STAFF REPORT
ACTION REQUIRED

Non-union Employee Compensation

Date:	May 29, 2012
To:	Employee & Labour Relations Committee Executive Committee
From:	City Manager Executive Director of Human Resources
Wards:	All
Reference Number:	

SUMMARY

The purpose of this report is to provide recommendations regarding organizational best practices to ensure a modern, affordable and competitive compensation policy and program is in place for all non-union employees. High performing organizations must have comprehensive best practices compensation policies and performance reward programs to optimize performance outcomes and effectively retain and attract high-performing non-union and senior management employees. The report addresses human resources best practices deficiencies in the current compensation policy and performance review program and provides recommendations for revised new performance review levels, performance financial rewards and the implementation of performance review target allocations that will help drive performance and lead a cultural performance management change at the City of Toronto.

City Council's approved pay policy sets salaries to be at the 75th percentile of the GTA public sector market; however, the City has not maintained its non-union and senior management salaries at this policy level. In the past five years the City's compensation decisions for non-union employees have negatively impacted the City's position in its comparator market. Reviews undertaken by Mercer in 2008 and by the Hay Group in 2012 have clearly demonstrated that managers' salaries and most pronouncedly senior managers' salaries are significantly below the approved 75th percentile of the comparative market, and in fact are more closely aligned with the 50th percentile of this market. As outlined in the Table that follows, it is important to note that employers in the GTA market comparator group have provided annual salary adjustments for non-union employees that are more in line with union settlements.

Further, the report identifies that the non-union/management employees salary increases have not been comparable to unionized employees over the past 5-year period (2007-2011). The City's non-union employees received -3.89% *lower* cumulative total general salary increases and Senior

Management group received a -7.06% *lower* cumulative total general salary increases over the previous 5-year period versus unionized employees.

City of Toronto (Toronto Public Service) and GTA Comparator Group:
2007-2011 5-year Annual Salary Increases, Cumulative Total by Employee Group
(Union, GTA Comparator group, Non-union, Senior Management)

Employee Group/ GTA Municipal & Regional Employers	2007-2011 5-year Annual Salary Increases "Cumulative" Total	Non-union/Senior Mgmt. vs. Union 5-year Salary Increases "Cumulative" Total Differential	Non-union/Senior Mgmt vs. GTA Comparator Group 5-year Salary Increases "Cumulative" Total Differential
CUPE Local 79	**13.98%**		
TCEU Local 416	**13.98%**		
GTA Municipal and Regional Employers	**13.60%** **(avg. of comparator group, non-union)**		
Non-union Employees	**10.09%**	**- 3.89%** [10.09% - 13.98%]	**-3.51%** **[10.09%-13.60%]**
Senior Management ***Division Heads & Above***	**6.92%**	**- 7.06%** [6.92% - 13.98%]	**-6.54%** [7.06%-13.60%]

Therefore, given the significant differential, as per the above, recommendations contained in this report provide a four-year schedule of general salary increases for non-union employees and senior management to address this differential. The proposed increases will help to minimize any further gaps going forward, but do not address the impact of the differential over the previous 5 - year period.

As outlined and recommended in this report, a best practices high performing organization has a comprehensive compensation and performance reward program for its non-union and senior management employees that includes:

- Performance-based Merit Pay
- Variable Pay Program
- Competitive Salary Grades and Annual Salary Increases

The report's recommendations, supported by the Hay Group's review and advice, provide for the amendment of the current non-union employee and senior management compensation policy and reward program, to ensure a modern, affordable and competitive compensation policy is in place.

RECOMMENDATIONS

The City Manager and Executive Director, Human Resources recommends City Council approve:

1. (a) Effective January 1, 2013, Council amend the Non-union Compensation Policy to establish new individual merit Performance Review Levels, Performance Targets Allocations and Performance Financial Rewards as follows:

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

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

(c) Effective January 1, 2012 (for 2011 performance), reinstate the merit performance-based re-earnable lump sum to recognize performance of employees who are at the top of their salary range.

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

Effective Date	Non-union Employees	Senior Management
January 1, 2012	1.90%	2.75%
January 1, 2013	1.90%	2.75%
January 1, 2014	1.90%	2.75%
January 1, 2015	2.25%	2.75%

3. The City Manager and Executive Director, Human Resources, in consultation with the Hay Group, develop recommendations for the implementation of a Variable Pay Program commencing January 1, 2013, for the first payment in 2014. Such program to include measurable corporate performance factors, applicable employee group/subgroup, the costs and funding sources. Such report shall be provided to the Employee & Labour Relations Committee no later than November 2012.

4. City Council authorize staff to transfer funding from the 2012 Approved Non-Program Expenditure budget to the respective 2012 Approved Operating Budget for City operations

and Toronto Public Health to provide the necessary funding to implement these recommendations for 2012 and to prepare future year budgets accordingly.

Financial Impact

There is no 2012 budgetary impact for the implemenation of the report recommendations.

The cost of the recommended salary increases over the 2012 to 2015 period for non-union employees and senior management for Tax and Rate Supported City Operations and Toronto Public Health totals $30.312 million net. Funding to cover the total 2012 cost of $7.039 million net comprised of $6.832 million net for non-union employees and $0.207 million net for senior management is provided in the 2012 Approved Non-Program Expenditure Budget and will be transferred to the respective 2012 Approved Operating Budgets for City Operations and Toronto Public Health. Funding for the annual salary increases for the 2013 to 2015 period will be included in future year Operating Budget submissions.

Wage Costs of Recommended General Annual Salary Increases for Management/Non-Union

Wages	Cost (Net)*	
1.90% Base Pay (January 1,2012)	2012	$6,832,411
1.90% Base Pay (January 1,2013)	2013	$6,962,227
1.90% Base Pay (January 1,2014)	2014	$7,094,509
2.25% Base Pay (January 1,2015)	2015	$8,561,020
Total Base Cost	Base	$29,450,167

Wage Costs of Recommended General Annual Salary Increases for Senior Management

Wages	Cost (Net)*	
2.75% Base Pay (January 1,2012)	2012	$206,692
2.75% Base Pay (January 1,2013)	2013	$212,376
2.75% Base Pay (January 1,2014)	2014	$218,216
2.75% Base Pay (January 1,2015)	2015	$224,218
Total Base Cost	Base	$861,502

	Cost (Net)*	
Total Combined Base Wage Costs for 4 years	Base	$30,311,669

*Note: Net costs factor in Provincial and Revenue/Rate recoveries

Reinstatement of the 2012 Performance Pay (Lump Sum) Payment for employees at the maximum of their respective salary ranges will require one-time funding of up to $5.703 million net in 2012 to restore this compensation funding. Funding is available in the 2012 Approved Non-Program Expenditure Budget and will be transferred to restore this funding in the Operating Base Budgets for City Operations and Toronto Public Health.

There is no incremental funding required for the performance progression pay given that this is a feature of the current compensation for non-union employees and senior management, and as such, funding has been allocated in the respective 2012 Approved Operating Budgets for City Operations and Toronto Public Health for this purpose.

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

DECISION HISTORY

In February 2011, City Council adopted the following motion:

> *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.*

In addition to the above motion, the City Manager typically provides recommendations to the Employee and Labour Relations Committee for recommendation to the Executive Committee and City Council regarding general annual salary increases for all non-union employees.

ISSUE BACKGROUND

The City of Toronto's Non-union Employees Compensation Policy (Toronto Public Service) was approved by City Council in 1999 and subsequently reviewed in 2002, 2003 and 2004, and with amendments in 2006 and 2009. The compensation policy includes compensation and performance review reward components:

1. Salary Grades and general annual salary increases (i.e. cost-of-living economic adjustment)
2. Performance-based salary progression (i.e. individual merit for employees to move through their salary grade range)
3. Performance-based re-earnable lump sum (i.e. individual merit for employees at their salary grade range maximum)

Compensation Pay Policy and Salary Grades

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 75th Percentile. The 75th percentile Job Rate means that the City pays *more than* 75% of other comparable public sector employers and pays *less than* 25% of other comparable public sector employers. (See Appendix A)

Council approved the 75th Percentile to: (a) reflect the complexity of the City's organization, scope and size and (b) to 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 75th 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. Subsequently, City Council has approved non-union employee general annual salary increases.

Performance-based Salary Progression

Non-union employees who are below (approximately 51% of non-union employees as at December 31, 2011) 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 for their respective Salary Grade) if they have met (or exceeded) their pre-determined performance objectives. All performance reviews, utilizing a formal performance planner, are conducted and reviewed by at least two levels of management.

At its April 2009 and February 2011 meetings, City Council re-confirmed its ongoing support for continuation of performance-based salary progression pay for eligible employees.

Performance-based Re-earnable Lump Sum

City Council's approved Non-union Employee Compensation Policy had provided for a merit performance based re-earnable lump sum for those employees who had reached their position's salary grade range maximum. All performance reviews, utilizing a formal performance planner, are conducted and reviewed by at least two levels of management. Payments made pursuant to the Non-union Employee Compensation Policy are subject to Budget Approval, and are not made in the absence of that approval. Council may vary from the payments contemplated by the Non-union Compensation Policy; however, the City is required to provide notice to affected employees when doing so. Changes to the Non-union Employee Compensation Policy are subject to Council Approval.

The performance-based re-earnable lump sum component of the policy was originally approved by City Council on the basis of being consistent with the best practices of comparable public employers, including the Province of Ontario, and private sector employers. It was originally approved in 1999, subsequently reviewed in 2002, 2003 and 2004. As at 2012, variations of re-earnable merit-based lump sums continue to be provided at other comparator Ontario public sector, regional and municipal employers.

In April 2009, the 2009 and 2010 re-earnable lump sums were cancelled by City Council. Subsequently, City Council approved payment of the 2009 lump-sum payments to eligible

employees following a complaint by affected employees pursuant to the *Employment Standards Act, 2000*. The 2010 re-earnable lump sums remained cancelled.

In February 2011, the payment of performance-based re-earnable lump sums was deleted by City Council and the City Manager was requested to review and report back by the end of 2011 with recommendations to ensure a modern, affordable and competitive compensation policy and program is in place for non-union employees *and* such report to include any recommendations regarding the re-earnable performance-based lump-sum payments for employees who have reached their respective maximum salary (job rate) for 2011.

Table 2 below provides the calculated total amounts that were then not paid as re-earnable lump sum payments in 2010 and 2011.

Table 2
2010 and 2011 City Unspent Expenditures: Re-earnable Lump Sum Payments

Year	Number of Eligible Employees	Re-earnable Lump Sums (Gross Amount Not Paid)	Re-earnable Lump Sums (Net Amounts Not Paid)
2010	2562	$6,754,579	$5,369,890
2011	2671	$6,944,708	$5,521,043
Total Not Paid		**$13,699,287**	**$10,890,933**

Table 3 below provides the calculated amounts that were then not paid as a re-earnable lump sum payments to an example typical employee in 2010 and 2011.

Table 3
2010 and 2011 City Unspent Expenditures: Example Non-union Supervisor Salary Grade 6

Year	Salary Grade	Minimum Rate	Maximum Rate	Re-earnable Lump Sum Not Paid
2010	6	$67,212	$83,392	$2,502
2011	6	$68,723	$85,267	$2,558
Total Not Paid				**$5,060**

Compensation Policy and Pay Policy: 2008 Mercer Review

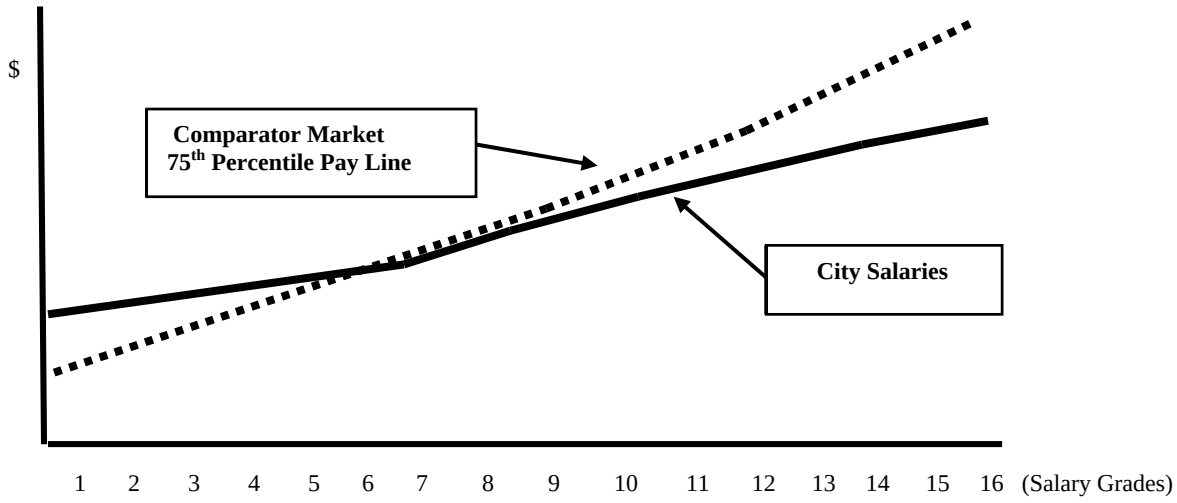
In 2008, the Compensation Policy and the 75th percentile pay line for non-union employee positions were reviewed by an external global human resources consultant firm (Mercer). Two presentations were made to the Employee & Labour Relations Committee. The E&LR Committee was advised that the salary compensation provided for non-union employees in the Toronto Public Service of the City of Toronto was:

a. *above* the approved 75th percentile pay policy for the lower non-union employee (exempt employee) salary grade levels i.e., grades 1 to 5;
b. *at or near* the 75th percentile pay policy for salary grades levels 6 to 8;

c. *below* the approved 75th percentile pay policy for salary grades 9 to 10; and
d. *significantly below* the approved 75th percentile pay policy for the senior management positions i.e. salary grade levels 11 to 16, at an ever increasing degree.

Chart 1 below is an illustrative representation of the results of the review of the surveyed non-union employee positions at the City of Toronto compared to representative broader public sector positions and the 75th percentile pay line.

Chart 1
2008: Market Surveyed 75th Percentile Pay Compared to the Non-union Salary Grades



The 2008 presentations and recommendations were "received" and there were no adopted motions.

General Annual Salary Increases

Generally, each year City Council approves the budgets for the City of Toronto that includes the compensation funding for all non-union employees including senior management and accountability officers in the Toronto Public Service. City Council also approves the general annual salary increases for all non-union employees.

In 2004, the City Council approved Non-union Employees Compensation Policy provided for all employees to receive *same* general annual salary increases as are negotiated and provided to unionized employees represented by the City's unions, typically CUPE Local 79 and TCEU Local 416.

In July 2005 for TCEU Local 416 and in September 2005 for CUPE Local 79, City Council ratified new four-year 2005-2008 collective agreements. At its September 28, 29, 30, 2005 meeting, City Council approved general annual salary increases for all non-union employees for the years 2005, 2006, 2007 and 2008. The approved 2005, 2006 and 2007 general salary increases were the same for non-union employees as unionized employees; however, for 2008 the unionized employees received an increase of 3.25% and a second mid-year increase of .75%; the second increase of .75% was not approved for non-union employees.

In 2006, City Council approved a new Senior Management Compensation Policy with a revised method for determining the general annual salary increases effective January 1, 2007. The new policy applied to senior managers (44 positions) who were Division Heads (at salary grade 11 and above), Deputy City Managers, City Manager and the Accountability Officers. The new methodology was based upon the Consumer Price Index (Toronto). Such methodology for the senior manager group was used to provide a 2.0% general salary increase for 2006 (compared to 3% for non-union and union employees), 1.6% general salary increase for 2007 (compared to 3.25% for union and non-union employees) and a 1.9% general salary increase for 2008 (compared to 4% for union and 3.25% for non-union employees).

The 2006 Senior Management Compensation Policy and its general salary increase methodology was subsequently superseded by City Council's 2009 decision for 2009 and 2010 general salary increases and its 2011 decision for the 2011 general salary increase. These Council decisions were applied to all non-union employees including the senior management group and accountability officers. If the same 2006 methodology was applied for the 2012 general salary increase, then the 2012 general salary increase for the senior managers and accountability officers would be 3.0%.

In April 2009, City Council approved that all non-union employees including the senior management group receive general annual salary increases of:

- 0.00% for 2009 and
- 1.00% for 2010.

In July 2009, CUPE Local 79 and TCEU Local 416 negotiated and were approved increases of:

- 1.75% for 2009
- 2.00% for 2010
- 2.25% for 2011

In February 2011, City Council approved a 2.25% increase for all non-union employees including the senior management group.

COMMENTS

The Hay Group, through an RFP process in 2011, was contracted to provide consultation services on compensation best practices. 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. It is a well recognized world-wide human resources consulting leader in all private and public employer sectors. Although diverse in its many consulting activities it is most widely known and used for its expertise in compensation and reward strategies and its job evaluation methodology.

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. Effective salary and financial performance rewards programs drive the optimization of organizational performance and help ensure that an organization can retain and attract highly skilled talent.

As provided and supported by the Hay Group's 2011-2012 review and advice, the report's recommendations regarding an effective best practices City of Toronto non-union employee compensation policy and performance rewards program should be adopted *in its entirety* in order to appropriately support and reinforce a high performance-oriented culture.

The report's overall recommendations include:

- remedies to address the best practices deficiencies contained within the current compensation policy and performance reward programs; and
- general annual salary range increases for the next four year period to provide certainty to the non-union/management group.

The recommendations also include effective remedies to address what has been identified by Mercer in 2008 and the Hay Group in 2012 that the senior management salary levels are *significantly below* the City Council's approved 75th percentile of the comparative public sector labour market.

Non-union Employee Compensation: Best Practices and the Labour Market

The complex issues regarding an effective, affordable and appropriate compensation policy and reward program for non-union employees in a large complex public sector organization is not a simple matter that is easily determined for any organization. The Hay Group has provided its extensive knowledge and experience in assisting the City of Toronto in reviewing the current Non-union Employee Compensation Policy and performance reward program. They have helped identify best practices deficiencies and make recommendation to provide the E&LR Committee and City Council with "*such best practices recommendations to ensure a modern, affordable and competitive compensation policy and program is in place for 2012 and beyond."*

The organizations that do not provide competitive salaries and performance-based rewards for its high performing employees are not successful. Successful organizations that are highly productive and customer-service centred have compensation and performance reward programs aligned to the organization's business goals and objectives and when achieving such objectives the organization provides meaningful rewards to its 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, associate medical officers, 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 translates into more employers competing in the market place for less available highly skilled talent.

Canadian research (*Conference Board of Canada, 2010*) shows that the number one factor in choosing a prospective employer or being persuaded to change employers was compensation. Employers have recognized that to continue to attract high performing superior individuals to their organization they must remain competitive in the market place which includes providing meaningful financial performance-based rewards.

With the retirement of quite a number of senior management over the past couple of years in particular, the City of Toronto has found it increasingly challenging to attract senior qualified high performing individuals to join the City. With approximately 78% of the current senior management group eligible to retire in the next 5 year period, the ability to compete in the market place for talented leaders is crucial. In recruiting senior level candidates for positions at the division-head level and above, the City generally retains the services of an executive search firm to assist in undertaking broad external searches to identify high-performing and skilled candidates with the competencies to work at the largest Canadian municipal employer. As noted by one of the City's external search firms, it has become an ever increasing difficult task to attract highly qualified senior talent to work for the City of Toronto (see Appendix B).

Performance Review Levels: Hay Group's Observations

The Hay Group has observed that almost all non-union employees receive the same performance rating (i.e. met objectives/satisfactory) and that there is no performance reward mechanism in place to:

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

These observations are significant and their importance cannot be over emphasized. Leading organizations recognize and differentiate performance and rewards for individual employees with superior performance; they also will link performance to corporate business goals and objectives.

An organization that fails to maximize individual and corporate performance within its limited resources is not optimizing all the available human resources management tools. A successful organization ensures it is a highly effective, efficient and customer-service driven organization by being strategic and deliberate in its activities to recruit and retain high performing individuals by utilizing effective performance-based reward tools.

High performing organizations maximize employee work performance by using targeted rewards, including financial, to achieve the maximum return on their investment. Such highly effective organizations must have total compensation and performance management programs in place where the organization, through its managers, set clear goals, provide regular feedback and recognize excellence to ensure that every employee is contributing fully.

Hay Group has noted that most high performing organizations use pay-for-performance as the core of their individual performance management system. Pay-for-performance 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.

Although the City of Toronto has an effective Performance Planner guide and tool for non-union employees (see Appendix C), it has not and does not differentiate superior performance. Essentially, the City of Toronto's current performance reward program is a one-dimensional model of pay-for-performance that provides no differentiating financial rewards incentive for superior performers.

In addition, the City is currently providing performance rewards only for those employees progressing through their salary range as the performance-based re-earnable lump sum provision has not been utilized since 2010. Most leading best practices organizations provide some form of performance rewards for all employees whether the employee is moving through their salary range or if that employee is at their salary range maximum.

A substandard compensation policy and performance reward program that is not competitive and provides little incentives to reward individual superior performance will not help effectively deliver on the Mayor's and City Council's priorities. An inadequate, limiting compensation and reward program will ultimately lead to inferior corporate performance and certainly will not help drive organizational excellence. An organizational culture that champions superior performance by its employees will optimize organizational performance.

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.

Performance Review Levels: Recommended New Performance Levels

The current three performance review levels do not effectively differentiate performance of the employees in the non-union employee group. Table 4 provides the current performance review levels:

Table 4
***Current:* Performance Review Levels**

	Performance Review Levels	Summary Description
(i)	**Did Not Meet Objectives (Unsatisfactory)**	The employee's performance consistently did not meet objectives.
(ii)	**Developmental**	The employee's performance is considered developmental.
(iii)	**Met Objectives (Satisfactory)**	The employee's performance consistently meets objectives and the quality of work overall was good. The most important key annual objectives were met.

Performance Review Level: Did Not Meet Objectives (Unsatisfactory)

The current Did Not Meet Objectives or "unsatisfactory" performance review level is for employees whose performance has consistently not met expectations. Employees with this rating would be receiving extensive coaching and guidance and their performance would be closely and regularly monitored. If improved performance is not realized in a reasonable period of time the termination of employment would likely follow.

Employees who received did not meet objectives (unsatisfactory) performance ratings are also ineligible for a general annual salary increase.

Performance Review Level: Developmental

The current "developmental" performance review level is used primarily for new employees or newly promoted employees who have yet to perform a position's full duties and responsibilities. However, a business need has been identified to expand the definition of the "developmental"

performance review level to be able to place individuals who are not developmental but neither satisfactory nor unsatisfactory performers. The expanded new level would include employees who have performance that is substandard in one particular functional area or may not have achieved a particular objective in a given year but generally they are satisfactory employees. Further guidance, direction and monitoring would occur with employees in this performance rating.
Therefore, a broader definition of this performance review level is recommended. It is anticipated this will increase the number of individuals who would be rated to fall within this category providing greater performance review differentiation.

Performance Review Level: Met Objectives (Satisfactory)

The current Met Objectives or "satisfactory" performance review level essentially requires managers to make a binary-type performance evaluation when evaluating their non-union employees i.e. an employee is either evaluated as "unsatisfactory" or "satisfactory". There is no degree or level of satisfactory. You either are or you are not satisfactory. The satisfactory performance review level is an all-inclusive category that does not properly differentiate between employees who (a) *meet* their performance objectives versus (b) employees who regularly *exceed* their performance objectives and are superior performing employees. Hence, employees who perform satisfactory and employees who exceed satisfactory both fall within the same satisfactory performance review level; therefore, it is not surprising that historically 85-90% of all non-union employees receive a met objectives/satisfactory performance level rating.

Therefore, a new performance review level to recognize superior performing employees is recommended. It is superior performing employees that help drive organizational excellence and the best practices within high performing organizations recognize such individual performance.

Performance Review Level: New Performance Review Levels

Table 5 provides the *recommended new* performance review levels and a summary description of each level:

Table 5
***Recommended New:* Performance Review Levels**

	Performance Review Levels	Summary Description
(i)	**Unsatisfactory**	The employee's performance consistently did not meet expectations.
(ii)	**Meets Most But Not All Expectations and/or Developmental**	The employee's performance did not consistently meet all expectations i.e. performance does not meet expectations in one or more of the key responsibilities or one or more key annual objectives were not met and/or the employee's performance is considered developmental.
(iii)	**Meets Expectations**	Performance consistently meets expectations in all key areas of responsibility and possibly exceeded expectations in some areas and the quality of work overall was very good. The most important key annual objectives were met.
(iv)	**Exceeds Expectations**	Performance consistently exceeded expectations in all key areas of responsibility, and the quality of work overall was excellent. Annual objectives were met or exceeded.

The new Performance Review Levels provide for four identifiable levels of differentiating performance: a modified and enhanced Development Level to include Meets Most But Not All Expectations; a revised satisfactory (Meets Expectations) performance level and a new superior (Exceeds Expectations) performance level.

Performance Review Level: Performance Target Allocations and Financial Rewards

Currently, there are no performance level target allocations for the non-union staff complement and employees evaluated in the performance level of met objectives or "satisfactory," regardless if they are satisfactory or superior performer receives a performance financial reward of 3%.

The Hay Group has observed that best practices employers provide a differentiation of performance review levels and provide a higher financial reward for superior performers than satisfactory performers. The differentiating of performance for superior performers with superior rewards drives efficiency and effectiveness throughout an organization; it causes direct improved cultural change to an organization's workplace by optimizing and continuously driving the improvement of its business operations, productivity and customer service delivery.

Table 6 provides the percentage of performance reward provided for each performance review level under the *current* Non-union Employee Compensation Policy and reward program:

Table 6
***Current:* Performance Levels, Performance Targets Allocations and Performance Financial Rewards**

	Performance Review Level	**Performance Targets Allocations**	**Performance Financial Reward**
(i)	**Did Not Meet Objectives (Unsatisfactory)**	**No Target Allocation**	**0%**
(ii)	**Developmental**	**No Target Allocation**	**1%**
(iii)	**Met Objectives (Satisfactory)**	**No Target Allocation**	**3%**

It is recommended (Table 7) that the new performance levels have target allocations and revised financial rewards. It is recommended to lower the financial reward percentage provided for satisfactory performers from 3% to 2.5% *combined with* the introduction of a new superior performer performance level with a financial reward of 5%. The exceeded expectations reward of 5% is still considered relatively modest, compared to other employers, and would recognize employees who have consistently demonstrated superior performance. It is this exceeds performance level and reward that will drive organizational performance by encouraging all employees to maximize organizational performance outcomes. The percentage is considered both reasonable and affordable as the recommendations also include (besides lowering satisfactory performance reward from 3% to 2.5%) introducing performance level target allocations with exceeds expectation performance level target of up to 20% of the staff complement (see below). A smaller reward percentage for superior performers would not adequately recognize the contributions and organizational impacts of the high-performing employee.

These new performance levels and rewards are essentially cost-neutral changes to the City overall when factoring in the percentage changes *and* the new performance target allocations.

Payments made pursuant to the Non-union Employee Compensation Policy are subject to Budget Approval, and are not made in the absence of that approval. Council may vary from the payments contemplated by the Non-union Compensation Policy; however, the City is required to provide notice to affected employees when doing so. Changes to the Non-union Employee Compensation Policy are subject to Council Approval.

Table 7 provides the performance target allocations and performance financial rewards for each recommendated new performance review level:

Table 7
***Recommended New:* Performance Levels, Performance Target Allocations and Performance Financial Rewards**

	Performance Review Level	**Performance Target Allocations**	**Performance Financial Reward**	**GTA/Ontario Market Comparator Group**
(i)	**Unsatisfactory**	**3% of staff complement**	**0%**	**0%**
(ii)	**Meets Most Not All Expectations or Developmental**	**10% of staff complement**	**1%**	**1%**
(iii)	**Meets Expectations**	**70% of staff complement**	**2.5%**	**3%**
(iv)	**Exceeds Expectations**	**up to 20% of staff complement**	**5%**	**5-7%**

Variable Performance Pay Program: Corporate-wide Performance

Hay Group has noted that a variable performance pay program is used by leading organizations who want to optimize their corporate performance and to achieve their desired results. In order for a successful organization to truly achieve high performing status, modern best practices organizations encourage the successful achievement of corporate goals and objectives by utilizing a variable pay program.

This type of program provides a *common reward* to a group of employees based on their combined achievement to meet a set of *corporate performance expectations and objectives* that are based upon a variety of key factors (for example, financial, operational, environmental, social economic) and these factors are *measurable* over a set period of time.

This type of variable performance reward is highly common in high performing organizations to drive corporate performance. Generally, the reward is provided as a lump sum bonus and is not added to the base salary of any of the participating employees.

A variable pay program is *separate and distinct* from an individual's specific annual merit pay-for-performance review as it is based upon corporate-wide goals and objectives being set and achieved by the corporation.

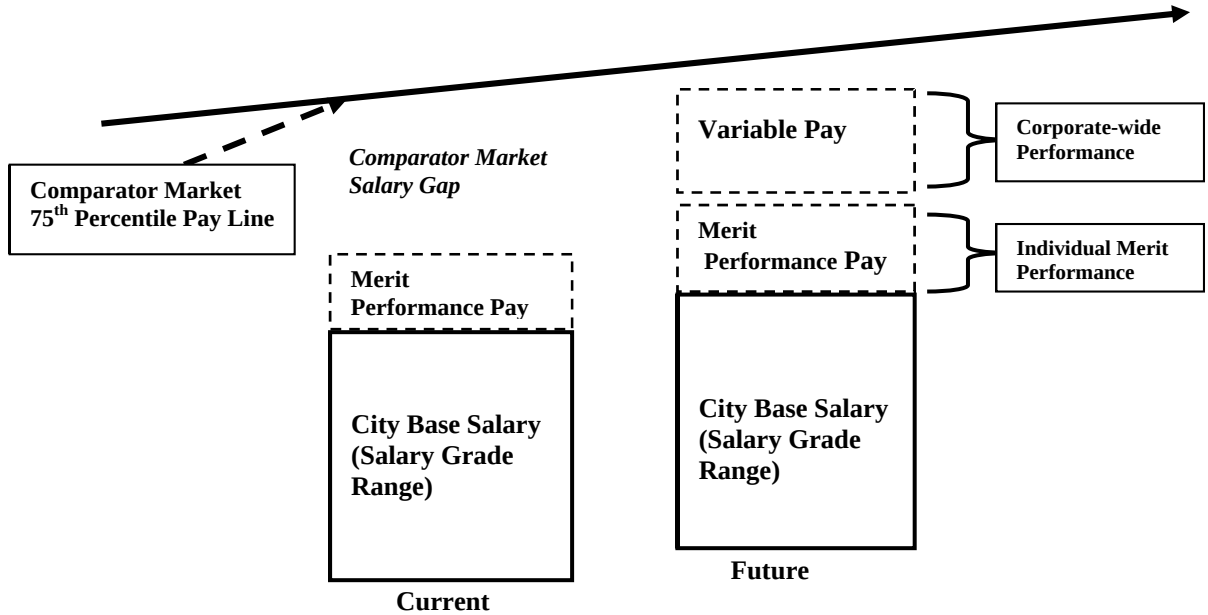
Hay Group provides that variable pay is an effective tool to communicate the link between performance and an organization's business objectives, as well as to drive and reward superior performance. Variable pay is a well-accepted human resources best practice to recognize and reward employee contribution towards corporate objectives. It is a very effective tool to reward and retain employees and focus their activities towards organizational goals. A variable pay program can be designed to meet both short-term and long-term enterprise-wide goals. The key factor of the success of a variable pay program is that employees not only invest in their personal success but also in the organization's success. It is a value tool to help develop and focus a corporate culture on optimizing its organizational success. Research has provided supporting evidence that variable pay succeeds at motivating people and that variable pay is a superior method for improving employee and corporate performance.
As recommended by the Hay Group, such a variable program would include:

1. The design of a variable pay scorecard that measures enterprise-wide performance categories such as Financial responsibility, Service Delivery, Social Responsiveness and Environmental impact;
2. Compiling specific metrics and standards that will underpin the performance categories;
3. Determine the job groups who will be eligible for the program; and
4. Model the program funding and targeted awards.

The introduction of a variable pay program for senior management (and potentially, at some future point in time, for managers) is seen as an effective performance-based method to address the identified significant gap between senior management salaries and City Council's 75th percentile policy rather than implement significant base salary increases. Such a program can be used to effectively bridge the gap between the City of Toronto's identified low salaries by providing lump sum payments/bonuses for achieving pre-determined measurable corporate-wide goals and objectives.

The chart provides an example illustration of a compensation model that would be developed.

Chart 2
Total Compensation Rewards: Base Pay, Merit Pay and Variable Pay Components



It is recommended that such a program be investigated and such recommendations be made back to the Employee & Labour Relations Committee in November 2012 with the intent on introducing a variable pay program commencing in the year 2013 for the first performance review in 2014.

Salary Grade Ranges: Hay Group's Observations

As part of the review, the Hay Group compared City of Toronto salary grade ranges to those from their GTA public and private sector database participants. The Hay Group was able to do this comparison as the City's evaluated positions and salary grades were based upon the Hay compensation system as the Hay Group was the consultant firm that assisted the City of Toronto post-amalgamation.

The Hay Group has made the following general observations:

- Public sector salary range models provide very limited salary range room to pay high performing incumbents beyond the market's salary standard/job rate,
- The private sector and commercial public sector models have more robust performance management protocols and would typically allow for a salary range maximum that is in excess of the market salary standard, such that superior performers would be eligible for salaries above what the City refers to as its Job Rate

In reviewing the City of Toronto's Salary Grade ranges the Hay Group observed that:

- the City's managerial job rates are generally competitive to the market midpoints, but are ***noticeably less*** than market maximums
- the City's overall level of compensation competitiveness is ***further lessened*** by the approximately 10% annual bonus/short-term incentive opportunities that are offered by the marketplace and not at the City
- the City's executive job rates (i.e. director level and above) are ***noticeably less*** than market midpoints and are ***significantly less*** than 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 marketplace

In summary, the Hay Group's 2011-2012 review reconfirmed a similar result as determined by Mercer in 2008 i.e. the higher the salary grade at the City of Toronto the more noticeable that the City's compensation is less than the market for comparable positions. It should be noted that although the salary comparison methodology used by Mercer versus the Hay Group were different, the analysis results were similar.

General Annual Salary Increases: Salary Increase Comparisons

It could be suggested that the same salary increases as recently negotiated with TCEU Local 416 and CUPE Local 79 for 2012 -2015 should now be similarly applied to non-union employees;

however, the historical record shows that non-union employees have received significantly lower salary increases during the past five year period (2007-2011). For reasons outlined in this report, it is our view that the same salary increases negotiated and approved for union employees going forward (2012-2015) should not be applied to non-union employees and senior managers.

City Council 2004 policy decision to provide the same general annual salary increases as negotiated with the City of Toronto's unions did not result in the matching of the same general annual salary increases in 2008, 2009 and 2010 for non-union employees compared to the negotiated and approved union employee increases.

Further, the reviews conducted by Mercer and the Hay Group have identified that City of Toronto non-union salary grades, and senior management salary grades in particular, have been and continue to have salaries levels that are below the comparative competitive labour market.

Tables 8 and 9 below provide a comparison of the annual general salary increases and average increases provided to unionized employees, non-unionized and senior management for the five year period 2007 to 2011. In 2006, senior management received 2% increases, non-union and unionized employees received 3% increases. Increases for the years 2005 and prior were the same for unionized and non-unionized employees including senior management.

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 ***Division Heads and above***	1.60%	1.90%	0.00%	1.00%	2.25%	**6.92%**	**- 7.06%** [6.92% - 13.98%]	**-3.17%** [6.92% - 10.09%]

**TCEU Local 416's 2008 salary increase does not include that paramedics received a 3% additional increase as part of the Local 416 2005-2008 collective agreement*

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

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**

The 2004 City Council Non-union Compensation Policy decision that determined, at that time, that future non-union employee salary increases should be the same as the negotiated union employee salary increases was based on the belief that differential increases would result in salary compression issues, reduce the impact of succession planning by diminishing the advantages of the promotion of senior unionized staff to supervisor/manager positions and cause the non-union salary ranges to fall away from the Council approved 75th percentile pay policy. This is essentially what has occurred over the five year period (2007-2011).

Table 10 below provides the general annual salary increases at other comparable regional and municipal public sector employers.

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 <u>only</u> and does not include the ABCs*

As per Table 10, the City of Toronto has provided one of the lowest general salary increases year-over-year to its non-union employee group. A critical question to ask is whether such an austere non-union employee compensation practice is sustainable particularly as the Mayor and Council have a clear desire to have a high performing organization that is continuously improving its services and programs to the public in the most highly efficient and cost effective manner.

To ensure an organization attracts and retains superior performers, it must have competitive base salaries as one key component of its Compensation Policy.

Based upon comparable salary information provided above and to ensure that the City of Toronto does not fall further from its 75th percentile salary pay line policy (as noted by Mercer and Hay Group), the following Table 11 provides for a recommended four-year (2012-2015) general salary range increase for non-union employees and senior management employees. Note that the proposed non-union employee salary increases are still in line with, and do not exceed increases being provided similarly by other employer organizations in the City's comparator market, as outlined in Table 10. The proposed increases are intended to minimize the differential in salary treatment over the previous 5-year period, but do not provide for a 'catch-up' of the previous years' differential treament.

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 *plus* 1.5% Lump Sum	1.75%	2.25%	**19.18%** ***plus*** **1.5% 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 *plus* 1.5% Lump Sum	1.75%	2.25%	**19.18%** ***plus*** **1.5% 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%**

**TCEU Local 416's 2008 salary increase does not include an additional 3% wage increase received by paramedics only as part of the Local 416 2005-2008 collective agreement*

Summary

As outlined and recommended in this report, a best practices high performing organization has a comprehensive compensation and performance reward program for its non-union and senior management employees that includes:

- Performance-based Merit Pay
- Variable Pay Program
- Competitive Salary Grades and Annual Salary Increases

The report's recommendations, supported by the Hay Group's review and advice, provide for the amendment of the current non-union employee and senior management compensation policy and reward program, to ensure a modern, affordable and competitive compensation policy is in place.

The recommendations include:

- Amendments to the performance review levels to increase the differentiation of performance ratings of employees by:
    a. changing the "developmental" category to also include employees who are "meeting most *but not all* expectations"
    b. adding a rating category to differentiate *"superior"* from *"satisfactory"* performance and revising the financial percentage rewards provided
    c. incorporating targets to provide that a subset of the non-union employee complement is rated to fall within each of the specific performance level categories
    d. ensure there are individual merit performance reviews with financial rewards for all employees by re-introducing merit-based re-earnable lump sum payments for eligible employees at the job rate

- Four-year schedule of general salary range increases for non-union employees and senior management

- Developing and implementing a Variable Pay Program to be aligned to the successful achievement of *corporate goals and objectives* (commencing with corporate-wide pre-determined and measurable objectives set for 2013, for first potential payment to be made in 2014 for senior managers)

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SIGNATURE

Bruce L. Anderson	Joseph P. Pennachetti
Executive Director of Human Resources	City Manager

Attachments:

Appendix A: Council Approved Non-union Employee Compensation Policy and Program
Appendix B: Executive Search Firm Letter Regarding City of Toronto Search Challenges
Appendix C: Performance Guide and Planner

Appendix A

Current 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 in 2000 after amalgamation.

Council has approved a Gender Neutral Comparison Job Evaluation System , with positions paid at the 75th percentile of the broader public sector marketof comparable employers, 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.

75th Percentile

City Council approved that non-union positions should be paid at the 75th percentile of the comparable broader public sector market. The 75th percentile means the city pays more than 75% of other comparable employers and less than 25% of other comparable employers for similar positions. The following is an example of the 75th percentile:

External Employers Surveyed	**Similar Positions Salary Range Maximums**
Employer 8	$83,925
Employer 7	$82,225
75th Percentile	*$81,469*
Employer 6	$79,200
Employer 5	$79,000
Employer 4	$78,850
Employer 3	$78,750
Employer 2	$78,450
Employer 1	$77,600

To calculate the 75th Percentile, the following steps are followed:

1. Take the total number of employers surveyed and add one (8+1 = 9)
2. Multiply the total by .75 i.e. 9 x .75 = 6.75 to determine the P75 job rate

Therefore, the P75 is equal to the 6th highest job rate *plus* .75

3. Subtract the 6th highest job rate of $79,200 from the 7th highest job rate of $82,225 ($82,225 - $79,200 = $3,025)
4. Multiply the difference of $3,025 between the 6th and 7th job rates by .75 = $2,269
5. Add the difference ($2,269) between the 6th and 7th job rates to the 6th job rate ($79,200) to determine P75: $2,269 + $79,200 = $81,469

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

As previosuly 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 75th 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:

$68,723 (Minimum Range Salary) to $85,267 (Maximum Range Salary)

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.

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 for their respective salary grades are eligible to annually progress through the salary range (i.e., Minimum Salary to Maximum Salary) 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.

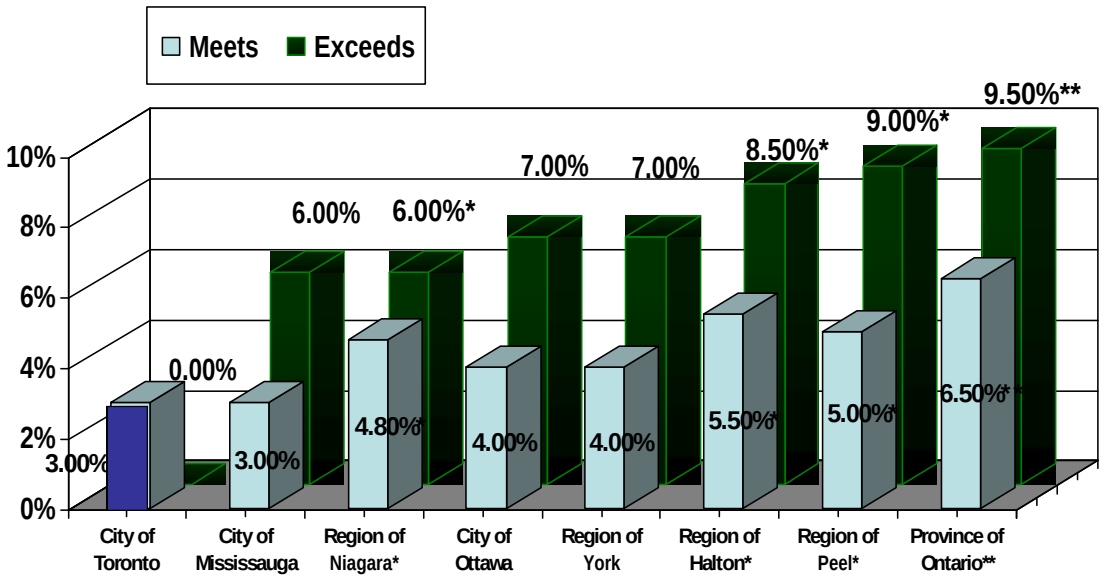
All employers who have minimum and maximum salary range systems have methods (for example, percentage based, increment step value based) for advancing employees from the minimum to the maximum salary level for their respective positions.

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 other comparable public sector employers:

Compensation Performance Pay Structures



* Economic Increase included in calculations

** Performance Based Only - No Economic Increases

18

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.

- A non-union employee is hired into a grade 6 position that has a minimum salary of $68,723 with a maximum salary (Job Rate) of $85,267. The Normal Entry Salary for such a position would be $68,723 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 $2,062. The employee's revised new annual salary would progress from $68,723 to $69,785.
- 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 that had been set at the 75th Percentile as per Council approved policy.
- Alternatively, the employee could receive a Developmental rating of 1% ($687) 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 51% i.e., the percentage of the employee complement who are below their Salary Maximum.

Performance-base Re-earnable Lump Sum (Non-base pay)

The Re-earnable Lump Sum provision was suspended in 2009 and deleted in 2011. At the same time that Council deleted the Re-earnable Lump Sum payment in 2011, Council directed a review and a report back to the Employee & Labour Relations Committee and City Council. Therefore, the information provided below is information if the re-earnable lump sum provison was reinstated at the City of Toronto.

The Council approved Compensation Policy for Non-union employees previously provided for a performance based re-earnable lump sum for those employees who have reached their position's Maximum Salary. These employees (48% of non-union complement) would be eligible, if approved, to receive a lump sum payment of 3% if they meet (or exceed) their performance expectations for that particular year i.e rated "satisfactory". 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 initially approved including the re-earnable lump sum payment for employees at the Maximum Salary, 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 non-union employees who are not eligible for any performance-based pay is approximately 1.0%. These employees' salaries are red-circled (frozen) due to amalgamation, post amalgamation or other anomalous job evaluation circumstances.

Appendix B

ODGERS BERNDTSON

May 16, 2012

Ms. Barbara Shulman
Director, Strategic Recruitment, Compensation
and Employment Services
City of Toronto
City Hall
100 Queen St West
Toronto, ON
M5H 2N2

Dear Ms. Shulman,

You have asked us to write to you with comments, which we have previously made orally, regarding salary challenges in recruiting senior executives for the City of Toronto. By way of background, our comments are made as members of Canada's largest executive recruitment firm, serving virtually all sectors of the Canadian economy.

As we are all aware, the market for top talent is intense. While overal. unemployment remains relatively high, the situation for experienced leaders is quite different. The competition to recruit executive talent is extremely fierce, which will only be exacerbated as demographics change in the years ahead.

Generally in the public sector and within the City of Toronto in particular, we have conducted or are currently conducting a number of searches. One of our main challenges has been to attract top candidates who are willing to accept the compensation that the City is prepared to offer. While it is true that potential candidates are interested in accepting a smaller compensation package in return for unique positions or the opportunity to contribute to the greater good of society, we are finding fewer cases of this given the large and growing gap between public and private sector senior executive compensations. It is not an exaggeration to state that private sector salaries (and performance bonuses) can literally be two or three times as high as those offered for comparable jobs in the public sector. This is not to suggest that Toronto, for example, needs to dramatically increase its senior compensation levels, but it would be useful for the City to assess the situation and directionally move to close the size of the wage gap.

In our view, this gap should be closed over time. For the scale and complexity of senior management roles in Toronto, staff are significantly undercompensated compared to the broader marketplace. One means of addressing this issue may be to look at a meaningful performance incentive programme that rewards outstanding results.

5150 - 200 Bay Street, Royal Bank Plaza, South Tower, Toronto, ON, M5J 2J1 Telephone: 416-862-1950 www.odgersberndtson.ca

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Helsinki Ho Chi Minh City Hong Kong Istanbul Johannesburg Leeds Lisbon London Los Angeles Madrid Manchester Miami Milan Moscow Munich
New York Oslo Paris Philadelphia Porto São Paulo Stockholm Sydney Tokyo Warsaw Washington Zurich

ODGERS BERNDTSON

While saying that the compensation gap should be narrowed, we maintain that parity between the public and private sectors is not always required. In fact, we have seen occasions where executives for the most senior positions in organizations, such as Crown corporations, have taken dramatic reductions, for the opportunity to serve the public. However, these cases are rare and we would caution you that they are the exception and not the rule.

I hope this has been helpful, and appreciate the opportunity to provide our views on this important matter. We would be happy to comment further or meet with you to elaborate on these ideas.

Sincerely,

Paul R.A. Stanley
Managing Partner

Salvatore M. Badali
Partner

Appendix C

TORONTO Human Resources

Guide for Completing the Performance Planner

Revised January 2010

Introduction

The Guide to Completing the Performance Planner complements a series of guidebooks produced by the Human Resources Division that support management in the vital area of developing and retaining staff. This guide outlines the overall goals of the performance management program, basic instructions on completing the performance planner form for non-union staff and a list of additional resources that are available to assist you in this important task.

An Overview

As emphasized in The Toronto Public Service People Plan 2008 – 2011 and the Learning Strategy (http://insideto.toronto.ca/hrweb/people_plan/index.htm), the City firmly believes that our key resource is our people. For the organization to be successful, employees must be clear about organizational goals and their part in achieving these goals. If employees' work isn't focused and aligned with corporate goals, critical staff efforts can be wasted. Performance management is the process that will help focus our attention on those areas that are key to our business and central to our success.

Performance management is a process of jointly establishing performance expectations, monitoring performance, providing regular and frequent coaching and working together to obtain the needed resources or overcome barriers so that the best possible job can be done by everyone. It helps staff contribute to the goals of their unit/section, division and ultimately the City as a whole. It ensures that the work we each perform is in line with the values and priorities of the City.

As a manager, supervisor or project leader in the Toronto Public Service, you are responsible for achieving results through your staff or through leadership of others. You know that effective management of people is critical to your success and the success of the organization. This guidebook can help you by giving you the information you need about your responsibilities in managing the performance of your human resources.

The goals of the Performance Management Program are to ensure:

- a performance-oriented culture
- that individuals have a clear understanding of their jobs and expectations
- there is alignment of individual employee activities with organizational goals
- that individuals take responsibility for their career
- people are appropriately rewarded and recognized

Performance Management Process

Performance management has to be viewed as a process, not an event. It includes developing a clear understanding of the employee's role and responsibilities in the organization, establishing agreed-upon and measurable outcomes or expectations related to the responsibilities, providing ongoing feedback, support and coaching to the employee in achieving the expectations, and encouraging enhanced performance in terms of staff development.

Performance management is a continuous process that involves four steps:

1. preparing the performance planner (setting objectives and development plan)
2. coaching and feedback
3. reviewing performance
4. pay for performance



Performance management in its most basic form is a process that managers and staff engage in everyday. It is the ongoing communication between a manager and an employee. The formal program simply emphasizes certain points:

- Individual objectives must be linked to unit/divisional/corporate objectives (part of the divisional business planning cycle)
- Individuals must receive regular feedback and input (**what** is to be achieved and **how** it will be achieved)
- The process must focus on increasing an individual's capacity to achieve their objectives

1. Developing the Performance Planner

The Performance Planner is designed to record objective evaluation and differentiation of levels of performance amongst non-union staff, the results of the performance management conversations and be a tool for a consistent and equitable approach to staff development.

Planners are prepared on an annual basis in January when managers and individual staff meet to discuss and agree on objectives for the coming year. The two parties should also discuss areas of interest for staff development and potential activities that will help the employee develop needed skills and competencies. Employees starting during the year should have planners developed shortly after their orientation to the unit.

Managers are expected to monitor the employee's performance throughout the performance period. There should be regularly scheduled feedback sessions to discuss progress and potential "course corrections" when circumstances or resources change.

Planners are finalized at the end of the year in conjunction with the Pay for Performance form. At this time, managers discuss their staff's achievements and challenges during the year and establish the employee's performance rating.

A. Setting Objectives

A fundamental component of any performance management framework is the ability to measure performance at both the organizational and individual level. This approach helps achieve 'line of sight' between the organization's outcomes and individual performance measures. Performance measurement also clarifies and focuses long-term goals and strategic objectives.

Each division / work unit establishes what is necessary to be done to achieve Council's term priorities. Management sets the desired goals that align to the vision and business priorities. Then, individuals establish objectives to support the goals and operationalize the vision. People make it happen. In this way, objective setting ensures that activities and priorities at every level are linked to the overall business strategy and priorities.

Definitions:

Goal:	Statement of purpose and direction that reflects the desirable condition or situation. Usually general in nature and with timeframes for achievement beyond a year.
Objective:	Statement of specific measurable action that will be performed by a given date to support the achievement of a goal. Objectives explain the "what" and "when" of achieving a goal. Typically, more than one objective is written to support each goal.
Activity:	The steps required by individuals or groups to achieve specific objectives. Activities explain the "how" of achieving an objective. These can also include an individual's development plan identified through performance management.

To write objectives, try using this tip for **SMART** criteria.

Specific – What specifically will be achieved?
Consider the outcomes that add value to the work unit and the organization.

Measurable – How will the objective be measured?
What levels of output will tell you whether it has been achieved?

Achievable – Is the objective within the control of the employee to achieve?
Can the objective be accomplished in the time allowed?

Realistic – Will the employee have the resources and responsibility to achieve their objectives?
Is the objective within the scope of the job?

Timeframe – Does the objective clearly state when the objective needs to be completed?

It is important that the manager and employee have the opportunity to plan and discuss the objectives before the start of the evaluation period. The purpose of this planning meeting is to:

- Gain clarity and agreement on mutually established objectives
- Address what is to be achieved (objectives / responsibilities)
- Link the organization's strategies and plans to specific objectives
- Foster open communication as a foundation for effective coaching

B. Toronto Publics Service Priority Areas

The Toronto Public Service priority areas are the initiatives, programs and strategies that provide a consistent City-wide integrated approach to continuous improvement in the workplace. The expectation is that all members of the Toronto Public Service are aware of, and understand the priorities and contribute to the ongoing achievement of the priorities. Identify a meaningful contribution that you can make **within the context of your role, responsibilities and accountabilities** in each of the following four priority areas including appropriate performance measures.

- Health and safety
- Human rights
- Diversity and employment equity
- Toronto Public Service mission, values and ethics

Establishing hard measures of contributions in all four areas may be challenging for some individually. The best way to measure your actions is to identify what you plan to do and when you plan to do it. Look for opportunities to strengthen your knowledge through professional development and how you can incorporate that learning in your job. The goal is to raise awareness and understanding about the priority areas and how your actions and behaviours support the Toronto Public Service's commitment to these values and principles.

Read more about the Toronto Public Service Priority Areas and examples of contributions.

C. Development Plan

The City of Toronto is committed to building a learning organization. A personal development plan is an important part of achieving that goal. This development planning section is an opportunity for you, in discussion with your manager, to identify the areas that are important to support your learning, growth and professional development. Consider:

- What skills, knowledge, and/or behaviours do you need to develop **now** to meet your business / work objectives?
- What skills, knowledge and or behaviours would you like to develop to help meet your **future** career aspirations?

Use the Toronto Public Service Competencies (see http://insideto.toronto.ca/hrweb/odl/pdf/competencies_dictionary.pdf) to help identify the specific skill or knowledge areas that are important for you. In addition to the competencies, consider activities such as special assignments, courses, working with someone who has the skills that you need to develop, special projects etc. Refer to the Courses for the Toronto Public Service to help your development planning (see http://insideto.toronto.ca/hrweb/training/learning_guide/courses_index.htm)

2. Coaching and Feedback

This is an essential part of the performance management process. It should not be limited to the planning meeting at the beginning of the year and the review meeting at the end of the year. Nothing on the final performance planner should come as a surprise to staff. When you, as their manager, observe the employee having difficulties meeting their objectives, take the opportunity to meet with them. Use the discussion as a problem solving session and encourage the employee to be honest about the difficulties they are encountering. Brainstorm possible solutions and together, come to agreement on how the employee should proceed. Then, follow up with the employee.

On the flipside, when you observe the employee exceeding your expectations or the performance objective, do not wait until a formal meeting to recognize them. A simple “thank you” and the realization that management is appreciative of their efforts, goes a long way in motivating staff.

3. Reviewing Performance

The purpose of the review meeting is to formalize the on-going communication between a manager and an employee on performance matters. The manager should provide feedback and reinforcement, as well as modify objectives, if appropriate. At the end of the year, the employee’s performance should be documented and a performance rating should be established.

4. Pay for Performance

Following completion of the end-of-year review, the manager completes a separate Pay for Performance form (http://insideto.toronto.ca/hrweb/pm/docs/form2009.doc). The completed form is forwarded directly to the Pension, Payroll & Employee Benefits Division to initiate the payment of any increase. It is still necessary to send the Pay for Performance Form even if no change in salary or no lump sum payment is recommended.

Resources

Performance management is based on the belief that good performance is the responsibility of everyone. Management and staff must work together, openly communicating issues that arise and reaching agreement on how these issues can best be resolved. This is a collaborative and ongoing partnership and one for which help and support are available on the HRWeb:

- Performance Management Program http://insideto.toronto.ca/hrweb/pm/guide_to_performance_management.htm
- Non-union Compensation Program http://insideto.toronto.ca/hrweb/compensation/comp_programn.htm
- Competencies http://insideto.toronto.ca/hrweb/jobfamilies/manage_your_career.htm
- Performance Management training http://insideto.toronto.ca/hrweb/training/learning_guide/courses_o-p.htm#pm
- Online Competency Development Self-Assessment https://insideto-secure.city.toronto.on.ca/CDA/login.jsp (This tool allows you to assess your skills and helps you to explore your learning needs)
- Guidebook for Managers and Supervisors gives information about your responsibilities as a manager and lists more resources available. http://insideto.toronto.ca/hrweb/pm/docs/guidebook.doc
- Management development links and guidebooks http://insideto.toronto.ca/hrweb/odl/tools.htm#management_development

TORONTO

2012 Performance Planner
Toronto Public Service (Non-Union)

Employee Name:		**Employee #:**	
Title:			
Division:			
Reporting to: Name		**Title:**	
Review Period Covered:			

The Toronto Public Service People Plan:

The Toronto Public Service People Plan identifies the key actions that the City will pursue during 2008 – 2011 to ensure that it has the workforce to meet its current and future needs. All divisions, managers and staff have a shared responsibility to actively participate in and work together to maximize the goals and objectives in the Plan. An integral part of that commitment is to ensure that all employees have a clear understanding of what is required of them, the skills and abilities needed to meet those requirements and how their contribution will be rewarded. The performance management program is a vehicle to help support the achievement of those goals. See the Toronto Public Service People Plan at http://insideto.toronto.ca/hrweb/people_plan/pdf/people_plan.pdf

Reviewing Performance and Salary:

The City of Toronto's approach to managing and reviewing employee performance is simple. It begins at the start of each year with setting individual objectives that complement and enhance City and divisional priorities, reflect the Toronto Public Service values and identify coaching and development opportunities for personal and professional growth and development. Throughout the year, employees and managers should meet regularly to review individual objectives, receive performance feedback and identify coaching mid-year "course corrections". These performance management reviews will be conducted with all non-union employees using this performance planner. A final year-end rating will record performance over the full year using a separate Pay for Performance form that will determine appropriate salary increases. See guide for completing the performance planner at http://insideto.toronto.ca/hrweb/pm/docs/guidetoplanner.doc

To Start the Process:

A. Objectives

Develop objectives that are in line with the objectives of your division and work unit. Make sure your objectives are SMART: Specific, Measurable, Achievable, Realistic, Time specific/observable

Write objectives that answer these questions: What will happen? By what date?

Area of responsibility	**Objectives** At the start of the performance review period, develop objectives.	**Achievements** At the end of the annual review period, describe the achievements for each objective and any obstacles or challenges faced.

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(i) Health and Safety: The City of Toronto is committed to providing and maintaining safe and healthy working conditions for all members of the Toronto Public Service. We value a strong, health and safety culture where health and safety (see http://insideto.toronto.ca/hrweb/health_and_safety/index.htm) is incorporated in all that we do. We have a commitment to achieve a zero injuries workplace.	
Contribution: At the start of the performance review period identify any action(s) that will contribute to the achievement of the Health and Safety corporate priority.	**Achievement:** At the end of the annual review period, describe your achievement and any obstacles or challenges faced.

Iii) Human Rights: The City of Toronto is committed to ensuring that its service provision and employment practices are free from discrimination and that they are equitable and

accessible for all employees, residents and service recipients. All employees are responsible for behaving respectfully with co-workers and the public, being familiar with their rights and responsibilities under the Human Rights and Anti-Harassment Policy (see http://wi.toronto.ca/intra/hr/policies.nsf/9fff29b7237299b385256729004b844b/019a1b99227c73cd8525674d0047520a?OpenDocument)

Contribution: At the start of the performance review period identify any action(s) that will contribute to the achievement of the human rights corporate priority.	**Achievement:** At the end of the annual review period describe your achievement and any obstacles or challenges faced.

(iii) Diversity, Employment Equity and Positive Workplace The City is committed to fostering an organizational culture that champions and values employment equity, diversity, ethical behaviour, antiracism and positive, respectful workplace relationships. Our practices must ensure that employees feel valued, recognized and connected to the organization (See http://insideto.toronto.ca/hrweb/people_plan/pdf/dp-ws-dec09.pdf)	
Contribution: At the start of the performance review period identify any action(s) that will contribute to the achievement of the diversity, employment equity and positive workplace corporate priority.	**Achievement:** At the end of the annual review period describe your achievement and any obstacles or challenges faced.

(iv) Toronto Public Service Mission, Values and Ethics The City of Toronto is committed to ensuring that all employees' actions are consistent with the values, behaviours and policies of the Toronto Public Service. The Charter of Expectations promotes standards among public servants and informs the public about what they can expect from public employees (See http://insideto.toronto.ca/tps-guide/charter-expectations.htm)	
Contribution: At the start of the performance review period identify any action(s) that will contribute to the achievement of the Toronto Public Service mission, values and ethics corporate priority.	**Achievement:** At the end of the annual review period describe your achievement and any obstacles or challenges faced.

C. Development Plan

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Competencies/skills to be developed	Development activities that took place

There are three categories for performance ratings: met objectives, developmental, did not meet objectives. The guide for completing the performance planner describes the ratings. (See http://insideto.toronto.ca/hrweb/pm/docs/guidetoplanner.doc)

- ✓ **Please indicate overall performance rating:**
- o **Met Objectives**
- o **Developmental**
- o **Did not meet objectives**

Manager's comments (include signature and title)

Employee's comments (include signature and title)

Next steps:
The manager and employee keep a copy of the planner for their own records.

Following completion of the end of year review, the manager completes a separate Pay for Performance form indicating that a performance planner has been completed in accordance with City policy.

Each employee is responsible for familiarizing himself or herself with policies and legislative obligations (e.g. Occupational Health and Safety Act) setting out codes and responsibilities. For example, annually, employees will be asked to review the Conflict of Interest Policy in case of changes and as a refresher, and will then be asked to acknowledge that they have done so as part of the annual performance management process.