City of Toronto

Report Overview for Employee & Labour Relations Committee

Pay-for-Performance: Good for the City its Employees and its Residents

June 5, 2012
Components of Reward Framework

**Competitive base salary**
- To be “affordably competitive”, with annual adjustments to recognize inflation

**Merit based salary adjustments**
- To recognize & motivate incumbent performance

**Variable pay / short term incentives**
- To emphasize & reward for successful enterprise-wide performance

**Long term incentives**
- To align the perspectives of (management) employees with those of shareholders

**Noncash**
- To provide the appropriate package of benefits, perquisites & retirement

**Intangible rewards**
- To emphasize the non-financial components of the employment relationship
Pay for Performance

Two typical components:

1. Via merit-based salary merit adjustments which are differentiated relative to incumbent performance (i.e., not everyone receives 3%)
   - A manner by which progressive organizations encourage, recognize and reward incumbent performance
     - Can be provided to employees who are within their salary range (via salary adjustment) and those paid at range maximum (via lump sum)
   - Cost neutral – the City does not exceed its approved merit budget

AND (i.e., both components apply)

2. Via common awards which are paid to groups of employees relative to overall enterprise-wide results (i.e., variable pay, incentive, bonus, gainshare, etc.)
   - A manner by which progressive organizations encourage teamwork and reward for successful enterprise-wide results
   - Self funding – e.g., the awards are funded by budget surplus
## Merit-based Salary Adjustments

<table>
<thead>
<tr>
<th>Performance Designations</th>
<th>Unsatisfactory</th>
<th>Developmental (to be changed)</th>
<th>Meets Expectations</th>
<th>Exceeds Expectations</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current City Circumstance (for all employees eligible for a merit adjustment)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Distributions</td>
<td>0%</td>
<td>7.5%</td>
<td>92.5%</td>
<td>n/a</td>
<td>100%</td>
</tr>
<tr>
<td>Merit Adjustments</td>
<td>0%</td>
<td>1.0%</td>
<td>3.0%</td>
<td>n/a</td>
<td>2.85%</td>
</tr>
<tr>
<td><strong>Alternative City Option (for all employees eligible for a merit adjustment)</strong> *</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Distributions</td>
<td>Up to 3.0%</td>
<td>Up to 10.0%</td>
<td>Not Less Than 67.0%</td>
<td>Up to 20.0%</td>
<td>100%</td>
</tr>
<tr>
<td>Merit Adjustments</td>
<td>0%</td>
<td>1.0%</td>
<td>2.5%</td>
<td>5.0%</td>
<td>Approx 2.70%</td>
</tr>
</tbody>
</table>

- There are many other options that remain cost neutral
Illustrative four quadrant balanced scorecard

<table>
<thead>
<tr>
<th>Financial Responsibility</th>
<th>Service Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Likely measured by two or three metrics; some absolute / some relative</td>
<td>- Likely measured by an index of many (50?) division-specific metrics</td>
</tr>
<tr>
<td>- Illustrative Scorecard weighting: 30%</td>
<td>- Illustrative Scorecard weighting: 30%</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Social Responsiveness</th>
<th>Environmental Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Likely measured by stakeholder survey responses (residents, businesses, etc.)</td>
<td>- Likely measured by workplace safety and environmental impact studies</td>
</tr>
<tr>
<td>- Illustrative Scorecard weighting: 20%</td>
<td>- Illustrative Scorecard weighting: 20%</td>
</tr>
</tbody>
</table>
Variable Pay Research Requirements

Two typical research requirements

1. **Determine the performance metrics and their respective standards**
   - e.g., one of the (50?) Service Delivery metrics is, “Drinking water must be available at least 99.5% of the time and must achieve at least 99.9% of City purity standards”

2. **Determine program eligibility & awards**
   - **Senior Management only (as a start)**
     - Easier to fund awards from surplus; easier to design program; most proportionally underpaid group; most impactful group
   - **All Management Employees**
     - More challenging to fund from surplus; higher expectation of improved enterprise-wide performance results
   - **All Stakeholders**
     - Including exempt / nonunion employees, unionized employees and elected officials; highest expectation of improved enterprise-wide performance results; most challenging to fund
How is Pay-for-Performance “Good”? 

**Good for Employees in that:**
- Superior performing incumbents are recognized & rewarded
- Incumbents are encouraged to work as team members towards common goals

**Good for Residents in that:**
- The achievement of enterprise-wide performance becomes the collective goal
- Employee intentions are more aligned with resident expectations

**Good for the City in that:**
- The best incumbents are encouraged to remain within the City’s employ
- An improved alignment between payroll costs and performance
Relative to the private and commercial public sectors, the City Job Rates, by broad employee group, are:

- **Administrative**
  - Approximately 10% above market

- **Management**
  - Approximately equal to market
  - Market also has approximately 10% variable pay

- **Senior Management**
  - Approximately 10% below market
  - Market also has approximately 20% variable pay
Sector pay differentials

Total Remuneration

relative to broad industrial market (indexed at 100)

Banks
Gov't & Agencies
Industrial
Insurance
Natural Resources
Utilities, Public
Retail

Clerk
Admin
Assistant
Technician
Supervisor
Manager
Director
Executive
Senior
Executive