

## **Supplementary Report to Item EX25.13: Toronto Hydro Corporation - Annual General Meeting and 2020 Audited Financial Statements**

**Date:** July 13, 2021

**To:** City Council

**From:** City Manager and City Solicitor

**Wards:** All Wards

### **REASON FOR CONFIDENTIAL INFORMATION**

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The confidential attachment to this report contains advice or communications that are subject to solicitor-client privilege.

### **SUMMARY**

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Executive Committee at its July 6, 2021 meeting adopted Item EX25.13, Toronto Hydro Corporation - Annual General Meeting and 2020 Audited Financial Statements (Toronto Hydro AGM), and directed the City Manager, in consultation with the City Solicitor, to report to the July 14 and 15, 2021 City Council meeting with:

- An update regarding previous directions concerning executive compensation and bonusing for Toronto Hydro, including:
  - a. recommendations on an appropriate salary and compensation cap, which will limit compensation, for all new executives hired by the Corporation;
  - b. opportunities respecting the provisions of currently existing contracts, to bring compensation in line with other City policies; and
- Recommendations to ensure that those previous directions are implemented to the fullest extent possible.

The City Manager, in consultation with the City Solicitor and the Toronto Hydro Corporation, is responding to Executive Committee's request.

The City Manager is conducting a review of executive compensation policies of the City's agencies and corporations to be completed in 2021. To accomplish this, the City will engage external, independent expertise to undertake the review of City agency and corporation executive compensation policies and structures, including:

- benchmarking to compare their compensation structures with similar functions in comparable public sector organizations;
- development of recommendations on appropriate salary ranges and compensation caps with a view to limit compensation caps; and
- advice to the City on its current executive compensation policy framework for agencies and corporations based on best practice.

The City Manager will report to City Council on the findings of this review in the fourth quarter of 2021. This review is critical to address City Council directions, including reviewing executive compensation at City agencies and corporations, and to ensure that the City's executive compensation framework for its agencies and corporations is current and meets best practice.

Toronto Hydro has indicated it is undertaking a benchmarking review in 2021 related to compensation for its executives. The results of this benchmarking study are expected to be available by Q4 2021 and will be reported to the Toronto Hydro Board of Directors. The results will also be shared with the City Manager to inform the City Manager's review of executive compensation at agencies and corporations in 2021.

## **RECOMMENDATIONS**

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The City Manager and City Solicitor recommend that:

1. City Council direct the City Manager to complete the independent, external review of executive compensation policies and practices at City Agencies and Corporations, including Toronto Hydro Corporation, as requested by City Council, and report back by the fourth quarter of 2021.
2. City Council request the City Manager to include in the 2021 review of executive compensation for City Agencies and Corporations appropriate updates to the City's policy framework adopted by City Council in 2014, in accordance with current leading industry practice.
3. City Council direct that the confidential information contained in Confidential Attachment 2 remain confidential in its entirety as it contains advice or communications subject to solicitor-client privilege.

## **FINANCIAL IMPACT**

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This supplementary report to the City Manager's report *Toronto Hydro Annual General Meeting and 2020 Audited Financial Statements* (Item 2021 EX25.13), responds to

Executive Committee's request at its meeting of July 6, 2021, for an update to City Council on previous directions related to Toronto Hydro's executive compensation.

There are no current or known future year financial impacts to the City arising from the recommendations contained in this report. The cost of external reviews and benchmarking studies are included in the City Manager's 2021 Council Approved Operating Budget.

The Chief Financial Officer and Treasurer has reviewed and agreed with this financial impact statement.

## **DECISION HISTORY**

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On July 23, 2018, City Council adopted with amendments EX35.14, *Toronto Hydro Corporation - Annual General Meeting and 2017 Audited Financial Statements*, and directed the Board of the Toronto Hydro Corporation to review their executive compensation and compare with similar municipally owned electric utility companies including: Ottawa Hydro, Quebec Hydro, Alberta Hydro, British Columbia Hydro, New Brunswick Power, Hydro Quebec, Manitoba Hydro and Saskatchewan Power.  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX35.14>

On January 24, 2018, Executive Committee considered Item EX30.10, *Toronto Hydro Corporation Review of Executive Compensation Policy*, a response to City Council's direction in 2016 for the Board of Toronto Hydro Corporation to review its senior executive compensation policy and incorporate the Guiding Principles for executive compensation at agencies and corporation established in 2014. Executive Committee referred EX30.10 back to the City Manager, with the request that he review the executive compensation policy at Toronto Hydro and report back with recommendations on an appropriate salary and compensation cap for all new executives hired by the Corporation, and to request the Toronto Hydro Board of Directors to review current executive compensation packages and bonus policies at Toronto Hydro to assess opportunities, respecting the provisions of currently existing contracts, to bring compensation in line with other City policies.  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX30.10>

On January 24, 2018, Executive Committee adopted EX30.35, *Review of Capping Executive Compensation Policies at City Agencies and Corporations*, as part of its consideration of report EX30.10, and directed the City Manager (1) to review executive compensation at all agencies and corporations and provide recommendations on an appropriate salary and compensation cap, which will limit compensation, for all new executives hired; and (2) review the executive compensation policy at Toronto Hydro Corporation and report back to Executive Committee with recommendations on an appropriate salary and compensation cap which will limit compensation for all new executives hired by the Corporation.  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX30.35>

On November 28, 2017, Executive Committee deferred consideration of EX29.9, *Toronto Hydro Corporation Review of Executive Compensation Policy* to the January 24, 2018 Executive Committee meeting. The report from the City Manager advised that a report from the Toronto Hydro Board on the review of its executive compensation policy as requested in EX16.10 (2016) was forthcoming.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX29.9>

On July 12, 2016, City Council adopted as amended EX16.10, *Toronto Hydro Corporation - Annual General Meeting and 2015 Annual Report and 2015 Annual Audited Financial Statements*, and directed the Toronto Hydro Corporation to review its senior executive compensation policy and forward it to the City Manager for inclusion in a report through Executive Committee in 2017, and such policy incorporate the Guiding Principles adopted by City Council, including using public sector comparators to set base salary, a limit on variable/incentive or merit pay at 25% of base salary, and apply the updated policy to new employment contracts or existing contracts that permit compensation adjustments.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX16.10>

On August 25, 2014, City Council adopted EX44.8, *Executive Compensation Policy at City Agencies and Corporations*, that requested, amongst other things, that City agencies and corporations develop a comprehensive senior executive compensation policy, independent of management, applying the Guiding Principles and practices set out in the report, and requested that the Board approved policy be applied to new employment contracts, and to existing contracts, if any, that permit compensation adjustments, either during an existing term or under renewal.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.EX44.8>

## COMMENTS

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### **1. City of Toronto's Executive Compensation Framework for City Agencies and Corporations**

City Council, in August 2014 (Item EX44.8), adopted a framework for executive compensation at City agencies and corporations with Guiding Principles. City Council requested, amongst other things, that agencies and corporations develop their own comprehensive senior executive compensation policies, independent of management, apply the Guiding Principles, and that the Board-approved policies be applied to new employment contracts, and to existing contracts that permitted compensation adjustments. A summary of the Guiding Principles can be found in Attachment 1 to this report.

City agency and corporation boards are responsible for the adoption and implementation of executive compensation policies according to Council's framework and directions for their senior executives, unless they are City staff. The City Manager communicated Council's framework and directions to agencies and corporations, and assisted agencies and corporations, as needed, on the development of their executive compensation policies based on Item EX44.8 requirements.

## **2. Directions Related to Toronto Hydro Executive Compensation**

City Council and Executive Committee have issued directives related to executive compensation in past years. The directives have focused on aligning City agency and corporation compensation policies with the City's 2014 Executive Compensation framework and Guiding Principles, including for Toronto Hydro. The following provides an update on executive compensation initiatives.

### **a) City Update**

The City Manager was asked to report back on Items EX30.10 and EX30.35, including:

- Review the executive compensation policies at all City agencies and corporations, including Toronto Hydro, and report back with recommendations on an appropriate salary and compensation cap, which will limit compensation, for all new executives hired.
- For Toronto Hydro specifically, to also compare the executive salaries and compensation with similar corporations in other municipalities across Canada.

The City Manager is conducting a review of the City's agency and corporation executive compensation policies in 2021, including Toronto Hydro, and will update the City's 2014 framework in keeping with current leading best practice. As part of the review, independent, external expertise will be used to undertake benchmarking with appropriate public sector comparators, make recommendations on appropriate salary ranges and compensation caps with a view to limit compensation caps, and provide advice to the City on its current executive compensation policy framework for agencies and corporations.

The directions in Items EX30.10 and EX30.35 are the basis of the City Manager's review. While work had advanced, this work had been placed on lower priority during the COVID-19 emergency response. Staff are committed to resuming this review, and will work to complete the review and report back Q4 2021.

This review is critical to address City Council directions, including reviewing executive compensation at City agencies and corporations, and ensuring that the City's executive compensation framework for its agencies and corporations is current and meets best practice.

### **b) Toronto Hydro Corporation Update**

Toronto Hydro developed its first executive compensation policy in 2015, and updated it along with compensation benchmarking in 2017. The updated 2017 policy was considered by Executive Committee at its January 24, 2018 meeting. Toronto Hydro provides executive compensation information to the City through its Annual General Meeting (AGM) reports. As stated in Toronto Hydro's Information Form contained in its 2020 Corporation AGM report, Toronto Hydro periodically benchmarks the compensation it provides to its executives, including the level and type of compensation provided. Toronto Hydro has indicated it is undertaking a benchmarking review in 2021. The senior executive compensation information derived from the benchmarking analysis is designed to assist the Corporation in establishing, over time, total cash compensation

for its executives. The results of this benchmarking study are expected to be available by Q4 2021 and will be reported to the Toronto Hydro Board of Directors. The results will also be shared with the City Manager to inform the City Manager's review of executive compensation at agencies and corporations in 2021.

### **3. Update on opportunities to bring compensation in line with other City policies**

Executive Committee at its July 6, 2021 meeting also requested an update on directions related to opportunities to bring existing Toronto Hydro contracts in line with City policies as it relates to executive compensation and bonusing. Regarding existing contracts, it is important to note that the City's agencies and corporations are separate employers who are responsible for the compensation of their employees. The City is not a party to employment contracts with board or corporate employees. Accordingly, City Council has established a framework and directions for the boards of City agencies and corporations to consider when developing their respective senior executive compensation policies and framework for their organizations, and which must be approved by their respective Boards. Please see Confidential Attachment 2 for further information.

The City Manager's review of executive compensation policies at City agencies and corporations, including Toronto Hydro Corporation, is expected to be completed by the end of the year, and the results and recommendations will be reported to Executive Committee and City Council.

## **CONTACT**

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## **SIGNATURE**

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Chris Murray  
City Manager

Wendy Walberg  
City Solicitor

## **ATTACHMENTS**

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**Attachment 1:** Guiding Principles in the Development of Senior Executive Compensation Policies (August 6, 2014) Attachment 1 to the City Manager's Report in Item EX44.8

**Confidential Attachment 2:** Confidential Legal Advice to City Council from the City Solicitor