TORONTO

STAFF REPORT
ACTION REQUIRED

Non-Union Employee Compensation

Date:	October 4, 2013
To:	Employee & Labour Relations Committee Executive Committee
From:	City Manager Executive Director of Human Resources
Wards:	All
Reference Number:	

SUMMARY

City Council on July 11, 12 and 13, 2012, adopted Item EX21.18 regarding Non-Union Employee Compensation that required a review and reporting back, prior to the end of 2013, with further recommendations to the Employee & Labour Relations Committee. This report provides recommendations to approve:

(1) continuing the non-union compensation system and performance management program including the performance review levels, target allocations and revised performance financial rewards recommended in this report, in order to ensure an ongoing progressive performance culture that effectively rewards employees meeting or exceeding performance expectations;

(2) reducing the width (min to max span) of the salary ranges: for grades 1 to 11, by reducing the width of the salary ranges below the salary range maximums from 24% to 17.5%; and for grades 12 to 16, by reducing the width of the salary ranges below the salary range maximums from 15% to 12.5%, as recommended within this report i.e. the minimums would be adjusted and the maximums would remain unchanged; and

(3) continuing of the merit performance-based re-earnable lump sum component of the compensation plan for employees who are at the top of their salary range.

The City's current compensation plan for non-union and management employees is lagging and change is required to address recruitment and retention competitiveness challenges. The City goal is to be a best practices high performing organization that provides optimal programs and services to the residents and businesses of the City of Toronto. Retaining and attracting high performing employees is critical to achieving this objective and is dependent upon ensuring that the City of Toronto has in place a comprehensive compensation and performance reward program for its non-union and management employees. The HayGroup's 2011-2012 review supports this Report's recommendations and are aligned with prevailing compensation best practices intended to ensure a modern, affordable and competitive compensation policy is in place.

RECOMMENDATIONS

The City Manager and Executive Director of Human Resources recommend that City Council approve:

1. Effective January 1, 2014, the continuation of the performance review levels, target allocations and revised performance financial rewards for the non-union compensation policy and performance management program as recommended within this report and summarized in Table 1 below:

Table 1: Performance Review Levels, Target Allocations and Financial Rewards

Performance Review Levels	Performance Target Allocations	Performance Financial Rewards
Unsatisfactory	Up to 3% of staff complement	0%
Meets Most but Not All Expectations and/or Developmental	Up to 10% of staff complement	1%
Meets Expectations	70% of staff complement	2.5%
Exceeds Expectations	Up to 20% of staff complement	5.0%

2. Effective January 1, 2014, implementation of adjustments to the salary ranges, for grades 1 to 11, by reducing the width of the salary ranges below the salary range maximums from 24% to 17.5%; and for grades 12 to 16, by reducing the width of the salary ranges below the salary range maximums from 15% to 12.5%, as recommended within this report.
3. Effective January 2014, the continuation of the merit performance-based re-earnable lump sum component of the non-union compensation policy and performance management program for employees who are at the top of their salary range.
4. Authorizing the appropriate City officials to take the necessary action to give effect to the foregoing recommendations.

Financial Impact

The projected additional net cost of the recommended 2014 revised performance financial rewards percentages are approximately $3M more that the cost of the 2013 performance financial rewards. However, compared with the total net cost of the performance financial rewards that were in place in 2012 (i.e. $12M) under the former Non-union Compensation Plan (1999-2012) that had performance financial rewards with <u>no</u> target allocations, the projected net cost of the recommended revised 2014 performance financial rewards <u>with</u> target allocations are $0.3M *less* (i.e. $11.7M). In addition, the net cost of reducing the width of the salary ranges is an estimated one-time net base cost of approximately $902,171. The City Divisions shall absorb these one-time net base costs within their 2014 budgets.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

City Council on July 11, 12 and 13, 2012, adopted Item EX21.18 regarding Non-Union Compensation. http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX21.18

In its adoption of the Item, City Council requested the City Manager and the Executive Director of Human Resources to conduct a review and report back to the Employee and Labour Relations Committee, before the end of the 2013 calendar year, regarding implementation of:

1. the Non-union Compensation Policy establishing new individual merit Performance Review Levels, and Performance Targets Allocations and Performance Financial Rewards and

2. the general annual salary range increases for Non-union employees and Senior Management (Grade 11 and above Division Heads, Deputy City Managers, City Manager and Accountability Officers):

and provide any recommendation for further changes or amendments, if any, to the compensation of the City's non-union employees.

Recommendations regarding Part 2 above were adopted by City Council at its meeting of June 11, 12, 13, 2013, when City Council approved non-union employee general annual salary range increases for 2014 and 2015.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX32.4

This report addresses implementation of Part 1 above including a review and reporting back with staff recommendations for further changes or amendments to City Council to approve:

(1) continuation of the non-union employee performance review levels, target allocations and revised performance financial rewards;
(2) adjustments to reduce the width of the existing salary ranges; and
(3) the continuation of the non-union employee compensation plan's performance-based re-earnable lump sum component.

ISSUE BACKGROUND

The Non-union Employee Compensation Policy was initially approved by City Council in 1999 and subsequently reviewed in 2002, 2003 and 2004, and with amendments in 2006, 2009 and 2012. The approved compensation policy and performance review program includes the following components/criteria:

1. Salary Rates (Pay Policy Line) shall be based on the 75th percentile job rate of the broader public sector GTA market;
2. Annual Salary Range Market Adjustments (i.e. across-the-board salary increases) shall be based on market rates;

3. Annual Compensation Adjustments (i.e. progression through the range) shall be based on performance (for meeting/exceeding objectives)
4. Employees at the salary range maximum (job rate) shall be eligible for re-earnable lump sum award based on performance (for meeting/exceeding objectives)
5. Job Evaluation reviews shall include a component for internal equity.

Each non-union City of Toronto position has been evaluated on the City's customized gender-neutral job evaluation system, designed by The HayGroup in consultation with City staff, following amalgamation.

Performance Review Levels, Target Allocations and Financial Rewards

The Non-union Employee Compensation Plan, in place since 1999, provided three performance review levels, no target allocations and three performance financial rewards (see Table 2 below):

Table 2: 1999 Non-Union Performance Review Levels, Target Allocations and Financial Rewards

Performance Review Levels	Performance Target Allocations	Performance Financial Rewards
Unsatisfactory	No Target	0%
Developmental	No Target	1%
Met Objectives (Satisfactory)	No Target	3%

Under the performance management program in place from 1999 to 2012, the vast majority of employees were evaluated as "met objectives" and received 3% performance pay adjustments annually. There was no differentiation for meeting or exceeding performance objectives and expectations.

In 2011-2012, the City retained the HayGroup to undertake a review of the non-union employee performance management program and provide advice and recommendations on compensation best practices. The HayGroup is a global human resources management consulting firm providing services for private, public and not-for-profit public sector employers world-wide, and is most widely known and used for its expertise in compensation and reward strategies as well as its job evaluation methodology.

Following the review by HayGroup, the City Manager and Executive Director of Human Resources made recommendations to the Employee & Labour Relations Committee and City Council to amend the Non-Union Compensation Policy and Performance Management Program to establish revised new Performance Review Levels, new Performance Target Allocations and new Performance Financial Rewards.

The recommendations included splitting the previous "met objectives" performance review level into two new performance review levels of "*meets expectations*" and "*exceeds expectations*" and, based on human resources best practices, to provide revised performance financial rewards to improve the performance culture and recognize exceptional achievements. The recommendations included a human resources best practice to provide that the "exceeds expectations" performance financial reward percentage should be <u>twice</u> the financial reward for "meets expectations" performance. There were also recommendations made to re-confirm progression through the salary range for employees below their salary range maximum and to re-institute the merit performance-based re-earnable lump sum payment for those employees at their salary range maximum.

The City Manager and Executive Director of Human Resources recommended new Performance Review Levels, Target Allocations and Performance Financial Rewards were <u>adopted</u> by the Employee & Labour Relations Committee at its meeting on June 5, 2012; however, although adopting staff recommended changes, the Employee & Labour Relations Committee limited their initial implementation for a <u>two-year period</u> with the following adopted motion:

1. (a) *Effective January 1, 2013, and for the year 2014 (for 2012 and 2013 performance respectively) <u>only</u>, City Council amend the Non-union Compensation Policy to establish new individual merit Performance Review Levels, Performance Target Allocations and Performance Rewards as follows:*

Performance Review Levels	***Performance Target Allocations***	***Performance Financial Rewards***
Unsatisfactory	*Up to 3% of Staff complement*	*0%*
Meets Most but Not All Expectations and/or Developmental	*Up to 10% of staff complement*	*1%*
Meets Expectations	*70% of staff complement*	*2.5%*
Exceeds Expectations	*Up to 20% of staff complement*	*5%*

The Employee & Labour Relations Committee also adopted the staff recommendation:

1. (b) *City Council re-confirm its continuing support that employees eligible for progression through their respective grades salary ranges (i.e., progression from minimum to maximum) receive merit performance salary progression.*

Staff also recommended the merit performance-based re-earnable lump sum be reinstated; however, although supporting the reinstatement the Employee & Labour Relations Committee limited their initial reinstatement for a <u>two-year period</u> with the following adopted motion:

1. (c) *Effective January 1, 2012, and for the years 2012 (for 2011 performance) and 2013 (for 2012 performance) <u>only</u>, City Council direct that the merit performance-based re-earnable lump sum to recognize performance of employees who are at the top of their salary range be reinstated*

Subsequently, at the Council meeting on July 11, 12, 13, 2012, City Council adopted a further revised recommendation Part 1a that included a revision to the Employee & Labour Relations

Committee's adopted recommendation regarding the percentages for the Performance Financial Rewards as follows:

1. a. *Effective January 1, 2013, and for the year 2014 (for 2012 and 2013 performance respectively) only, City Council amend the Non-union Compensation Policy to establish new individual merit Performance Review Levels, Performance Target Allocations and Performance Rewards as follows:*

Performance Review Levels	***Performance Target Allocations***	***Performance Financial Rewards***
Unsatisfactory	*Up to 3% of Staff complement*	*0%*
Meets Most but Not All Expectations and/or Developmental	*Up to 10% of staff complement*	*1%*
Meets Expectations	*70% of staff complement*	*2%*
Exceeds Expectations	*Up to 20% of staff complement*	*3%*

At its July 2012 meeting, Council adopted the Employee & Labour Relations Committee's adopted recommendation Part 1b regarding re-confirming ongoing support for salary progression through the range.

At its July 2012 meeting, Council also adopted the Employee & Labour Relations Committee's adopted revised staff recommendation Part 1c regarding reinstating the performance-based re-earnable lump sum as follows:

1. c. *Effective January 1, 2012, and for the years 2012 (for 2011 performance) and 2013 (for 2012 performance) only, City Council direct that the merit performance-based re-earnable lump sum to recognize performance of employees who are at the top of their salary range be reinstated*

In summary, Council's adopted motions Parts 1.a and 1.c that approved the proposed recommended changes to the Non-union Compensation Plan (i.e. revised Performance Review Levels, new Target Allocations and reinstatement of the Performance-based Re-earnable Lump sum component) included limiting initial implementation or reinstatement for an initial two-year period. In addition, Council adopted a revised Part 1a motion that revised the Employee & Labour Relations Committee adopted staff recommendation regarding the Performance Financial Rewards by approving financial rewards at the level of 0%, 1%, 2%, 3% versus 0%, 1%, 2.5%, 5%.

Council also adopted the following Employee & Labour Relations Committee motion:

4. *City Council request the City Manager and the Executive Director, Human Resources to conduct a review and report back to the Employee and Labour Relations Committee, before the end of the 2013 calendar year regarding implementation of Parts 1 and 2 above and provide any recommendation for further changes or amendments, if any, to the compensation of the City's non-union employees.*

Cost of Revised Performance Financial Rewards

The projected net cost of this report's recommended revised performance financial rewards of 0%, 1%, 2.5%, 5% *with Target Allocations* is similar or cost neutral compared to the net cost of the 1999 - 2012 Non-union Compensation Plan's performance financial rewards of 0%, 1%, 3% *with no Target Allocations*. The similar or cost neutral comparative is achieved by the reduction from 3% to 2.5% for those who meet expectations and by applying a target allocation limit of 20% for those who receive 5% for performance that exceeds expectations.

Table 3: Performance Financial Rewards Cost Projected Comparisons

Council Adopted: 1999 - 2012 Non-union Compensation Plan			**Council Adopted July 2012: 2013 Non-union Compensation Plan**			**Staff Recommendation October 2013: 2014+ Non-Union Compensation Plan**		
Performance Review Levels	**Performance Target Allocations**	**Performance Financial Rewards**	**Performance Review Levels**	**Performance Target Allocations**	**Performance Financial Rewards**	**Performance Review Levels**	**Performance Target Allocations**	**Performance Review Rewards**
Unsatisfactory	No Target Allocation	0%	Unsatisfactory	Up to 3% of Staff complement	0%	Unsatisfactory	Up to 3% of Staff complement	0%
Developmental	No Target Allocation	1%	Meets Most but Not All Expectations and/or Developmental	Up to 10% of staff complement	1%	Meets Most but Not All Expectations and/or Developmental	Up to 10% of staff complement	1%
Met Objectives	No Target Allocation	3%	Meets Expectations	70% of staff complement	2%	Meets Expectations	70% of staff complement	2.5%
			Exceeds Expectations	Up to 20% of staff complement	3%	Exceeds Expectations	Up to 20% of staff complement	5%

X = $12M | $8.55M | Y = $11.7M

The projected additional net cost of the recommended 2014 revised performance financial rewards percentages compared to 2013 is approximately $3M. However, the total net cost of the recommended revised performance financial rewards of 0%, 1%, 2.5%, 5% *with target allocations* for 2014 is similar to the original net cost of the 2012 performance financial rewards of 0%, 1%, 3% with *no target allocations* that were in place under the 1999 Non-union Employee Compensation Plan. Table 3 above compares the 2012's performance reward cost of $12M (X) versus the projected 2014's performance reward cost of $11.7M (Y). City Divisions shall absorb the one-time net base costs associated with these changes within their 2014 budgets.

Salary Grades and Salary Ranges

Each position is assigned to a Salary Grade level that has an assigned Job Rate (Maximum Salary). The Job Rate for each position is determined by the City policy to set a market competitive salary at the 75th percentile level. The 75th percentile Job Rate means that the City of Toronto shall pay, at the Job Rate, more than 3/4 of other comparable public sector employers and pay less than 1/4 of other comparable public sector employers.

The Non-union Compensation Plan consists of salary grades from 1 through to 16. Each Salary Grade has an assigned Minimum Salary (Normal Entry Rate) point and Maximum Salary (Job Rate) creating a Salary Grade Range. The minimum to maximum span width for each of the salary ranges of positions falling within grades 1 to 11 is approximately 24% and for grades 12 to 16 is approximately 15%. This means, for grades 1 to 11 that the Minimum Salary is set 24% below the market competitive 75th percentile Job Rate (Maximum Salary). For example, the salary range for a non-union position at Grade 6 is provided in Table 4 below:

Table 4: Salary Grade 6 (2013)

Minimum Salary [Job Rate *minus* 24%]	Maximum Salary [Job Rate 75th Percentile]
$71, 372.20	$88,543.00

The use of a gender neutral 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.

An annual performance objective setting and subsequent performance review process is conducted for each non-union employee at all levels of the organization. Non-union employees who are below the Maximum Salary (Job Rate) for their respective salary grades are eligible to annually progress through their salary range (i.e. minimum salary to maximum salary) based upon meeting (or exceeding) their pre-determined performance objectives.

Under the former performance management program, it took approximately eight (8) years for an employee, in salary grades 1 to 11, to progress from the salary range minimum to the salary range maximum (i.e. 8 years x 3% per year = 24%). Eight (8) years to progress from the salary range minimum through to the salary range maximum was identified in two external consultant's compensation reviews as being an *excessive* length of time to achieve the job rate of their position and is not in keeping with practices followed by other organizations in the broader public sector. Under the revised performance management program adopted by Council in July 2012, it can now take up to 12 years for that employee, in salary grades 1 to 11, who is evaluated as meeting their performance expectations to progress from the salary range minimum to the salary range maximum (i.e. 12 years x 2% per year = 24%). This is the opposite direction recommended by the external consultants.

COMMENTS

Negative Impact of the Adopted Revised Recommendations

The Performance Financial Rewards (0%, 1%, 2%, 3%) adopted by City Council in July 2012 has resulted in consequences that negatively impacts the non-union employee compensation program, and specifically affects the competitiveness to attract talent, particularly to senior technical professionals, management, senior management and division head level positions, as well as impacts the City's ability to drive a performance culture that motivates superior performance. In particular, the 2012 Council approved revised Non-union Compensation Plan provides for:

1. A lack of competitive total compensation, salary progression and merit performance rewards for effective recruitment and retention purposes and will be further exacerbated by the expected future significant competitive recruitment challenges as the City's turnover rate

increases due to increasing projected levels of retirement with 50% of supervisors, managers and directors and above eligible for unreduced early retirements by 2018.

2. A notable lower performance rating reward percentage for meeting expectations than had been in place previously (i.e. employees who previously were meeting objectives/expectations and continue to do so now receive 1% less i.e. 2% instead of 3%). This has resulted in a demotivating effect on staff morale across the corporation.

3. An "exceeds expectation" performance financial reward percentage that is not double the "meets expectations" performance financial rewards percentage and provides only a 1% differential is not a compensation best practice. The HayGroup provides that exceeds performance financial rewards should be ***double*** the percentage amount awarded for those employees rated as having met their performance objectives.

4. The current "exceeds expectations" financial reward percentage provides employees with the same performance reward as employees that previously received for meeting performance expectations; there is no incentive to drive a performance culture that was the intent of the recommended compensation plan and performance management program changes.

5. There is a further increase in the number of years for an employee to move from the minimum to the maximum (job rate) of their salary range. Employees may now take up to 12 years versus 8 years to reach the salary range maximum; this is contrary to the recommendations by two external internationally leading consulting firms who have previously stated that 8 years is too long.

The negative factors that are discussed in more detail below, are impacting the competitiveness of the City's non-union positions and will have a detrimental impact on the City's ability to attract and retain top talent. This comes at a time where we know, based on demographics, that the percentage of the City's workforce eligible to retire is high, and will continue to be so, over the next five to seven years. With these same demographic trends existing in the general labour market in Toronto and the GTA and at other municipal, regional and public and private sector employers, the ability for the City to attract and keep top talent is compromised when its compensation and performance management plans are not competitive.

The intent of the report's recommendations are to improve the City's performance culture, and to increase performance corporate-wide, in order to meet and exceed the demands for and quality of City services provided to the public.

Public and private sector best practices organizations, that seek to recruit, retain and have high-performing employees, have comprehensive compensation and performance reward programs in place. Particularly, in these times of budget and financial challenges, ensuring a lean but high-performing workforce is critical to an organization's success. It is critical that organizations have effective salary and financial performance reward programs that drive and optimize organizational performance and that ensure an organization can retain and attract highly skilled talent.
Given the demographics of the Toronto Public Service workforce, the number of retirements and the turnover rate is expect to accelerate over the next five years across all levels of the organization particularly in the senior management, management and non-union employee group. An organization's compensation program and its performance reward programs have a direct

influence on the employer's ability to compete (attract and retain) for employees in the labour market.

Performance Reward Ratings

Under the City's original compensation program, in place since 1999, an employee rated as having met his/her performance objectives in any given year received a 3% salary adjustment. In July 2012, City Council considered a Staff Report on Non-Union Employee Compensation where staff recommended amendments to the performance reward ratings, in order to drive organizational performance and help ensure that the City continues to be able to retain and attract highly skilled talent. City Council approved an amended performance financial reward percentage structure that differed from what staff recommended (and approved by the E&LR Committee) and it is not aligned with compensation best practices.

As part of the HayGroup's 2011-2012 review, they had observed that almost all non-union employees received the same performance rating (i.e. met objectives/satisfactory) and that there was no performance reward mechanism in place to

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

These observations were significant in that leading organizations recognize and differentiate performance rewards for individual employees with superior performance; they also will link performance to corporate business goals and objectives. Successful organizations maximize employee work performance by using targeted rewards, including financial, to achieve the maximum return on their investment. Pay-for-performance programs, like the one in place at the City of Toronto, creates greater discipline in the performance cycle by requiring management to: set clear goals and objectives with measurements, provide for regular feedback, and then acknowledge and reward the employee's success and organizational achievements.

The introduction of the new Performance Reward Level "exceeds expectations", approved by City Council in July 2012, has helped to address a deficiency in the previous performance reward model at the City of Toronto by including a new level that differentiates superior performance and serves to drive and motivate staff to achieve high performance levels. The Employee & Labour Relations Committee adopted staff recommended Performance Reward percentages; however, these were amended by City Council and the amended reward percentages are not aligned with compensation best practices.

The 2012 staff recommendations, adopted by the Employee & Labour Relations Committee, were to provide 2.5% increase for met expectations and 5% increase for exceeding expectation. The exceeded expectations reward of 5% was still considered relatively modest compared to other employers and would recognize employees who have consistently demonstrated superior performance. It is the exceeds performance level and associated reward that is known to drive organizational performance by encouraging all employees to maximize organizational performance outcomes.

The staff recommended plan was cost neutral for the organization. The reward percentages recommended were considered both reasonable and affordable as the recommendations also included lowering satisfactory performance reward from 3% to 2.5%, and introducing target allocations with exceeds expectations performance level target of up to 20% of the staff complement. It was noted that a smaller reward percentage for superior performers would not adequately recognize the contributions and organizational impacts of the high-performing employee. The new performance reward levels proposed were cost-neutral changes to the City overall when factoring in the percentage changes and the new performance target allocations.

Notwithstanding these recommendations, the Council approved financial rewards that reduced the percentage provided to employees from 3% to 2% for meeting expectations. Council also approved the percentage for the new exceeds expectations performance level at 3%, which does not serve to drive and optimize employee performance. According to the HayGroup, and as per prevailing compensation best practice, to be effective in driving performance the 'exceeds expectation' performance reward level rating should be *double* the percentage amount awarded for those employees rated as having met expectations/objectives.

A properly designed pay-for-performance system is a key factor in getting employees to excel at maximum performance levels and creating a high performing organization. By combining clear direction (performance goal setting) quality feedback (regular performance reviews) and tangible rewards, employees receive recognition, which is a key component to job satisfaction, performance, and employee dedication. This builds a more satisfying relationship, influencing performance outcomes, motivation and retention. This is a key contributor to driving performance towards and exceeding commitments to service levels.

This report recommends that the performance reward ratings be adjusted to reflect the originally proposed percentage reward levels i.e. employees rated as 'meeting performance expectations' would receive 2.5% and those rated as 'exceeding performance expectations' would receive 5%. The previously adopted target allocation for exceeds expectations, with no more than 20% of the non-union complement being eligible, would remain.

Recruitment and Retention: Management of Talent

The City continues to be concerned about its ability to retain and attract high performing employees. The available labour market of quality talent continues to shrink as baby boomers retire. There is significant competition in the market place for high performing professional and managerial staff (for example, senior managers, engineers, project managers, senior technical professional staff, directors of nursing, financial analysts). As the available labour market, including the City of Toronto's workforce ages, there will be a reduction in the availability of skilled senior professional, technical and managerial staff. This directly translates into more and more employers competing in the market place for less available highly skilled talent (known sometimes as the coming "war for talent").

The City of Toronto, Toronto Public Service compensation plan has not kept pace with compensation plans offered by comparable employers. In fact, City Agencies have compensation and performance reward programs that are more robust than what exists in the Toronto Public Service that has enabled them to better compete for and attract high performing talent.

Employers have recognized that to continue to attract and retain high performing superior individuals to their organization they must remain competitive in the market place, which includes providing competitive compensation and financial performance-based rewards.

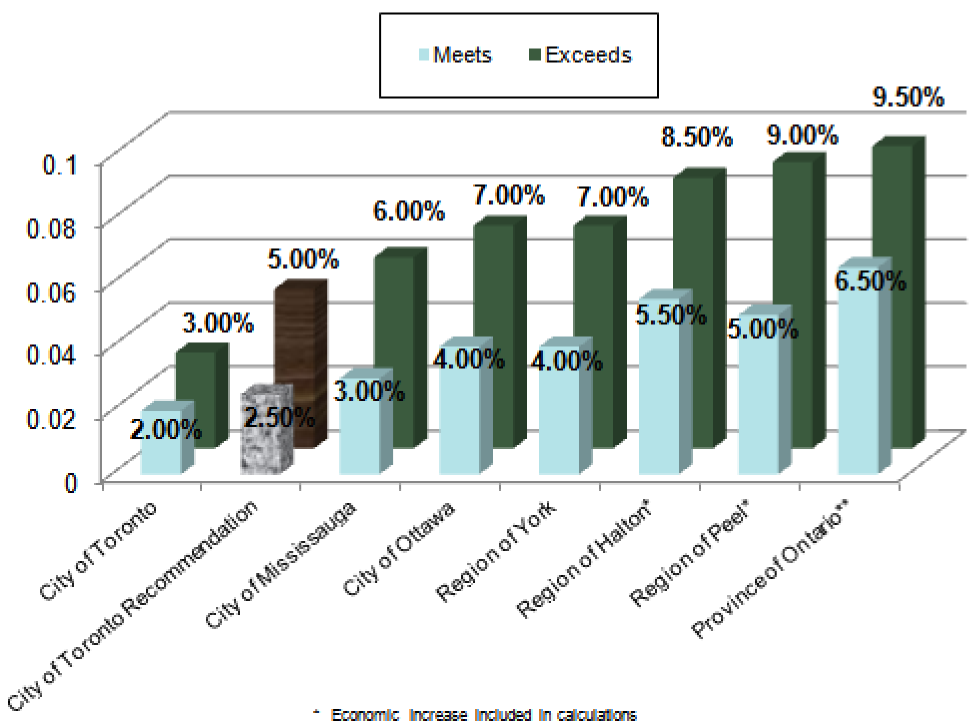
Table 5 below provides the performance target allocations, target allocations and the report's recommended performance financial rewards compared to other GTA/Ontario market comparators.

Table 5
Performance Levels, Performance Target Allocations and Performance Financial Rewards

Performance Review Level	Performance Target Allocations	2012 Council Approved: Performance Financial Reward	October 2013 Staff Recommended: Performance Financial Reward	GTA/Ontario Market Comparator Group
Unsatisfactory	3% of staff complement	0%	0%	0%
Meets Most Not All Expectations or Developmental	10% of staff complement	1%	1%	1%
Meets Expectations	70% of staff complement	2%	2.5%	3-5%
Exceeds Expectations	up to 20% of staff complement	3%	5%	5-7%

Chart 1 below provides the compensation performance financial rewards at the City of Toronto (current), this Report's recommendation and performance financial rewards at other key Municipalities and Regions in Ontario who compete for the same talent.

Chart 1: City of Toronto and Other Ontario Municipalities/Regions Performance Pay Rewards



* Economic Increase Included in calculations

** Performance Based Only - No Economic Increases

Salary Range Structure Amendment

The minimum to maximum width span of the salary ranges of positions in wage grades 1 to 11 is approximately 24% and approximately 15% for salary grades 12 to 16. Under the previous performance management program, with the majority of employees receiving a 3% performance pay adjustment annually for meeting their objectives, it would take approximately 8 years for an employee to progress from the minimum to the maximum (i.e. job rate) of their grade 1 to 11 salary ranges. External consultant reviews of the City's non-union compensation program by Mercer in 2008 and HayGroup in 2011/2012 have both identified concerns with the excessive length of time it took (i.e. 8 years) for an employee to move from the minimum to the maximum of their salary range to achieve the job rate of the position. Consultants indicated that compared to other comparable employers, the City's salary progression model is too long.

Under the revised 2012 Council approved amended compensation plan, employees who meet expectations will now take up to 12 years (or 50% longer) to progress from minimum to maximum of their salary range. Both HayGroup and Mercer, in reviewing the City's non-union employee compensation program have already stated that 8 years is an *excessive* period of time for an employee to reach the salary range max and contrary to compensation best practices, the 12-year salary progression period is now even further away from the best practices recommendations of the two external consultants.

For example, under the 2012 Council approved amended compensation plan, an employee starting at the minimum of the salary range in 2013 and meeting performance expectations every year, will not reach the job rate (salary range maximum) for their position until 2025.

Comparing to other City compensation schemes, employees new to a position represented by CUPE Local 79, will progress from the minimum of their salary range to the maximum in three years. For employees represented by TCEU/CUPE Local 416, there is one wage rate set at the job rate for the position.

The new performance rating levels approved by City Council at its July 2012 meeting means that the majority of employees are now receiving 2% for meeting performance expectations, therefore, it could take employees up to 12 years to move from the minimum to the maximum of the range. This raises further concerns about the competitiveness of the City's non-union compensation program, if in fact it will now take the majority of non-union employees even longer to reach the competitive job rate for their position.

Addressing partially this issue, staff is recommending that we reduce the span width (min. to max.) of each salary grade 1 through 11, but not change the maximum that is approved by City Council. Specifically, staff is recommending reducing the span by 6.5%, which would be achieved by raising the minimum of the salary range by 6.5%. The salary range span would be reduced to 17.5% (rather than the existing 24%) for grades 1 through 11. There would be no impact or change to the salary range maximum.

By approving the recommendations contained in this report, to reduce the span of the salary ranges (from 24% to 17.5% for grades 1 to 11 and from 15% to 12.5% for grades 12 to 16)) AND to adjust the performance reward ratings from 2% to 2.5% for employees rated as "meeting expectations", this will result in a more competitive non-union compensation program, more closely in line with compensation best practices, and will reduce the time it takes for employees to move from the salary range min to the salary range max to 7 years, rather than the 12 years that it currently takes, with the current performance reward ratings.

There are approximately 237 employees who are currently at the minimum or within 6.5% of the minimum of their salary range. Only those employees who would need to be 'green-circled' (i.e. moved up to the new salary range minimum) would be those that continued to fall below the new adjusted minimum. See example in Appendix A: Impact of Salary Range Width Reduction Adjustment Example for how a reduction in the spans of the ranges would impact typical employee.

We anticipate that the cost of implementing the reduction in the salary range span by raising the minimum range floor would be minimal and as such, we believe that the cost could be absorbed by the affected City Divisions.

Conclusion

The Report's recommendations are to continue the Non-union Compensation Plan including the Performance Review Levels, Target Allocations, the revised Performance Financial Rewards and the continuation going forward of the Performance-based Re-earnable Lump Sum. The Report's recommendations include changes to correct the unintended negative consequences that resulted from the implementation of amended Performance Financial Rewards percentages adopted by Council in July 2012.

The Report's recommendations also include reducing the span width of the salary ranges for grades 1 to 11 from 24% to 17.5% and the span width of grades 12 to 16 from 15% to 12.5%.

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Appendix A: Impact of Salary Range Width Reduction Adjustment Example

Appendix A

Impact of Salary Range Width Reduction Adjustment Example

Wage Grade 6:

Current

2013 Salary Range (Wage Grade 6): $71,362.20 - $88,543.00
2014 Salary Range (Wage Grade 6): $72,611.04 - $90,092.50

24%

Report's Recommendation*

The minimum of salary range adjusted, no change to salary range maximum

2014 Salary Range (Wage Grade 6): $77,330.76 - $90,092.50

17.5%

Below are examples of two different employees, both in a position wage grade 6 position, Employee 1 with a annual salary of $76,000 (2013) and Employee 2 with an annual salary of $71, 362.20 (2013).

Employee 1 (current 2013 salary $76,000):

Effective January 1, 2014, if Employee 1's 2013 performance is rated meeting expectations, this employee would receive 2.5% performance salary progression and 1.75% cost-of-living approved by Council.

Employee 1's new salary for 2014: $79,263.25

There is **no cost impact** for increasing the minimum of the salary range for the employee in this situation, as their 2014 salary is within the recommended new, adjusted salary range.

Employee 2 (current 2013 salary $71,362.20):

Effective January 1, 2014, if Employee 2's performance is rated meeting expectations, this employee would receive 2.5% performance salary progression pay and 1.75% cost-of-living approved by Council

Employee 2's new salary for 2014: $74,426.31

However, with the revised shortened salary range, the new salary range minimum is $77,330.76. In order to compensate the employee *within* the salary range, the City will need to provide a one-time adjustment of: $3267.50 ($77,330.76 - $74,063.26) to bring the employee's salary to the minimum of the range. Therefore, the one-time base cost to the City of adjusting the salary range for this employee $3267.50