

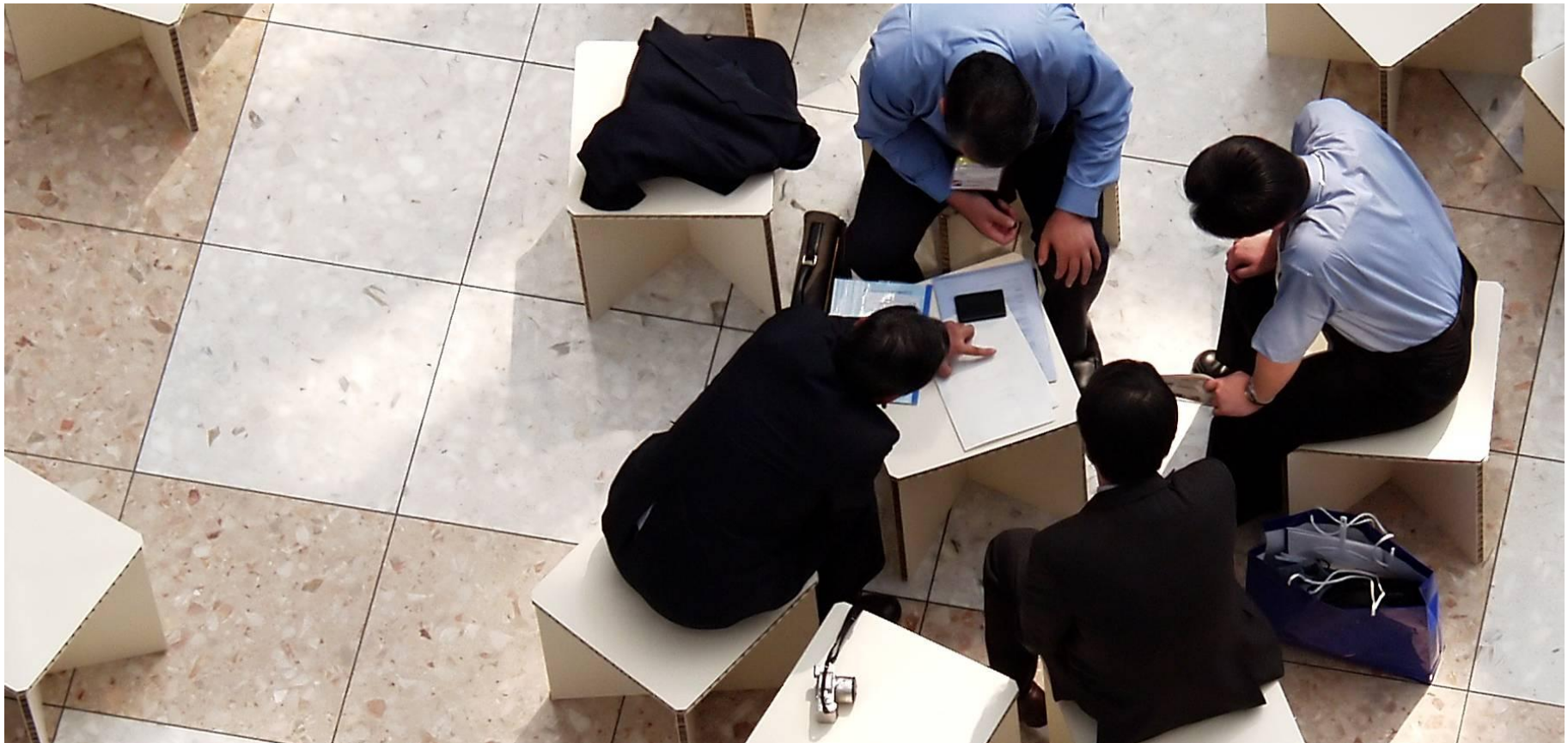
# City of Toronto

## Report Overview for Employee & Labour Relations Committee

### Pay-for-Performance: Good for the City its Employees and its Residents

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# About Hay Group

## Helping organizations work

Our purpose

Our practice clusters

Our service lines

Building effective organizations	Leadership and talent	Reward services
BEO solutions	Leadership transformation	Reward Information Services
Performance management	Capability assessment	Job evaluation
	Talent management	Executive Reward
Hay Group Transforming Learning: online diagnostics		Reward strategies
		Hay Group Insight: employee and customer surveys

# Total Performance Reward Framework



# Components of Reward Framework

## Competitive base salary

- To be “affordably competitive”, with annual adjustments to recognize inflation

## Merit based salary adjustments

- To recognize & motivate incumbent performance

## Variable pay / short term incentives

- To emphasize & reward for successful enterprise-wide performance

## Long term incentives

- To align the perspectives of (management) employees with those of shareholders

## Noncash

- To provide the appropriate package of benefits, perquisites & retirement

## Intangible rewards

- To emphasize the non-financial components of the employment relationship

# Pay for Performance

## Two typical components:

1. **Via merit-based salary merit adjustments which are differentiated relative to incumbent performance (i.e., not everyone receives 3%)**
  - A manner by which progressive organizations encourage, recognize and reward incumbent performance
    - Can be provided to employees who are within their salary range (via salary adjustment) and those paid at range maximum (via lump sum)
  - Cost neutral – the City does not exceed its approved merit budget

## **AND (i.e., both components apply)**

2. **Via common awards which are paid to groups of employees relative to overall enterprise-wide results (i.e., variable pay, incentive, bonus, gainshare, etc.)**
  - A manner by which progressive organizations encourage teamwork and reward for successful enterprise-wide results
  - Self funding – e.g., the awards are funded by budget surplus

# Merit-based Salary Adjustments

Performance Designations	Unsatisfactory	Developmental (to be changed)	Meets Expectations	Exceeds Expectations	Totals
<b>Current City Circumstance (for all employees eligible for a merit adjustment)</b>					
Employee Distributions	0%	7.5%	92.5%	n/a	100%
Merit Adjustments	0%	1.0%	3.0%	n/a	2.85%
<b>Alternative City Option (for all employees eligible for a merit adjustment) *</b>					
Employee Distributions	Up to 3.0%	Up to 10.0%	Not Less Than 67.0%	Up to 20.0%	100%
Merit Adjustments	0%	1.0%	2.5%	5.0%	Approx 2.70%

- There are many other options that remain cost neutral

# Variable Pay - Illustration

## Illustrative four quadrant balanced scorecard

<p><b>Financial Responsibility</b></p> <ul style="list-style-type: none"><li>• Likely measured by two or three metrics; some absolute / some relative</li><li>• Illustrative Scorecard weighting: 30%</li></ul>	<p><b>Service Delivery</b></p> <ul style="list-style-type: none"><li>• Likely measured by an index of many (50?) division-specific metrics</li><li>• Illustrative Scorecard weighting: 30%</li></ul>
<p><b>Social Responsiveness</b></p> <ul style="list-style-type: none"><li>• Likely measured by stakeholder survey responses (residents, businesses, etc.)</li><li>• Illustrative Scorecard weighting: 20%</li></ul>	<p><b>Environmental Impact</b></p> <ul style="list-style-type: none"><li>• Likely measured by workplace safety and environmental impact studies</li><li>• Illustrative Scorecard weighting: 20%</li></ul>

# Variable Pay Research Requirements

## Two typical research requirements

### 1. Determine the performance metrics and their respective standards

- e.g., one of the (50?) Service Delivery metrics is, “Drinking water must be available at least 99.5% of the time and must achieve at least 99.9% of City purity standards”

### 2. Determine program eligibility & awards

- Senior Management only (as a start)

- Easier to fund awards from surplus; easier to design program; most proportionally underpaid group; most impactful group

- All Management Employees

- More challenging to fund from surplus; higher expectation of improved enterprise-wide performance results

- All Stakeholders

- Including exempt / nonunion employees, unionized employees and elected officials; highest expectation of improved enterprise-wide performance results; most challenging to fund



# How is Pay-for-Performance “Good”?

## **Good for Employees in that:**

- Superior performing incumbents are recognized & rewarded
- Incumbents are encouraged to work as team members towards common goals

## **Good for Residents in that:**

- The achievement of enterprise-wide performance becomes the collective goal
- Employee intentions are more aligned with resident expectations

## **Good for the City in that:**

- The best incumbents are encouraged to remain within the City’s employ
- An improved alignment between payroll costs and performance

# City Salary Ranges - Findings

Relative to the private and commercial public sectors, the City Job Rates, by broad employee group, are:

## Administrative

- Approximately 10% above market

## Management

- Approximately equal to market
- Market also has approximately 10% variable pay

## Senior Management

- Approximately 10% below market
- Market also has approximately 20% variable pay

# Sector pay differentials

**Total Remuneration**

