the CCRA human resources management regime***

The move to separate employer status provided an opportunity to go back to something approaching a clean slate in structuring the individual components of human resources management and in integrating them. It was also an opportunity to address perceived deficiencies of mainstream public service human resources management. This section will begin with an account of the main goals and critiques that influenced the design of the human resources management regime. It will then discuss the regime's major elements. The focus is on the design that guided subsequent policy development and implementation. Several individual components were only partially developed by Day 1, and a follow-up area for research would be to look in detail at how the original model has fared after four Commissioners and nearly a decade of practical application.

Thinking about the design of the new regime came from three main sources. In principle, the most important was the ASD goal of structuring management policies and procedures around the business goals of the organization. As there is no generic model of tax administration, in practice this goal translated into ensuring that the agency human resources management regime responded to the requirements of management and staff; priority was also given to equipping the Agency to assume the employer role and to link

human resources management to agency corporate business planning. A related source of ideas, however, was the critique of existing practices that came out of Revenue Canada's revenue collection history, as provided by the task force and design team exercises, supplemented by a steady stream of feedback in response to staff briefings and management discussions about Agency. A third source was perceptions of the larger public service personnel system, including the familiarity of senior Human Resources Branch managers with departures from the prevailing model, including the establishment of the National Energy Board as a separate employer, the foreign service and the employment equity program.

The existing system was widely criticized. The greatest depth of feeling, from managers and staff alike, was about the staffing and related recourse systems. It was estimated that it took six months to fill a job, when there were no appeals, and up to two years when there were (CRA). Each year there were in the order of 600 appeals to the Public Service Commission and a couple of dozen to the Federal and Supreme Courts. An underlying concern was that the *PSEA*'s process-based definition of merit focused on qualifications for individual jobs and left little room for career development considerations. A related criticism was the slowness and amount of paperwork involved in hiring temporary staff at tax filing seasons and other predictable points in the year. In all of this, the human resources management function was seen as highly bureaucratic and geared to filling jobs and supporting managers, with little capacity to support employees in particular circumstances or to maintain an institutional relationship with employees over time. In principle, line supervisors had the primary responsibility for managing employee career interests, but they were ill-equipped to do so.

The public service classification system was widely regarded as broken in the wake of court decisions that it violated pay equity principles. In Revenue Canada it also suffered from lack of coherence between the former Customs and Excise and Taxation components, which until the early 1990s had had independent approaches to human resources management. Similarly, there were differences in approach within the department in the area of training and ambiguity about whether training should meet organizational or employee needs, and how training should be delivered.

The main criticism of the public service model was that it lacked coherence, having never been looked at as an integrated whole. Its defining characteristic was position-based job classification and staffing, with an implied – but increasingly dysfunctional – internal labour market to fill jobs and create careers. The government's employment equity model seeks to compensate for weaknesses in the historical public service approach, and the Agency regime drew heavily on that model. Four concerns of the employment equity model provided focal points for designing the Agency regime: the flow-through dynamics of the workforce as a whole and of individuals within it; the key stages of careers (entry to the workforce, career paths, and transition/exit), looked at as an interconnected whole; workplace relationships and wellness; and metrics, using balanced scorecard methodologies, to monitor how well the regime was working. An over-riding concern was to validate the interests of employees along side those of the organization.

Working with these features and the imperatives of the ASD model, the human resources regime was seen as having five foundational elements. The first was that human resources management should in the first instance be driven by the Agency's "business,"

in which staff are its single most important area of investment, both in terms of the numbers involved (well over half of the Agency budget) and because of the long-term impact of hiring decisions. This line of thinking also recognized that there is a significant *a priori* “make or buy” dimension to meeting requirements for human resources: decisions to hire staff on a permanent or a temporary basis or to hire consultants and other contract staff are alternatives to each other and should be driven by a common corporate planning and monitoring framework.

In support of this approach, the second element was development of a human resources management “business model,” which identified three dimensions of human resources management, two relating to demand for human resources management and the third to supply. The first of these was management of human resources in support of the Agency’s business. This focused on work to be done in day-to-day operations and skills needed to do it. The second was management of workforce demographics, including paying attention to the geographical and functional distribution of staff, career stages and inventories of skills. The supply side of the business model was concerned with the framework of human resources policies and procedures and in particular the human resources professionals whose work is defined by those policies. These three dimensions were complementary but each required its own attention – the first two meant developing new capacities within the Agency while the third pointed to “re-engineering” the existing capacity, in light of the requirements of the new regime.

The third element of the human resources management regime was the development of a comprehensive employer outlook. This meant integrating the perspectives and capacities of Treasury Board, Public Service Commission and Revenue Canada’s own corporate management. It also involved developing a single integrated policy framework, using a life-cycle model to link stages of careers, key personnel management transactions, and the perspectives of the relevant actors and interests: those of employees, supervisors and managers, human resources professionals and senior management. This framework was represented in a flow diagram, indicating the linkages to design team recommendations, that was used extensively in communications activities related to introduction of the regime. It was also the reference point for developing an integrated set of human resources policies and supporting systems.

Three common threads were woven through the regime’s design and provided its fourth element: planning, competencies, and technology. Planning was seen as providing a crucial link between human resources management and the Agency’s over-all management, but its use was intended to inform all elements of the regime and stages of the life-cycle, including by individual employees. Influenced by the leadership competencies developed for the public service executive group, the intention was to use a common competency lexicon to describe all the elements of personnel management for staff at all levels, from job classification to selection criteria and training programs. A major risk element, however, was that the methodology was still under development, and the job of developing and applying a competency catalogue, working with private sector consultants, went well beyond Day 1. Planning for the agency coincided with the emergence of networked computing, database management, and client-centred service methodologies. The new regime sought to make full use of these tools, including as a means of giving employees more control over their careers. Again, a risk factor was that

the technologies were still new and not well developed in areas such as employee self-service.

The first four elements of the regime set the context for the fifth, an integrated approach to the key human resources management functions. For planning purposes, these were divided into three categories: the employer role, the “drivers” that needed to be in place for Day 1 (staffing, recourse and classification), and six longer-term “critical investments” that were not fundamental to moving to Agency status but were considered essential to its success.

The challenge of the employer role was to assume the culture and instruments of a head office. Concretely, it had to develop the capacity to work with the unions and conduct collective bargaining. An experienced head of labour relations was hired from outside the federal government well before Day 1, and preparations were made to withdraw from the National Joint Council on Day 1, permitting the Agency to develop its own policies with respect to allowances and other areas covered by the NJC.

Based on the staffing and classification design team reports, the Agency moved to adopt generic job descriptions, with a reduced number of occupational groups, and pre-qualified selection pools, which allowed staff to be screened for positions before they became vacant. The idea of the pools was borrowed from the ADM management process in place at the time but it was applied to all levels in the Agency. A standard of absolute, as opposed to relative, merit was adopted for entry to the pools, under which candidates were selected against a qualifying standard, rather than in comparison with each other. When vacancies occurred, the manager could make a selection from the pool in a matter of weeks. In principle all members of a pool would be selected before it was replenished.

The recourse system was based on alternative dispute resolution procedures which were then being introduced by the Department of Justice, with a three stage process intended to match the level of procedural formality with the nature of the decision under review. A factual decision about credentials, for example, would have a more informal review than a decision that a candidate did not meet the qualifying standard, which could be reviewed by a specially selected independent panel. In all cases, the goal was expeditious but transparent decision-making.

Six areas were identified as longer-term critical investments. The first was electronic delivery of employee services, which was seen both as a source of efficiencies and as a way of supporting efforts to improve service to the public. The second, building on the first, was competency-based training, a key goal of which was to permit staff to conduct self-assessment and self-directed training on-line. A third investment was to develop an empowered middle management cadre. This included creating a separate middle management group in the unionized sector and a greater degree of ownership by Agency senior management for the development of this group. Fourth was the effort to strengthen human resources planning and link it to Agency business planning. A fifth component was to pay serious attention to statutory official languages and employment equity requirements, and the sixth to take measures to improve workplace “wellness,” going beyond traditional health and safety concerns to address organizational culture and interpersonal dynamics.

The process for implementing the human resources management regime was considered to be at least as important as its content and was based on several planning assumptions. Many of the regime's concepts had precedents elsewhere in the public service, but others needed to be fleshed out – often with outside help – and the linkages among them developed. While the core elements of the human resources regime were implemented on Day 1, it was assumed that finalizing and fully implementing the integrated design would take five years of sustained effort, using change management methodologies at every stage. Financing for the development phase, including the costs of the Agency Human Resources Team, was provided by a \$10M levy on the rest of the department, with a promise of reduced human resources management costs in the longer run. The development of the regime was conducted through a combination of “top-down” and “bottom-up” inputs, with the joint union-management design teams playing a major role in developing the substance, while the Agency Human Resources Team led the parallel development of the legislation and details of the regime. It also supported the redefinition of the human resources function. These measures were reinforced by the attention devoted to agency planning by both the top leadership and line managers.

### ***Epilogue: beyond Day 1***

The need to have a fully functioning, autonomous human resources management regime on Day 1 attracted senior level attention and resources. While the priority inevitably declined after Day 1, there was sufficient momentum to see through the major components of the human resources agenda. The most fundamental was in the area of labour relations, but there were also two statutory Parliamentary reviews, unexpected machinery of government changes and ongoing events which had an impact on the regime's implementation.

In XXXX, the Agency submitted its classification plan to the Public Service Labour Relations Board as a basis for certifying Agency bargaining agents. The plan was an adaptation of the Universal Classification Scheme that was earlier abandoned by Treasury Board. As with the larger UCS exercise, occupational groups were consolidated and the number of bargaining agents was reduced. The Agency was not, however, able to consolidate groups of employees who straddled the PSAC/PIPSC dividing line, as neither union was prepared to lose membership. In particular, this meant that the historical division between excise/GST auditors and tax auditors was maintained, even though their duties were largely interchangeable. A second constraint emerged when the Agency began collective bargaining, as its degrees of negotiating freedom turned out to be limited by Department of Finance concerns about pressure on the fiscal framework and Treasury Board Secretariat and union concerns about possible precedents for bargaining in the core public service.

At the same time, the CRA experience did have some influence on the rest of the public sector. The *Public Service Modernization Act* in 2003 echoed a number of CRA features, including statutory delegation of appointment, training and other human resources management authorities to deputy ministers, recognition of absolute as well as relative merit, greater flexibility in staffing recourse, and redefinition of “separate agencies,” as opposed to the “core public service” in the *FAA*. In 2007, CRA was offered as a model for governance-driven human resources reform of the RCMP (RCMP: 3, 6).

In the Parliamentary five-year review of the *CRA Act* in 2006, CRA gave a positive assessment of the human resources regime and its contribution to achieving Agency goals, citing supportive comments from the Auditor General (CRA 2005). The Standing Committee largely echoed this conclusion, although noting continued criticism from the unions and too much involvement by Treasury Board in CRA labour relations (FINA). It also criticized the lengthy process and cost of developing competencies.

A suggestive development occurred, however, when the Martin government came into office on December 12, 2003. Echoing the Campbell reorganization – but also similar moves in the United States following the 9/11 attacks – it established a Public Safety portfolio, with the Customs branch providing the nucleus of a new Canadian Border Services Agency (CBSA). Although an agency in name, CBSA was taken out of the separate employer environment and restored to the core public service. No advance notice was given of this move, which had immediate effect, and it was not publicly explained. It seems likely, however, that at least one factor was continued central agency ambivalence about the initial decision to establish CCRA.

***Conclusion – an anomaly or a model for the future?***

The Canada Revenue Agency is an important case study for a number of reasons. Tax administration is a core role of government and lies at the heart of the relationship between government and the governed. CRA is one of the rare public sector institutions that operates on behalf of both levels of government, and indeed it is on the scale of the larger provincial governments. It has always been relatively self-contained and for many years has been an innovator in public sector management – anticipating current management thinking, it began acting as a single window at the border in the 1960s and the voluntary compliance imperative made it an early proponent of citizen-centred service methodologies and use of information technologies.

It was therefore not a surprise that Revenue Canada was a candidate to be an ASD service agency. Ideas (a marriage of New Public Management-inspired experimentation with organizational policy instruments and tax policy objectives), institutional history, internal reform momentum, and individual actors all coalesced at a propitious moment in time under the shock of Program Review and a sustained wage freeze to create an opening for a substantial change in the CCRA governance and management environment. It is unlikely that the same decision would have been taken at another time.

The ability to create a separate employer-based human resources management regime was both a justification and a catalyst for the move to ASD agency status. The question then is whether the regime has been successful. The basic ASD test of success is whether it has helped CRA to provide more cost-effective services to the public. The Agency in its public reporting points to sustained high levels of public satisfaction with its services and of tax-payer compliance. Both tax professionals and provincial governments have considered the impact of agency on CRA staff to be positive (Brown and Murphy), employee satisfaction improved between 1999 and 2002 (CRA). In 2006 a major Finance goal was met when Ontario contracted with CRA to collect its corporate income tax and transferred associated provincial staff to CRA.<sup>10</sup> At the same time there have been continuing indications that CRA staff are comfortable with separate employer status and have no desire to return to the core public service.

Whether the agency human resources management regime has been successful in its own terms or provides a successful response to its critique of the core public service model is a question that requires further research. By definition, the Agency's success is its success. The Agency has clearly assumed the mantle of an employer, and it has a comprehensive view of human resources management that is not available to a government department. At the same time, it faces challenges in many of the individual human resources areas, notably labour relations, where d'Ombrain's prediction of limited prospects for autonomy from central control have proved well-founded.

Was the disruption created by the move to agency necessary? Agency managers believe that it was (CRA, Brown and Barclay), justified not so much because by the details of the human resources management regime as by its comprehensive nature and in particular the positive effects of the attention given during the planning and transition process to the perspectives of employees and managers and the effort to integrate them with the corporate interests of the Agency. In that respect, Revenue Canada may in fact have been a suitable candidate for Agency status, notwithstanding d'Ombrain's reservations. If the CBSA experience is any measure, however, it is unlikely to be a repeated experiment.

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<sup>1</sup> CCRA became the Canada Revenue Agency (CRA) on December 12, 2003 when the Customs function became the nucleus of the new Canada Border Services Agency. The Agency is referred to as CCRA in discussion of planning and implementation of the Agency “Day 1” but as CRA in looking at its subsequent evolution.

<sup>2</sup> Initially, the three agencies were described as pilots, with some suggestion that the model might be applied to the entire public service. This idea became less interesting with the resumption of collective bargaining in 1997.

<sup>3</sup> A Harmonized Sales Tax (HST) collected by CRA was negotiated with Nova Scotia, PEI, Newfoundland, and Saskatchewan, with a reduced blended tax rate. Collection of GST in Quebec was contracted to the provincial revenue ministry. Most of these agreements involved interjurisdictional staff transfers, and a secondary objective of giving the Revenue agency separate employer status was to facilitate such staff movements in the future.

<sup>4</sup> CCRA continued to be covered by management legislation and policy applying to the broader public sector, notably with respect to official languages, human rights, employment equity, access to information, privacy and federal identity.

<sup>5</sup> At the time of agency planning it was the *Public Service Staff Relations Act*. The later move to the *PSLRA* did not affect the scope of public service collective bargaining.

<sup>6</sup> The Agency did remain subject to the *PSEA* provisions governing political activities of public servants.

<sup>7</sup> Agency staff also remain under the *Public Service Superannuation Act*.

<sup>8</sup> One internal estimate was that a total of 300 staff moved in both directions in a given year, the majority to Revenue Canada.

<sup>9</sup> The *Act* permitted delaying the shift away from the *PSEA* until after Day 1, but it was considered that this would involve an unacceptable loss of momentum.

<sup>10</sup> A separate research area is to look at CRA’s role in the development of First Nations tax administration. This has almost certainly been facilitated by CRA’s independent standing and authorities.