



## STAFF REPORT ACTION REQUIRED

### Non-Union Employee Compensation

<b>Date:</b>	February 1, 2011
<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 recommendations on non-union employee compensation, including recommendations to apply a 2.25% cost-of-living adjustment for 2011 and to amend going forward the performance-based re-earnable lump sum provision to 1.5%, for Toronto Public Service non-union employees at the City of Toronto.

### RECOMMENDATIONS

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The City Manager recommends that:

1. The Employee & Labour Relations Committee recommend to the Executive Committee and City Council:
  - a. a 2.25% cost-of-living adjustment effective January 1, 2011, for all non-union employees employed in the Toronto Public Service consistent with the City's practice of providing increases similar to negotiated wage increases with the City's unions;and that, subject to recommendation 3 of this Report and pending the adoption of any recommendations arising therefrom;
  - b. continue the performance-based pay policy for all non-union employees eligible for progression through their respective grade salary ranges (minimum to maximum salary – job rate); and
  - c. to amend the performance-based pay policy as it is applied to all non-union employees who have reached their respective maximum salary (job rate) and are eligible for the re-earnable lump-sum payment by setting that payment to 1.5%.

2. Staff be authorized to make the appropriate budget adjustments from the 2011 Non-Program Operating budget to the City Divisions' budgets to implement the recommendations.
3. The Employee & Labour Relations Committee recommend the continuation of the non-union employee Compensation Policy and that the City Manager report back to Committee, with a review of the Compensation Policy and provide any such best practices recommendations to ensure that a modern, affordable and competitive compensation policy and program is in place for 2012 and beyond.

## **Financial Impact**

The total estimated financial impact arising from the adoption of this report is \$17,844,564 (net).

### **Cost Impact for Proposed 2011 Salary Increase for Non-union Employees (Including Benefits)**

	<b># Employees Eligible</b>	<b>Gross Cost</b>	<b>Net Cost</b>
<b>COLA 2.25%</b>	4166	\$9,793,823	\$8,721,006
<b>Performance Progression Pay</b>	2482	\$7,340,319	\$6,611,452
<b>Performance Re-earnable Lump Sum</b>	1684	\$2,862,938	\$2,512,106
<b>Total Cost</b>		\$19,997,080	\$17,844,564

Funding for the increases have been incorporated into the City of Toronto's 2011 recommended Operating Budget as tabled to the Budget Committee.

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

## **ISSUE BACKGROUND**

### Non-Union Employee Cost-of-Living Adjustments

Each year City Council approves the operating budget for the City of Toronto that includes the compensation funding, as per the Council approved non-union employee Compensation Policy, for all non-union employees in the Toronto Public Service.

Historically, City Council approved cost-of-living adjustment that provide non-union employees with cost-of-living adjustments similar to negotiated wage increases that it approved for unionized employees represented by the City's unions.

At its May 26, 2006 meeting, City Council approved a revised cost-of-living adjustment policy, for senior management (i.e., Division Heads and above and Accountability Officers), for January 1, 2006, 2007 and 2008. Council decided that the cost-of-living

adjustment would be based upon the Consumer Price Index for Toronto (12 month average) each January. Council also approved the use of the same CPI formula for the annual cost-of-living increases for Council members.

At its April 29, 30, 2009 meeting, prior to the conclusion of union negotiations, City Council approved a 2009 cost-of-living adjustment of 0.0% and a 2010 cost-of-living adjustments of 1.0% for all non-union employees.

#### 2005-2011 Cost of Living Adjustments: Toronto Public Service

The following chart provides a comparative summary of cost-of-living adjustments/wage increases for the Toronto Public Service - City of Toronto:

<b>2005-2011 Cost-of-Living Adjustments/Wage Increases</b>				
<b>Year</b>	<b>Senior Mgmt</b>	<b>Non-union</b>	<b>Local 79</b>	<b>Local 416</b>
<b>2005</b>	2.75%	2.75%	2.75%	2.75%
<b>2006</b>	2.00 %	3.00%	3.00%	3.00%
<b>2007</b>	1.60%	3.25%	3.25%	3.25%
<b>2008</b>	1.90%	3.25%*	3.25% + 0.75%*	3.25% + 0.75%*
<b>2009</b>	0.00%	0.00%	1.75%	1.75%
<b>2010</b>	1.00%	1.00%	2.00%	2.00%
<b>2011</b>	2.25%	2.25%	2.25%	2.25%

\*In 2008, non-union employees did not receive a similar second in-year general salary increase of .75%.

#### 2009 and 2010 Cost of Living Adjustments: GTA/Municipal Employers

The following chart provides a comparative summary of the cost-of-living adjustments received by non-union employees at other comparable GTA/municipal employers:

<b>City or Region</b>	<b>2009 COLA</b>	<b>2010 COLA</b>
<b>City of Toronto</b>	0.00%	1.00%
TCHC	1.75%	1.50%
TTC	3.00%	3.00%
Toronto Police Services	Jan 1 2.00% Jul 1 0.60% Dec 1 0.85%	Jan 1 2.00% Jul 1 0.91% Dec 1 0.25%
Toronto Public Library	0.00%	1.00%
York Region	3.00%	2.35%
Halton Region	3.00%	2.50%
Durham Rgion	3.25%	3.25%
Peel Region	3.00%	2.00%
Niagara Region	2.75%	2.00%
Region of Waterloo	3.00%	2.00%
Town of Richmond Hill	3.00%	3.00%
City of Vaughan	3.00%	Jan 1/1.75% Jul 1/1.25%

Mississauga	3.00%	2.50%
Brampton	2.50%	2.50%
Hamilton	0.00%	1.50%
Town of Whitby	3.25%	3.50%
Ottawa	1.50%	1.60%
St. Catharines	3.00%	3.00%
Sudbury	3.00%	2.50%
Province of Ontario	1.50%	0.00%

### Performance-based Salary Progression Pay for Non-Union Employees

City Council's approved non-union employee Compensation 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. 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. 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 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 and to attract and retain high performing staff to work in a large, highly complex organization.

Non-union employees who are below (approximately 59% of non-union employees) 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) if they meet (or exceed) their pre-determined performance objectives. All performance reviews are conducted and reviewed by at least two levels of management.

At its April 29, 30, 2009 meeting, City Council re-confirmed its support for continuation of performance-based salary progression pay for eligible non-union employees.

### Performance-based Re-earnable Lump Sum Payments

City Council's approved non-union employee Compensation Policy provides for a performance based re-earnable lump sum (i.e., a variable pay component) for those employees who have reached their position's Job Rate. Subject to budget approval, these non-union employees (approximately 40% of non-union employees) would be eligible to receive a lump sum payment of 3% if they meet (or exceed) their pre-determined performance expectations for that particular year. It is a re-earnable lump sum and does not become part of the employee's regular base salary.

The performance-based re-earnable lump sum component of the policy was approved by City Council on the basis of being consistent with the best practices of comparable employers, including the Province of Ontario and other public sector employers. It was originally approved in 1999, subsequently reviewed in 2002, 2003 and 2004. Variations

of re-earnable lump sums or variable pay arrangements continue to be provided by most of the other comparator employers.

At its April 29, 30, 2009 meeting, City Council approved a motion to suspend the performance-based re-earnable lump sum payments in 2009 and 2010, for non-union employees who reached their respective maximum salary (Job Rate).

### Performance-based Re-earnable Lump Sum: Employment Standards Complaint

Subsequent to the implementation of the above motion, the City became a respondent to multiple complaints from 800+ non-union employees, under the *Ontario Employment Standards Act 2000 (ESA)*, regarding the suspension of the performance-based re-earnable lump sum payments for 2009 and 2010. These complaints are an on-going matter under investigation and review by the Ontario Ministry of Labour. Any discussion regarding the particulars of these ongoing complaints should be held in-camera.

## **COMMENTS**

### Non-Union Employee Cost-of-Living Adjustments

Council annually approves the budget for non-union compensation including the annual cost-of-living adjustment for all non-union employees.

Historically, City Council has provided for a similar cost-of-living adjustment increase for non-union employees after City Council has approved the negotiated union increases within the Toronto Public Service at the City of Toronto.

The provision of similar cost-of-living adjustment increases as approved for unionized employees ensures that increases in unionized salaries do not result in salary compression issues. In addition, it prevents differential treatment that negatively impacts morale, particularly as the non-union employee group is heavily relied upon and has willingly demonstrated its ability to effectively continue to provide key services to the public during emergency events and labour disruption. It ensures the City of Toronto remains competitive within the market place in order to retain and attract high performing professional and managerial employees at all levels of the organization. This competitive requirement will become even more critical for the organization as the City of Toronto competes for high performing staff during the well documented retirements of baby boomers over the next five to seven years and the well documented competition for high performing and competent talent.

### Non-Union Employee Compensation System Review

The non-union employee Compensation Policy and program was approved by City Council in 1999 and subsequently reviewed in 2002, 2003 and 2004. The Compensation Policy and the 75<sup>th</sup> percentile pay line for non-union employee positions were reviewed by an external consultant in 2008 and two presentations made to the Employee & Staff report for action on non-union compensation.

Labour Relations Committee. Council was advised, at that time, that the City was falling below its 75<sup>th</sup> percentile pay policy at a number of its salary grade levels (for example senior management levels were at or near the 50<sup>th</sup> percentile). The recommendations of this review were received and there were no adopted motions. With 2009's 0.0% cost-of-living adjustment and 2010's 1.0% cost-of-living adjustment increase, the salary ranges for City's non-union employees have now fallen further behind, particularly given the general salary increases awarded at other comparator GTA/municipal employers.

In light of 2009 collective bargaining activities, the City's subsequent financial pressures and cost containment efforts in 2009, City Council's April 29, 30, 2009, decision regarding 2009 and 2010 non-union compensation, and ongoing financial pressures and cost containment measures in 2010, a decision to review further any potential recommendations for changes to the non-union employee compensation program was deferred until the next term of Council. Appendix A provides greater background information regarding City Council's approved non-union employee compensation program.

#### Performance-based Re-earnable Lump Sum Payments

At its meeting of April 29, 30, 2009, City Council's decision was to suspend the performance-based re-earnable lump sum payments in 2009 and 2010. This report includes a recommendation to amend going forward the performance-based re-earnable lump sum from 3% to 1.5%. This component of the non-union employee Compensation Policy will be included as part of the overall review and addressed as part of any such future recommendations made to the Employee & Labour Relations Committee.

#### Toronto Public Service People Plan

In September 2008, City Council supported the new strategic Toronto Public Service (TPS) People Plan with specific goals and objectives.

The TPS People Plan is a comprehensive human resources strategic plan for ensuring that the City of Toronto has "the right people in the right place at the right time" to deliver the services and programs that build a strong, prosperous and livable City. A competitive compensation plan directly contributes to the City's achievement of its stated goals and objectives.

The TPS People Plan goals are:

- a. We will be a learning organization
- b. We will have safe and healthy workplaces
- c. We will attract and retain a skilled, high performing and diverse workforce
- d. We will have strong and effective leaders
- e. We will build a positive workplace culture

A key component of the TPS People Plan is to begin to develop the strategies that ensure that the City of Toronto effectively attracts and retains a skilled, high performing

and diverse workforce with strong and effective leaders. A number of significant initiatives have been subsequently implemented or are being developed (for example, Learning Strategy, Executive Development Program, e-Learning System, a corporate framework for succession management and a Diversity and Positive Workplace strategy).

The available labour market of quality talent continues to shrink as baby boomers retire. There already is significant competition in the market place for high performing professional and technical staff (for example, engineers, project managers, senior technical professional staff, associate medical officers, directors of nursing, financial analysts, etc.). As the available labour market, including the City workforce ages, there will be a reduction in the availability of skilled senior professional, technical and managerial staff. This translates into more employers competing in the market place for fewer resources. Canadian research (2010) shows that the number one factor in choosing a prospective employer or being persuaded to change employers was compensation and employers have acknowledged that they must remain competitive in the market place.

Given the Mayor and City Council's priorities, it is critical for the City to be well positioned to retain and attract the employee's best able to deliver on People Plan's commitments.

### Summary

The recommendations provide for a 2.25% cost-of-living adjustment for all non-union employees, the continued ongoing application of the non-union employee Compensation Policy except for an amendment to the performance-based re-earnable lump sum payment provision. The cost-of-living adjustment recommendation is consistent with the amount provided to unionized employees for year 2011 and is consistent with previous City Council's decision to provide cost-of-living adjustments for non-union employees to be similar to the negotiated increases for the City's unionized employee and is consistent with the goals of the TPS People Plan.

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### **SIGNATURE**

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Joseph P. Penachetti  
City Manager

Attachment

Staff report for action on non-union compensation.

## **Appendix A**

### **Council Approved Non-Union Employee Compensation Policy and Program**

City Council approved non-union employee Compensation Policy and program 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.

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

As previously referenced, 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).

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

\$67,212 (Minimum Salary)      to      \$83,392 (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.



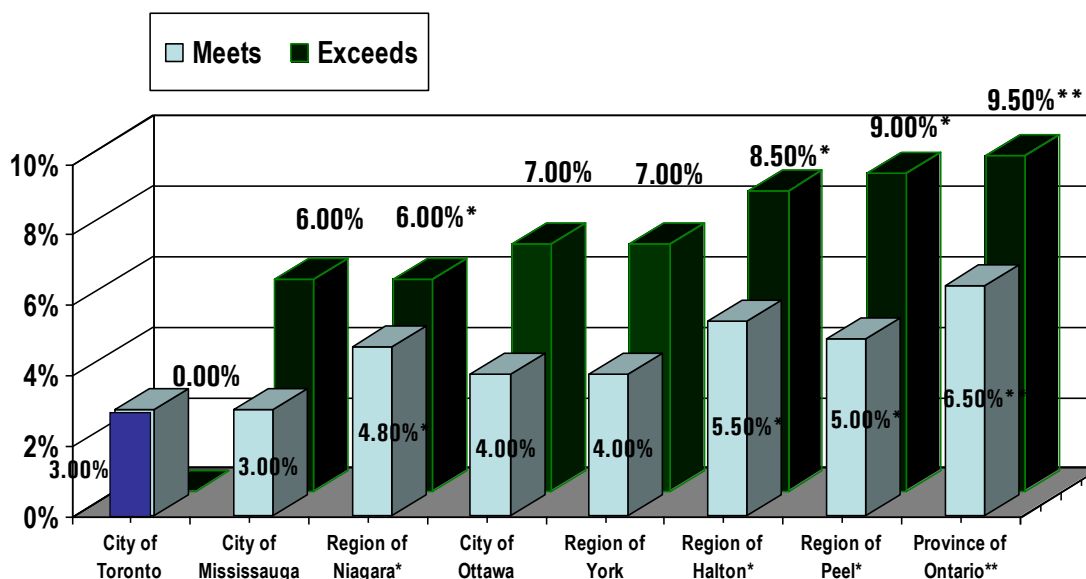
Under the current non-union employee compensation system, there is no salary progression differentiation for employees who exceed versus those who satisfactorily meet their objectives. Most employers provide two categories or more of salary progression, one for those who exceed and another for those that meet their objectives.

All employers who have minimum and maximum salary range systems have methods (for example, percentage based, increment step value based) for advancing employees from the minimum to the maximum salary level for their respective positions.

City Council's approved policy prohibits employees who do not meet their performance objectives from being eligible to receive the annual cost-of-living adjustment.

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 on comparable employers:

## Compensation Performance Pay Structures



\* Economic Increase included in calculations

\*\* Performance Based Only - No Economic Increases

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For Regions of Niagara, Halton and Peel the percentage increases reflect a combination of economic increase and performance pay. The Province of Ontario froze non-union employee salary ranges for 2010 and 2011; however, performance-based pay continues to be applied..

### **Performance-based Salary Progression Example**

The following is an example of the performance pay progression process i.e., An employee annually progresses, subject to performance, along the grade salary range by moving forward by the performance percentage 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 \$67,212 with a maximum salary (Job Rate) of \$83,392. The Normal Entry Salary for such a position would be \$67,212 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 \$2,016. The employee's revised new annual salary would progress from \$67,212 to \$69,228.
- 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% (\$672) 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.
- 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 59% i.e., the percentage of the employee complement who are below their Salary Maximum (Job Rate) is 59%.

### **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 (40% 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 being consistent 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 employers.

### **Number of Non-Union Employees Not Eligible for Performance-based Pay**

The percentage of the non-union employee who are not eligible for performance-based salary progression or performance-based re-earnable lump sum is 1.0%. These employees' salaries are red-circled (frozen) due to amalgamation, post amalgamation or other anomalous job evaluation circumstances.