

Non-union Employee Compensation

City of Toronto: Toronto Public Service

(excludes Agencies, Boards and Commissions)

Employee & Labour Relations Committee: June 5, 2012

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Why Now?

- February 2011, City Council requested that "***the City Manager review the Non-Union Compensation Policy and report to City Council, by the end of 2011, providing any such best practices recommendations to ensure a modern, affordable and competitive compensation policy and program is in place for 2012 and beyond; and including in the report any recommendations regarding the re-earnable performance-based lump-sum payments for non-union employees who have reached their respective maximum salary (job rate) for 2011.***"

Such report was deferred until post 2012 collective bargaining negotiations

The Hay Group, through an RFP process, was contracted to provide consultation services on compensation best practice. The Hay Group is a global human resources management consulting firm providing services for private, public and not-for-profit public sector employers world-wide.

Background Information

Non-Union Employee Compensation: Council Approved Pay Policy

- Non-union positions maximum salary (job rate) shall be set at the 75th percentile of the broader public sector GTA marketplace. This percentile level was approved by Council to:
 - i. Reflect the complexity of the City's organization, scope and size
 - ii. Ensure the City is a competitive employer relative to other comparable public sector employers in the GTA

- The 75th percentile means that the City pays, at the Job Rate, more than three quarters of other comparable public sector employers and pays less than one quarter of other comparable public sector employers. Council's determination for the 75th percentile pay line policy was based upon the need to be competitive in the job market place in order to attract and retain high performing staff to work in a large highly complex unionized organization.

Background Information cont.

Non-Union Employee Compensation: External Consultant Reviews

- Two reviews undertaken of the City's non-union employee compensation, conducted by different external compensation consulting firms (Mercer in 2008 and Hay Group in 2012) found that the City's Maximum Salary (Job Rate) for senior managers, and even more particularly pronounced for positions of Division Head, Deputy City Manager and City Manager level, were **near or below the 50th percentile**
- Non-union salary increases of 0.0% in 2009, 1.0% in 2010 and 2.25% in 2011 have further widened the gap between the City's non-union positions and the marketplace.
- Over the past 5-year period (2007-2011):
 - **senior management** have received a **-7.06% lower** cumulative total general salary increases than city unionized employees; and
 - **non-union employees** have received a **-3.89% lower** cumulative total general salary increases than city unionized employees.
- At the same time, the City has *continued to fall behind* its comparator market particularly given the continuation of general salary increases awarded at other

Table 8
City of Toronto (Toronto Public Service):
2007 – 2011 Annual General Salary Increases
by Employee Group (Union, Non-union, Senior Management)

Employee Group	2007	2008	2009	2010	2011	2007-2011 5-year Annual Salary Increases "Cumulative" Total	Non-union/ Sr. Mgt vs. Union 5-year Salary Increases "Cumulative" Total Differential	Senior Mgt Vs. Non-union 5-year Salary Increases "Cumulative" Total Differential
CUPE Local 79	3.25%	3.25% Jan 1 .75% Dec 31	1.75%	2.00%	2.25%	13.98%	-	-
TCEU Local 416	3.25%	3.25% Jan 1 .75%* Oct 1	1.75%	2.00%	2.25%	13.98%	-	-
Non-union Employees	3.25%	3.25%	0.00%	1.00%	2.25%	10.09%	- 3.89% [10.09% - 13.98%]	-
Senior Management <i>Division Heads and above</i>	1.60%	1.90%	0.00%	1.00%	2.25%	6.92%	-7.06% [6.92% - 13.98%]	-3.17% [6.92% - 10.09%]

Table 9
City of Toronto (Toronto Public Service):
2007 – 2011 Average Annual Salary Increases
by Employee Group (Union, Non-Union, Senior Management)

Employee Group	5-year Period	“Average” Annual Salary Increases
Union Employees	2007-2011	2.65% per year
Non-Union Employees	2007-2011	1.95% per year
Senior Management	2007-2011	1.35% per year
GTA Comparator Group (Non-union)	2007-2011	2.72% per year

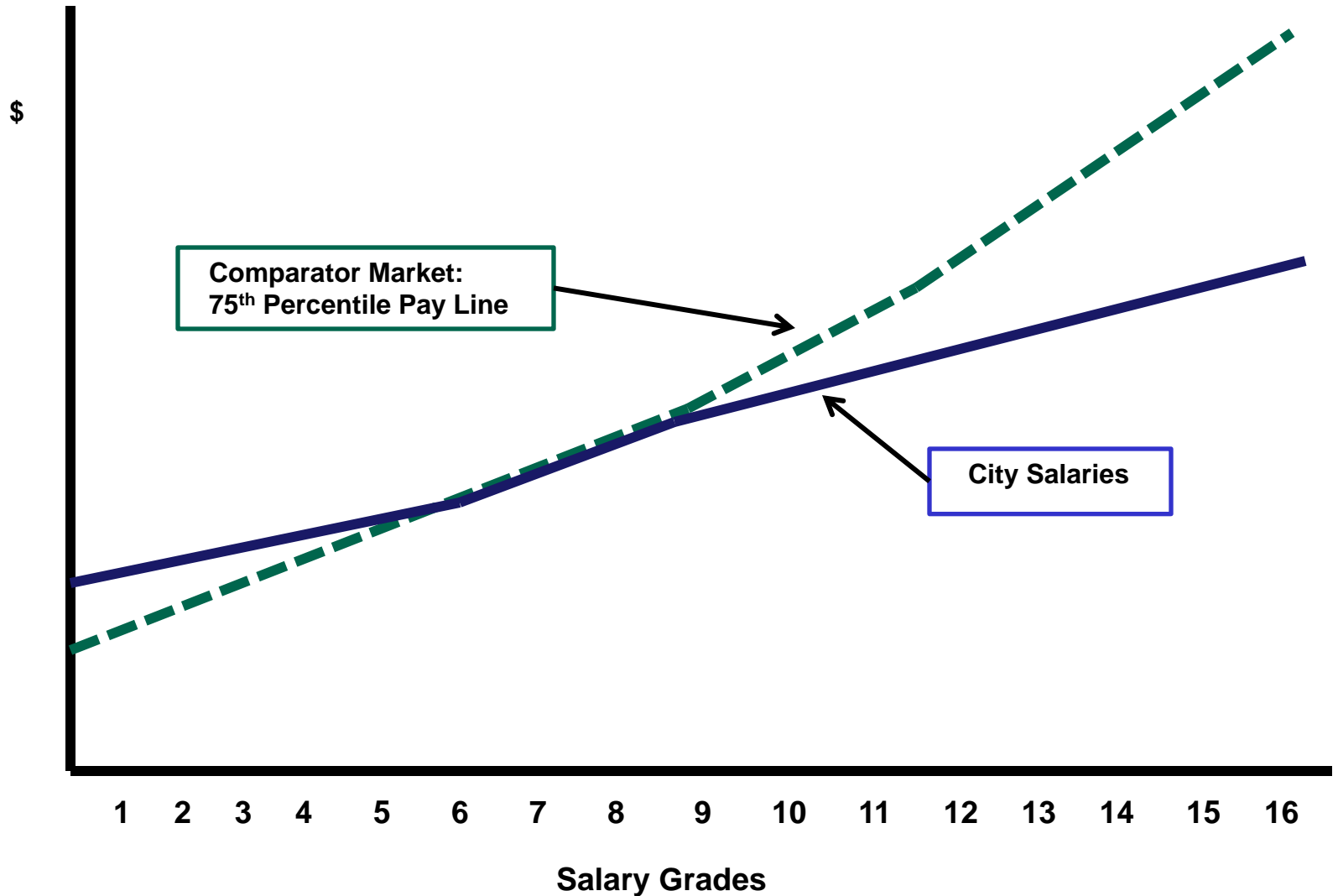
Table 10
GTA Municipal and Regional Employers:
Annual General Salary Range Increases (Non-union)

Employer	2007	2008	2009	2010	2011	2007-2011 5-year Salary Increases Cumulative Total	2012	2013
Durham Region	3.00%	3.00%	3.25%	3.25%	2.25%	15.64%	2.25%	2.25%
Halton Region	3.00%	3.00%	3.00%	2.50%	2.25%	14.52%	TBA	TBA
Niagara Region	2.75%	3.00%	2.75%	2.00%	0.00%	10.92%	TBA	TBA
Peel Region	3.00%	3.00%	3.00%	2.00%	2.00%	13.69%	2.00%	TBA
Waterloo Region	3.00%	3.00%	3.00%	2.00%	2.00%	13.69%	TBA	TBA
York Region	3.00%	3.00%	3.00%	2.35%	2.35%	14.69%	2.00%	TBA
Brampton	3.00%	3.50%	2.50%	2.50%	2.00%	14.24%	2.00%	TBA
Guelph	3.00%	3.00%	2.50%	2.60%	1.0%+1.0%	13.82%	TBA	TBA
Mississauga	3.00%	3.00%	3.00%	2.50%	2.50%	14.80%	2.00%	2.00%
Hamilton	3.00%	3.00%	0.00%	1.50%	0.00%	7.68%	1.90%	1.90%
Kitchener	3.00%	3.00%	3.00%	3.00%	3.00%	15.93%	1.75%	TBA
Toronto Public Service* (Non-union)	3.25%	3.25%	0.00%	1.00%	2.25%	10.09%	TBA	TBA

**The above is for the Toronto Public Service only and does not include the ABCs*

Chart 1

2008: Market Surveyed 75th Percentile Pay Compared to the Non-union Salary Grades



Results of the 2012 Hay Group Review of Non-Union Employee Compensation

1. Hay Group's Review: Level of Market Competitiveness

In reviewing the City of Toronto's salary grade rates the Hay Group found that:

- the City's managerial job rates are generally competitive to the market *midpoints* but are *noticeably less* than market job rate maximums.
- the City's executive job rates (i.e. director level and above) are *noticeably less* than market **midpoints** and are *significantly less* than **job rate market maximums**.
- the City's overall level of compensation competitiveness is *further lessened* by the approximate 20% annual bonus/short term incentive opportunities and the approximately 25% long term incentive opportunities (private sector only) that are offered by the employer marketplace.

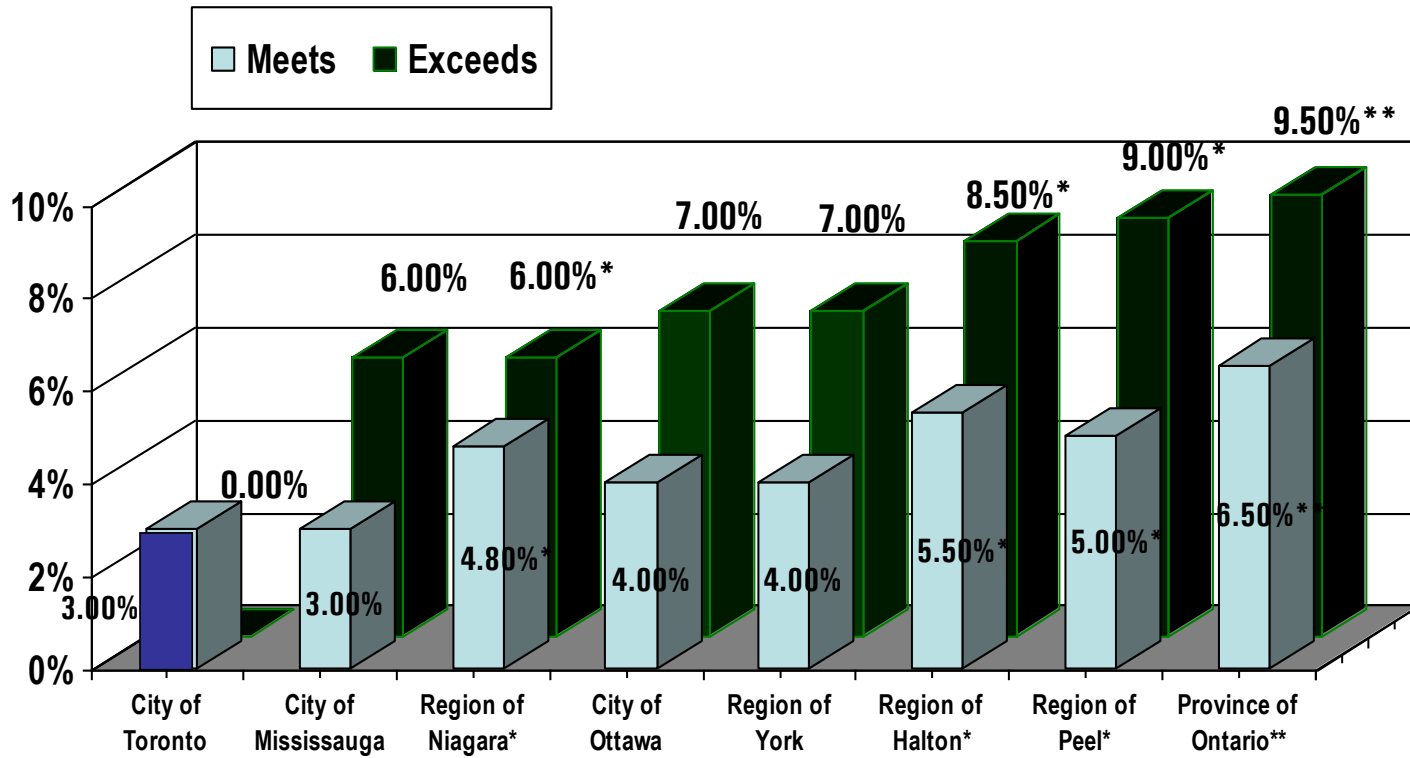
Results of the 2012 Hay Group Review of Non-Union Employee Compensation cont.

2. Hay Group's Review: Merit Performance Rewards

The City of Toronto has no mechanism in place to:

- recognize and reward superior individual performers; and
- encourage successful *enterprise-wide City performance*

Compensation Performance Pay Structures



* Economic Increase included in calculations

** Performance Based Only - No Economic Increases

Why Does Effective Compensation Matter?

- Successful Cost-Effective and Customer-Service Driven Organizations have *competitive salaries* and *best practices compensation performance reward systems* and these are aligned with their organization's goals and objectives.
- An organization's current and future success is dependent upon its ability to recruit and retain high performing individuals.
- The retaining and attracting of high-performing leaders to maximize organizational performance requires the need to have competitive salaries and effective performance rewards systems.
- The shrinking labour market is becoming a major challenge as baby boomers retire; employers are competing for fewer and fewer available highly skilled individuals.

Why Does Effective Compensation Matter? cont.

- In keeping with the Mayor and City Council's priorities, it is critical for the City to be well positioned to retain and attract the employees best able to deliver on the City's goals and priorities.
- A *substandard compensation and reward policy* that is not best practices nor competitive and that provides little incentive to effectively reward individual superior performance will not help deliver on the Mayor's and City Council's priorities.

Non-Union Employee Performance and Reward Framework

1.	<p>Annual Base Salary</p>	<p>Provides a market competitive fixed rate of pay</p>	<p>Rewards the scope and responsibility of the position and the specific skills needed to fulfill them. City of Toronto has set the 75th percentile, for the salary range maximum, of what it pays in the competitive market for similar positions.</p>	<p>Provides for attracting and retaining skilled employees who can deliver on the overall position's responsibilities with emphasis on rewarding actual performance.</p>
2.	<p>Pay-for-Performance (Individual Merit):</p> <p>(i) Progression thru the salary range</p> <p>(ii) Re-earnable lump sum payment</p>	<p>Provides an established % of salary payment based on performance rating that is either (i) added to the base pay (for those progressing thru range) or (ii) paid as a one-time lump sum payment , not added to base</p>	<p>Rewards for performance against an individual's specific annual performance objectives</p> <p>Salary progression from minimum base salary range to maximum base salary range (16 to 24%)</p> <p>Re-earnable lump sum (does not add to base salary) for employees at job rate</p>	<p>Provides for assigning specific individual objectives within the review evaluation period (one year) and incentive rewards for achieving them</p>
3.	<p>Pay-for-Performance (Corporate-wide Performance):</p> <p>- Variable Pay</p>	<p>Provides an established % of salary payment as a one-time lump sum (not added to base salary)</p>	<p>Rewards for a collective/group based upon performance against achieving measurable corporate-wide goals and objectives (short and/or long-term objectives)</p>	<p>Provides for assigning corporate-wide performance metrics that serves to motivate collective performance. Result is a common award for achieving corporate-wide expectations.</p>

Staff Recommendations

1. **Four-year schedule (2012 – 2015) of general salary increases** for non-union employees and senior management (*2012 approved City Council budget incorporates the 2012 increase*):
 - to address the significant differential in market competitiveness as demonstrated by the two external consultants;
 - to address the significant differential in non-union *versus* union employee salary increases over the past 5 years
i.e., **Non-union shortfall -3.89%; Senior Management shortfall -7.06%**

Consumer Price Index (Toronto)

3.00% (2011)

2.55% (2012 YTD)

Table 11
City of Toronto: 4-Year General Salary Increase Schedule
for Non-union Employees and Senior Management

Employee Group	2007	2008	2009	2010	2011	2007-2011 5-year Salary Increases Cumulative Total	2012	2013	2014	2015	2007-2015 9-year Salary Increases Cumulative Total
CUPE Local 79	3.25%	3.25% Jan 1 .75% Dec 31	1.75%	2.00%	2.25%	13.98%	0.00%	.50% Base <i>plus</i> 1.5% Lump Sum	1.75%	2.25%	19.18% <i>plus 1.5%</i> Lump Sum
TCEU Local 416	3.25%	3.25% Jan 1 .75%* Oct 1	1.75%	2.00%	2.25%	13.98%	0.00%	.50% Base <i>plus</i> 1.5% Lump Sum	1.75%	2.25%	19.18% <i>plus 1.5%</i> Lump Sum
Non-union	3.25%	3.25%	0.00%	1.00%	2.25%	10.09%	1.90%	1.90%	1.90%	2.25%	19.11%
Senior Mgt (Div. Heads+)	1.60%	1.90%	0.00%	1.00%	2.25%	6.92%	2.75%	2.75%	2.75%	2.75%	19.18%

Staff Recommendations

2. Performance Management Program (Individual Merit):

- Amend the “developmental” performance level **to include** those who “meet most but not all expectations”
- Change “met objectives” satisfactory performance level to **differentiate** and **establish two performance levels**: “exceeds” performance level and “satisfactory” performance
- Establish **performance target allocations** for each new performance review level
- Establish **new performance reward percentages** for each new performance review level
- Re-introduce the individual performance merit based re-earnable lump sum payment for employees at the job rate

Staff Recommendations*: Performance Review Levels and Performance Financial Rewards

	CURRENT	RECOMMENDATION
	Performance Review Levels and Performance Financial Rewards	Performance Review Levels and Performance Financial Rewards
(i)	Did Not Meet Objectives (Unsatisfactory) 0%	Unsatisfactory 0%
(ii)	Developmental 1%	Meets Most But Not All Expectations or Developmental 1%
(iii)	Met Objectives (Satisfactory) 3%	Meets Expectations 2.5%
(iv)		Exceeds Expectations 5%

*Effective January 2013 performance reviews (for 2012 performance). A guideline and change management support will need to be developed for effective implementation across the corporation.

Staff Recommendations*: Performance Targets Allocations

	CURRENT		RECOMMENDATION	
	Target Percentage of Employees		Target Percentage of Employees	
(i)	Did Not Meet Objectives (Unsatisfactory)	No criteria (approx. 1-2%)	Unsatisfactory	3%
(ii)	Developmental	No criteria (approx. 5%-10%)	Meets Most But Not All Expectations or Developmental	10%
(iii)	Met Objectives (Satisfactory)	No criteria (approx. 85%-90%)	Meets Expectations	70%
(iv)			Exceeds Expectations	up to 20%

*Effective January 2013 performance reviews, (for 2012 performance) . A guideline and change management support will need to be developed for effective implementation across the corporation.

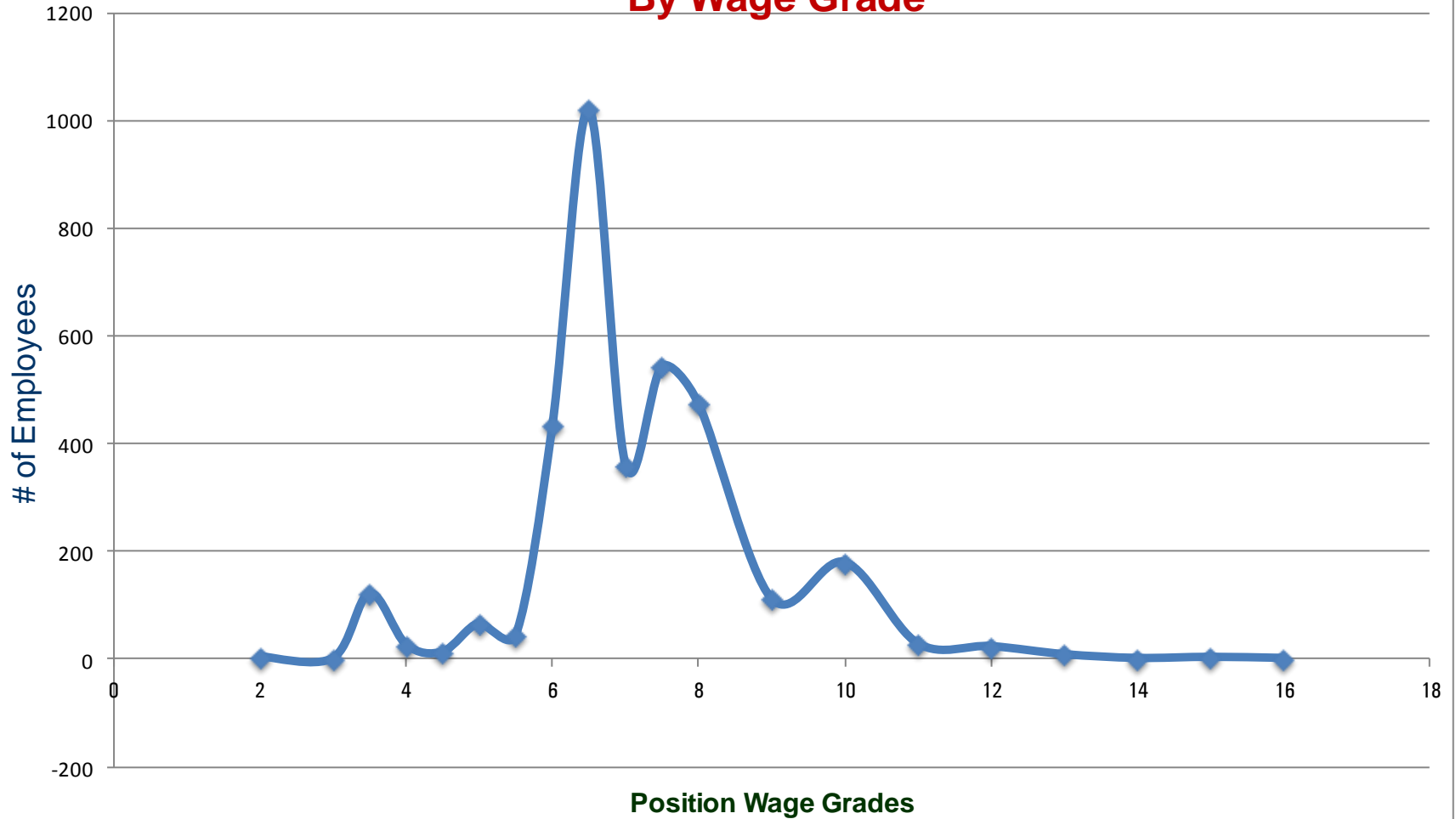
Staff Recommendations

3. Performance Management Program (Corporate Performance):

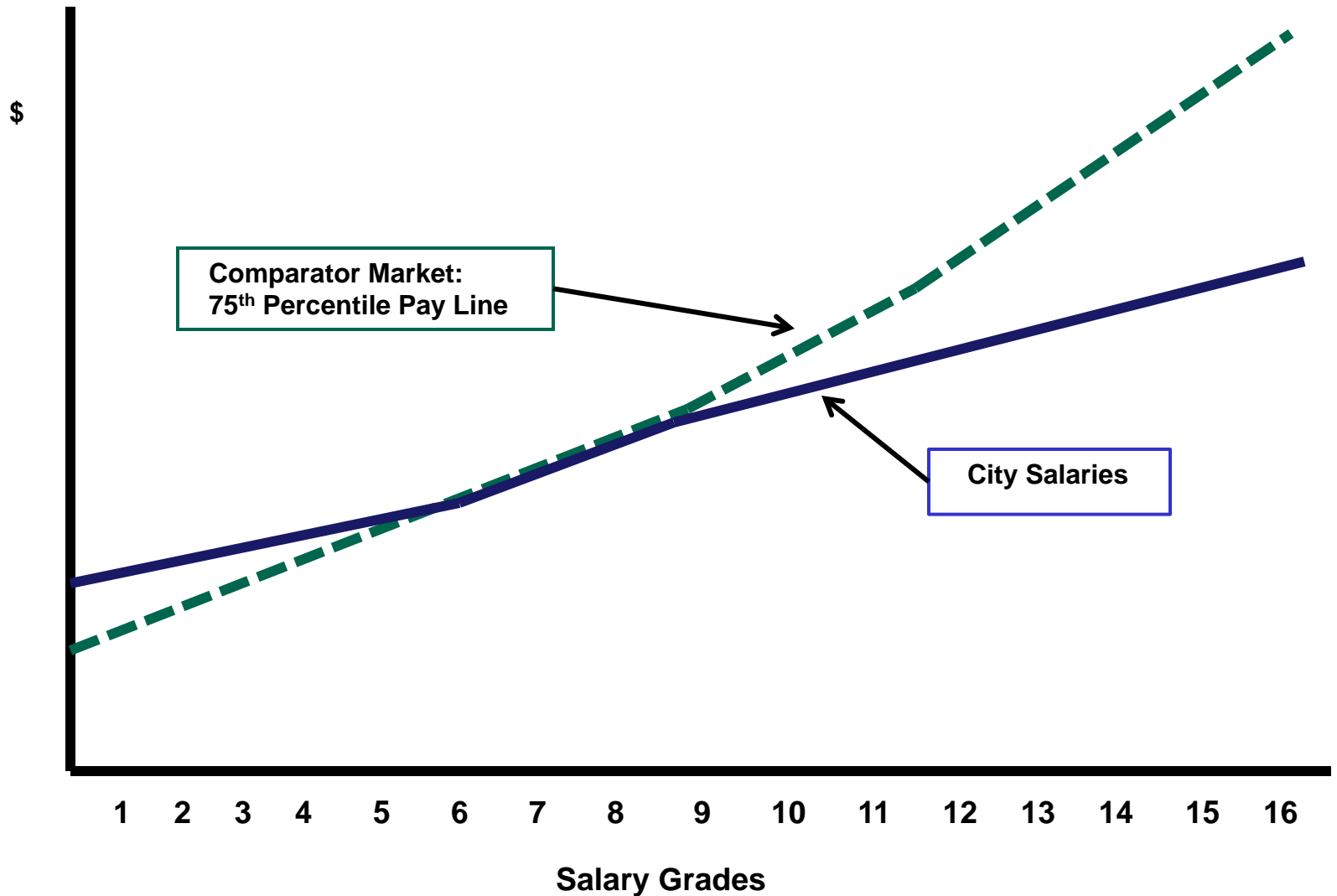
- **Variable Pay Program** to be developed and implemented that annually aligns corporate goals and objectives with corporate-wide performance.
- Report to E&LR Committee in November 2012 to identify the program's:
 - **corporate performance measurable factors,**
 - applicable employee group/subgroup,
 - **cost and funding sources.**
- **Set first measurable corporate performance objectives: January 2013**
- **Review corporate performance: January 2014**
- Subject to achieving the 2013 corporate objectives, program performance rewards provided in **January 2014.**

Background Information

**Permanent Non-union Employee Distribution
By Wage Grade**



2008: Market Surveyed 75th Percentile Pay Compared to the Non-union Salary Grades



Compensation Rewards: Base Pay, Merit Pay and Variable Pay Components

