

March 23, 2009

To: Executive Committee

From: Employee and Labour Relations Committee

Subject: **Non-Union Compensation (2009) [EL13.6]**

**Recommendations:**

**The Employee and Labour Relations Committee recommends to the Executive Committee that:**

- 1. Recommendation 1 of the report from the City Manager be deleted.**
- 2. The Executive Committee recommend that City Council amend the non-union compensation policy by:**
  - a. setting the cost of living adjustments for 2009 and 2010 as 0% and 1%, respectively**
  - b. cancelling the re-earnable performance-based lump-sum payments in 2009 and 2010 for non-union employees who have reached their respective maximum salary (job rate).**
- 3. The Executive Committee recommend that City Council continue the performance-based pay policy in 2009 and 2010 for employees' progression through their respective grade salary ranges (minimum salary to maximum salary – job rate), which is based on non-union employees' 2008 and 2009 goals and performance.**

**Decision Advice and Other Information**

The Employee and Labour Relations Committee requested City Manager to report:

1. directly to the Executive Committee meeting on April 7, 2009 on the impact of the amendments recommended, including any confidential information relating to labour relations and employee negotiations.
2. to the Employee Labour Relations Committee, as appropriate, on a revised performance structure for 2011 and beyond.

Background:

The Employee and Labour Relations Committee on March 23, 2009, considered a report (March 23, 2009) from the City Manager entitled “Non-Union Compensation (2009)”.

The following Councillor members were also present during consideration of this item:

Councillor Shelley Carroll  
Councillor Peter Milczyn  
Councillor Michael Walker

City Clerk

- c. City Manager  
Executive Director, Human Resources  
Mr. Richard D. Majkot, Executive Director, COTAPSAI

Merle MacDonald/tk  
Enclosure-EL13.6



## **STAFF REPORT ACTION REQUIRED**

### **Non-Union Compensation**

<b>Date:</b>	March 23, 2009
<b>To:</b>	Employee & Labour Relations Committee
<b>From:</b>	City Manager
<b>Wards:</b>	All
<b>Reference Number:</b>	

### **SUMMARY**

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The purpose of this report is to provide the Employee & Labour Relations Committee with information regarding non-union compensation for employees in the Toronto Public Service at the City of Toronto. This report also provides background information on the existing Council approved non-union compensation system and some key information regarding other compensation systems in the broader public sector.

### **RECOMMENDATIONS**

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The City Manager recommends that:

1. Employee and Labour Relations Committee receive this report for information.

### **ISSUE BACKGROUND**

Each year City Council approves the annual budget for the City of Toronto which includes the compensation funding, as per the Council approved compensation policy, for all non-union staff in the Toronto Public Service.

#### **Non-Union Compensation Policy**

Council's approved policy decision in February 2003 and reconfirmed by Council in September 2004 provides for general salary (cost-of-living) increases for all non-union staff to be similar to the negotiated increases for the City's unions. Collective agreements for CUPE Local 79 and TCEU Local 416 were approved in September 2005 for the period January 1, 2005, to

December 31, 2008. In September 2005, City Council approved and adopted general salary increases for all non-union staff in September 2005 effective for January 1, 2005, January 1, 2006, January 1, 2007, and April 1, 2008. Six (6) collective agreements with CUPE Local 79, TCEU Local 416 and CUPE Local 2998 expired December 31, 2008, and are currently under negotiation.

In May 2006, City Council subsequently approved a new pay policy for senior management (i.e., Division Heads and above) specifically regarding annual general salary (cost-of-living) increases. Council's decision approved a new method or formula for determining senior management's annual general salary increase that would now be based upon the Consumer Price Index for Toronto and would be calculated each January, based on the previous year's average. The approved revised formula for general salary increases for senior management superceded the previous general non-union employee policy and the new senior management pay policy was implemented commencing effective January 1, 2006.

The Council approved non-union compensation system for non-union staff (this includes non-union administrative staff, supervisors, managers and directors) was originally approved in 1999. It was reviewed in 2002 and once again reviewed, amended and approved by Council in 2003. It was again reviewed and reconfirmed in 2004. The Compensation Policy and System for non-union employees is currently under another review with a final report to be presented to the Employee & Labour Relations Committee at its May/June 2009 committee meeting.

### **Toronto Public Service People Plan**

In September 2008, the City of Toronto introduced a Toronto Public Service People Plan with new strategic goals and objectives. To remain an agile and flexible organization able to meet its future challenges, the People Plan helps align the City's workforce strategies and plans with its business and service goals.

The People Plan is a comprehensive strategic human resources plan for ensuring that the City of Toronto takes the necessary steps to meet its current and future challenges that include continually shifting economic factors, changing demographics and emerging technologies and best practices that influence how the City develops programs and effectively delivers services.

The future success of the City of Toronto depends in large part on its diverse, service oriented and high performing employees. The City of Toronto needs to ensure that it has “the right people in the right place at the right time” to build a strong, prosperous and livable City. A competitive compensation plan and structure directly contributes to the City's attainment of the People Plan's stated goals and objectives.

The People Plan goals are:

- We will become a learning organization
- We will have safe and healthy workplaces
- We will attract and retain a skilled, high performing and diverse workforce
- We will have strong and effective leaders
- We will build a positive workplace culture

## **COMMENTS**

### **Council Approved Non-Union Compensation System Key Factors**

The Council approved non-union compensation system was based upon and developed in consultation with the Hay Group, a major international compensation consulting firm. Council has approved a Gender Neutral Comparison Job Evaluation System for all non-union positions and all positions have job descriptions that are reviewed by the Council approved job evaluation review process that determines the particular Grade level for each position.

#### **Council Approved Pay Policy**

Council's approved policy provides that each evaluated non-union position, including all levels of management, shall have a Maximum Salary (Job Rate) level set at the 75<sup>th</sup> Percentile. Council approved the 75<sup>th</sup> Percentile to (i) reflect the complexity of the City's organization, scope and size and (ii) ensure the City is a competitive employer relative to other comparable public sector employers in the Greater Toronto Area.

The 75<sup>th</sup> percentile Job Rate means that the City pays, at the Job Rate, more than 3/4 of other comparable public sector employers and pays less than 1/4 of other comparable public sector employers. The key factors leading to the determination of the 75<sup>th</sup> percentile pay line policy were based upon City Council's desire to be competitive in the market place in order to attract and retain high performing staff to work in a large highly complex unionized organization.

Notwithstanding the approved policy, recent review data indicates that the Maximum Salary (Job Rate) for Senior Management (CM, DCMs and Division Heads) and Director level positions at the City are actually near or at the 50th percentile and not at the 75th percentile as per Council approved policy.

#### **Annual General Salary Increase** (Cost-of-living adjustment)

Council annually approves the budget for the annual general salary increase (cost-of-living) for all non-union staff. The approved Council policy (approved in 2004) provides for annual general salary increases that parallel the negotiated union increases within the Toronto Public Service. This ensures that unionized salaries do not cause salary compression issues with non-union positions including administrative, professional and supervisory staff.

Notwithstanding the above, in September 2005 Council approved a general salary increase for 2008 for non-union employees at .75% *less* than Council's approved and ratified general wage increases for the City's unionized employees (i.e., CUPE Local 79/TCEU Local 416).

In May 2006, Council approved a new Compensation Pay Policy for Senior Management (i.e., Division heads and above) superceding the general policy for non-union staff. At the same time Council reviewed and approved new salaries and a new compensation pay policy for Councillors and the Mayor.

The new 2006 Compensation Pay Policy for Senior Management did not change the compensation system particulars regarding the job evaluation process, grade level determination or the setting of Minimum and Maximum salaries for each position nor did it change the pay policy of setting the Maximum Salary (Job Rate) based upon the 75<sup>th</sup> Percentile as previously referred to above.

The 2006 Council approved Compensation Pay Policy for Senior Management removed senior management from the other non-union staff regarding the method or formula for determining the annual general salary increase. The new approved policy provides, subject to annual Council budget approval, for general annual salary (cost-of-living) increases to be based upon the Consumer Price Index for Toronto calculated each January, based on the previous year's average.

The following outlines the recent annual general salary increases in the Toronto Public Service:

**Recent Annual General Salary (Cost-of-living) Increases**

Year	Senior Mgmt	Non-union	Local 79	Local 416
2006	2.0 %	3.0%	3.0%	3.0%
2007	1.6%	3.25%	3.25%	3.25%
2008	1.9%	3.25%	3.25% + .75%	3.25% + .75%

Note that for 2008, for non-union employees and for L79 and L416, the general annual increase was effective April 1, 2008. Local 416 employees received an additional .75% general wage increase effective October 1, 2008, and Local 79 employees received an additional .75% general wage increase effective December 31, 2008.

Charts A and B attached provide summary information regarding known approved general annual salary (cost-of-living) increases for 2009 and beyond at other Ontario municipalities, the government of Ontario and the federal government of Canada, for non-union and unionized employees.

**Performance-based Salary Progression** (movement through the salary range)

As referenced previously, each evaluated non-union position is assigned to a Grade level that has an assigned Maximum Salary (Job Rate). The Job Rate for each position is determined by City policy to set a market competitive salary at the 75<sup>th</sup> percentile level.

Each Grade also has an assigned Minimum Salary (Normal Entry Rate) point thereby creating a Grade Salary Range (i.e., minimum salary to maximum salary). The Minimum Salary is set 24% below the market competitive Maximum Salary (Job Rate).

An employee starting at the Normal Entry Rate, based on above, and meeting (or exceeding) performance expectations, will take eight (8) years to progress to job rate. The standard progression in other government and broader public sector organizations is five (5) years.

For example, the salary range for a non-union position at Grade 6 is:

\$66,539 (Minimum Salary) to \$82,573 (Maximum Salary - Job Rate)

The use of a Job Evaluation System and Salary Grades with a Minimum Salary (Normal Entry Rate) and a Maximum Salary (Job Rate) is the standard for non-union employee compensation systems at other comparable large public and private sector organizations. Many private sector organizations and some public sector organizations may also have large variable pay (i.e., re-earnable lump sum) components within their compensation systems.

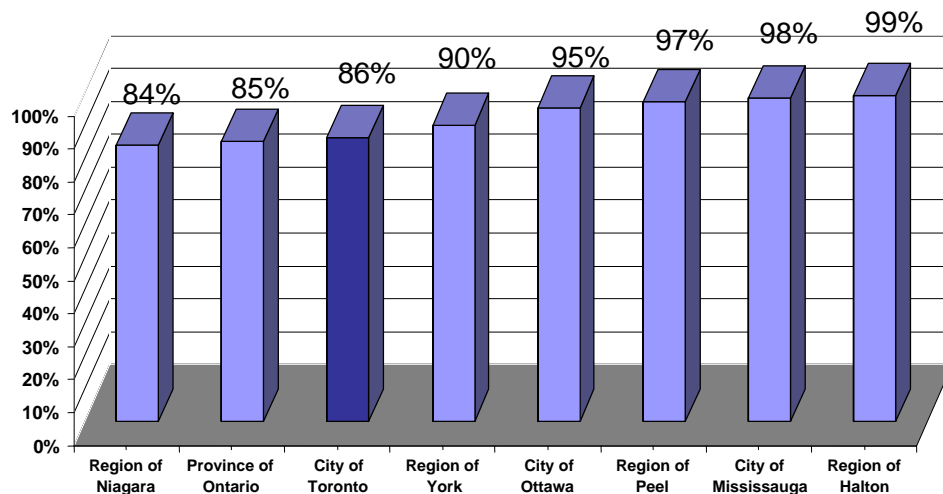
An annual Performance objective setting and subsequent annual Performance Review process is conducted for each non-union staff member including administrative, professional, supervisors, managers, directors and senior management.

Non-union employees who are below the Maximum Salary (Job Rate) for their respective salary grades are eligible to annually progress through the salary range (i.e., Minimum Salary to Maximum Salary (Job Rate) for their respective salary Grade) based upon meeting (or exceeding) their pre-determined performance objectives. All performance reviews are conducted and reviewed by at least two levels of management.

Under the current non-union employee compensation system, there is no salary progression differentiation for employees who exceed versus those who satisfactorily meet their objectives. Most employers provide two categories or more of salary progression, one for those who exceed and another for those that meet their objectives. All employers who have minimum and maximum salary range systems have methods (e.g., percentage based, increment step value based) for advancing employees from the minimum to the maximum salary level for their respective positions. As the City does not differentiate between meets and exceeds performance, the percentage of employees who at least meet performance objectives may appear to be high compared with other organizations that provide a two or three tier salary progression method.

See chart below:

### Percentage of Employees Who Achieved "Met and Exceed Objectives"



The Council approved non-union compensation system provides eligible employees with a percentage-based salary progression method for progression through the salary range (minimum to maximum progression):

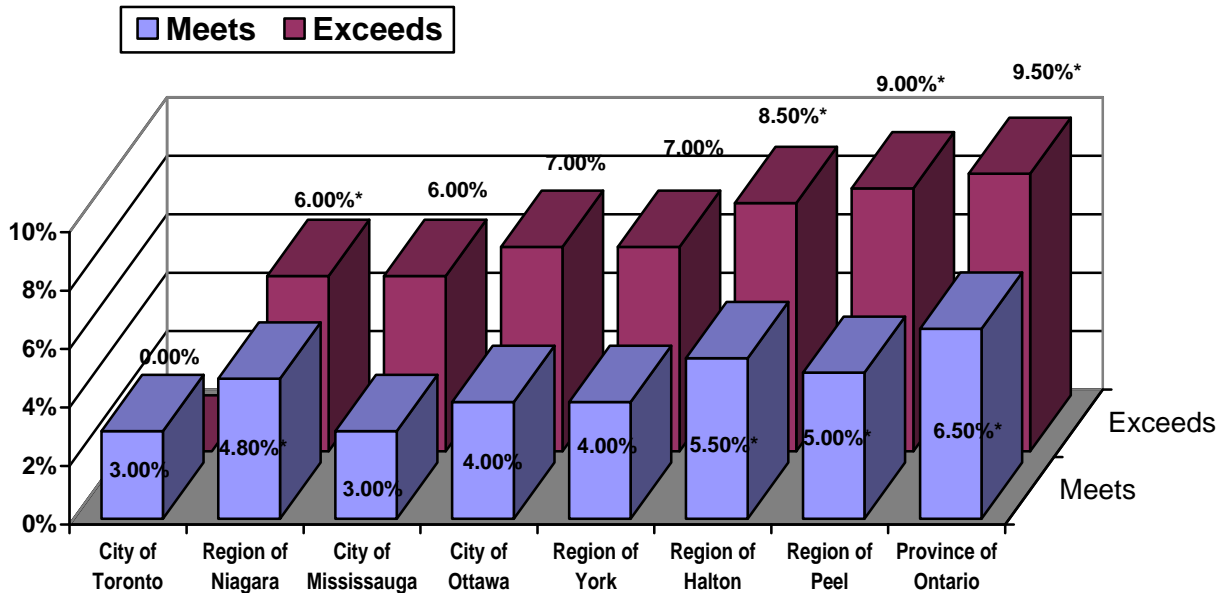
- 3% salary progression if they meet (or exceed) their performance objectives,
- 1% salary progression for being rated as 'developmental'; and
- 0 for not meeting objectives.

In addition, the approved policy prohibits employees who do not meet ( i.e., 0 performance rating) their performance objectives from being eligible to receive the annual general salary (cost-of-living) adjustment.

A recent survey of the compensation policies and practices for non-union staff at other Ontario municipal and broader public sector employers indicates that eligible annual performance pay increases range between from 3% to 9.5% for employees who meet and/or exceed their performance objectives. The City Council approved compensation program provides for employees to receive no more than 3% progression pay increase, based on meeting (and/or exceeding) their performance objectives. See chart below:



## Compensation Performance Pay Structures



\*Performance based inclusive of general annual increase

### Performance-based Salary Progression Example

The following is an example of the performance pay progression process. An employee annually progresses, subject to performance, along the grade salary range by moving from the Minimum Salary (Normal Entry Rate) toward the Maximum Salary (Job Rate).

- A non-union employee is hired into a grade 6 position that has a minimum salary of \$66,539 with a maximum salary (Job Rate) of \$82,573. The Normal Entry Salary for such a position would be \$66,539 and performance objectives would then be annually set.
- The employee's annual performance would be subsequently reviewed and compared to the pre-determined work output and performance objectives set for that particular year by his/her manager.
- Upon completion of the performance review, the employee's manager (with senior manager oversight approval) would determine whether the employee has met (or exceeded) their previously stated performance objectives for the year.
- If the employee has met or exceeded their performance objectives then the employee is eligible for salary progression of 3% or \$1,996. The employee's revised new annual salary would progress from \$66,539 to \$68,535.
- Subject to meeting or exceeding his/her performance expectations set each year by their manager, the employee's salary would progress from the Minimum Salary level toward the Maximum Salary (Job Rate) that had been set at the 75th Percentile as per Council approved policy.

- Alternatively, the employee could receive a Developmental rating of 1% (\$665) or a did not meet objectives rating of 0; an employee receiving a 0 rating would also not be eligible for the annual general (cost-of-living) increase.
- Even with the compounding effect of year over year annual performance-based incremental percentage increases, it will take eight (8) years for this employee, who if he/she meets (or exceeds) their performance objectives each year, to progress from the normal entry Minimum Salary at 24% below the Maximum Salary to reach the Council approved Maximum Salary (Job Rate) for their position.

The current percentage of the non-union employee complement (which includes administrative, professional, supervisors, managers, directors and senior management) eligible for performance progression through the salary range moving from the minimum salary to maximum salary level is approximately 44% i.e., the percentage of the employee complement who are below their Salary Maximum (Job Rate) is 44%.

#### **Performance-base Re-earnable Lump Sum (Non-base pay)**

The Council approved Compensation Policy for non-union employees also provides for a performance based re-earnable lump sum for those employees who have reached their position's Job Rate. These employees (51% of non-union complement) are eligible to receive a lump sum payment of 3% if they meet (or exceed) their performance expectations for that particular year. It is a re-earnable lump sum and does not become part of the employee's base regular salary.

At the time the non-union compensation system was approved including the re-earnable lump sum payment for employees at the Job Rate, it was approved on the basis of its consistency with the best practices of comparable employers, including the Province of Ontario and other public sector employers. It was originally approved in 1999, reviewed in 2002, reviewed and approved in 2003 and re-confirmed/approved in 2004. Variations of re-earnable lump sums and/or variable pay arrangements continue to be provided at most of these other employers.

Approximately 316 non-union employees are not eligible for performance-based salary progression or performance-based re-earnable lump sum. These employees' salaries are red-circled (frozen) due to amalgamation, post amalgamation or other anomalous job evaluation circumstances.

## **CONTACT**

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## **SIGNATURE**

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Joseph P. Pennachetti  
City Manager

## Chart A

### Survey of 2009 General Salary Increases (Cost-of-Living) For Non-Union Employees

City or Region	Effective Date	Salary Increase	Status
York Region	April 1, 2009	3%	Council Approved
Peel Region	January 8, 2009	3%	Council Approved
City of Mississauga	April 1, 2009	3%	Council Approved
Town of Richmond Hill	January 1, 2009	3%	Council Approved
City of Vaughan	January 1, 2009	3%	Council Approved
Town of Whitby	January 1, 2009	3.25%	Council Approved
Halton Region	July 1, 2009	3%	Council Approved
Durham Region	January 1, 2009	3.25%	Council Approved
Region of Waterloo	January 1, 2009	3%	Council Approved
City of St. Catharines	January 1, 2009	3%	Council Approved
Niagara Region	January 1, 2009	2.75%	Council Approved
Province of Ontario	April 1, 2009	1.5%	Senior Mgt only (over \$150,000)
City of Greater Sudbury	April 1, 2009	3%	Council Approved
Federal Government	April 1, 2009	1.5%	1st reading

*Note: The above data is provided as known as at March 9, 2009*

## Chart B

### Survey of 2009 Union Negotiated Agreement General Wage Increases (Cost-of-Living)

*Note: Increases do not include any progression through salary range that some employers provide and no information is provided regarding benefit enhancements that might have been negotiated with these unions.*

City or Region	Effective Date	Salary Increase
<b>Toronto Transit Commission</b>	April 1, 2008 <b>April 1, 2009</b> April 1, 2010	3% <b>3%</b> 3%
<b>Toronto Hydro</b>	April 1, 2008 <b>April 1, 2009</b> April 1, 2010 April 1, 2011 April 1, 2012	3% <b>3%</b> 3% <i>plus Goal Sharing Agreement of 2.5% lump sums</i> 3% 3%
<b>Toronto Port Authority</b>	April 1, 2008 <b>April 1, 2009</b> April 1, 2010 April 1, 2011 April 1, 2012	3% <b>3%</b> 3% 3% 3.25%
<b>Toronto Parking Authority</b>	April 1, 2008 <b>April 1, 2009</b> April 1, 2010 April 1, 2011 April 1, 2012	3% <b>3%</b> <i>plus Family Day</i> 3% 3% 3.25%
<b>Toronto Police Services</b>	January 1, 2008 July 1, 2008 <b>January 1, 2009</b> <b>July 1, 2009</b> <b>December 1, 2009</b> January 1, 2010 July 1, 2010 December 1, 2010	3% .3% <b>2%</b> <b>.6%</b> <b>.845% ~ 3.4%</b> 2% .91% .25%
City of Burlington CUPE 44 Outside	July 1, 2008 <b>July 1, 2009</b> July 1, 2010	2.75% <b>2.5%</b> 2.5%
Region of Durham CUPE Local 1764 Inside	April 1, 2008 <b>April 1, 2009</b> April 1, 2010	3.25% <b>3.25%</b> 3.25%
City of Mississauga	January 1, 2008	3%

Library Board	<b>January 1, 2009</b> January 1, 2010	<b>3%</b> 3%
Region of Niagara	January 1, 2008 <b>January 1, 2009</b> January 1, 2010 January 1, 2011	3% <b>2.5%</b> 2.5% 2.75%
Peel Region - Paramedic Services	April 1, 2007 April 1, 2008 <b>April 1, 2009</b>	3% 3% <b>3%</b>
Town of Whitby CUPE 53 (Inside/Outside)	April 1, 2007 April 1, 2008 October 1, 2008 <b>April 1, 2009</b> <b>October 1, 2009</b> April 1, 2010 October 1, 2010	3.25% 2% 1.5% <b>2%</b> <b>1.25% ~ 3.275%</b> 2% 1.5%
Ontario Government (OPSEU) <i>(plus various rate adjustment increases and absenteeism reduction target reward program)</i>	<b>April 1, 2009</b> April 1, 2010 April 1, 2011 April 1, 2012	<b>1.75%</b> 2.0% 2.0% 2.0%
Federal Government (PSAC) <i>(plus pay equity and trade harmonization)</i>	April 1, 2008 <b>April 1, 2009</b> April 1, 2010 April 1, 2011	2.3% <b>1.5%</b> 1.5% 1.5%
<i>Note: The above data is provided as known as at March 9, 2009</i>		