



**STAFF REPORT
ACTION REQUIRED
with Confidential Attachment**

Executive Compensation Policy at City Agencies and Corporations

Date:	August 6, 2014
To:	Executive Committee
From:	City Manager and the City Solicitor
Wards:	All
Reason for Confidential Information:	This report deals with personal matters about an identifiable person. The report is subject to Solicitor – Client Privilege.
Reference Number:	

SUMMARY

This report recommends that City Council request Boards of City agencies and corporations to develop a senior executive compensation policy, adhering to the guiding principles outlined in Attachment 1 to this report. Attachment 1 includes requirements to set a base salary range using a relative comparator analysis, places a 25 percent limit on variable, incentive, and/or merit pay, limits employer pension contributions to 1.0 time the employee contribution, and requires a review of senior executive benefits.

The policy would apply to new senior executive employment contracts and to existing contracts, if any, which permit compensation adjustments, either during an existing term or under renewal. However, this report does not establish specific compensation levels or programs to be applied by City Boards, as the City of Toronto is not the employer of City agency and corporation staff. Confidential Attachment 3 to this report outlines various legal issues that should be considered in the context of the recommendations contained in this report.

This report recommends that City Boards approve senior executive compensation policies by April 1, 2015, if not already established, with a review every four years. It is recommended that restricted agency Boards (Toronto Police Services Board and Toronto Public Library Board) be requested to review their executive compensation policies in the spirit and intent of what is being recommended.

The senior executive compensation policy review does not apply to City agencies and corporations where the employees are City employees (including, AOCCs and Public Health) given that City policies apply.

The objective of this report is to ensure that senior executive compensation policies at City agencies and corporations are set within a framework that is fair, transparent, and accountable, and complements similar practices across the broader City of Toronto public service. The policy framework proposed in this report maintains the right of the agency or corporation Board as the employer to set the details of its compensation strategy while adhering to the key principles to ensure more transparency and accountability in setting executive compensation.

RECOMMENDATIONS

The City Manager recommends that:

1. City Council request City agency and corporation Boards to develop a comprehensive senior executive compensation policy, independent of management, applying the guiding principles and practices set out in Attachment 1 to this report;
2. City Council require City agency and corporation Boards to approve a senior executive compensation policy by April 1, 2015, and forward it to the City Manager for information; and in the interim period prior to the approval of a policy be requested to adhere, where possible, to the principles in Attachment 1, including the capping of variable, incentive, and/or merit pay to 25 percent of base salary;
3. City Council request City agency and corporation Board approved executive compensation policies be applied to new employment contracts, and to existing contracts, if any, that permit compensation adjustments, either during an existing term or under renewal;
4. City Council direct City agency and corporation Boards to review their executive compensation policy every four years after the initial policy is approved, with results to be disclosed on public websites and annual reports, and authorize the City Manager to incorporate this requirement and the guiding principles and practices per Attachment 1, into existing and future Relationship Frameworks, Shareholder Declarations and Directions;
5. City Council direct the City Manager and the Executive Director of Human Resources to provide guidance and assistance to City agencies as required in the development of executive compensation policies; and
6. City Council receive Confidential Attachments 2 and 3 to this report for information, and direct that their content be kept confidential in their entirety after the consideration of the report by Council for reasons of personal information about identified individuals and solicitor-client privilege.

Financial Impact

There are no short term financial impacts resulting from this report. In the longer term it can be expected that the implementation of senior executive compensation policies will yield some operating savings as compensation levels should be reduced at agencies and corporations. However, until the executive compensation policies are implemented quantification of the savings is not possible. The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

City Council has made a number of requests of the City Manager to report on a variety of executive compensation matters affecting agencies and corporations.

At the March 2012 City Council meeting EX16.6 "Executive Compensation Disclosure for 2010: Build, Invest, TPLC" was considered and the following adopted:

3. City Council request the City Manager to conduct a review and report to the Executive committee on May 14, 2012 on all executive compensation, bonuses and benefits at public Agencies, Boards, Commissions and Corporations, such review to include specific criteria that are used to evaluate the corporate performance of senior staff. A comparison of similar jobs in the private sector and their compensation, bonuses and benefits should be provided for information.
4. City Council request Agencies, Boards, Commissions and Corporations to refrain from awarding bonuses until the City Manager's review is completed and approved by Council."

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX16.6>

At its meeting of July 2012 City Council considered a report from the City Manager regarding executive compensation for 2011 at City agencies and corporations. The report established a framework for collecting data annually and reporting on executive compensation once per term of City Council, next in 2015.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX21.19>

At the November 2012 Executive Committee meeting EX 25.4 "Toronto Hydro Executive Compensation" was considered and the following decision advice provided:

"The Executive Committee requested that the City Manager include in his report to the Executive Committee on non-union staff compensation:

1. The guidelines for executive compensation for City divisions and all Agencies and Corporations on maximum compensation relative to guidelines at the Province of Ontario.

2. The compensation of non-union and senior management staff of all Agencies and Corporations, the methodology of establishing their compensation, and a comparison of Agencies and Corporations' non-union and senior management staff compensation to City non-union and senior management staff."

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX25.4>

At the July 2013 meeting of the Executive Committee EX33.8 "Build Toronto – Annual General Meeting and Audited Annual Financial Statements 2012" was considered.

The Committee adopted the following motion:

- c) That City Council request that, with regard to Named Executive Officers (NEO) Compensation, the Human Resource and Corporate Governance (HRCG) Committee and Board of Directors should review further performance options, which include deferral of a portion of performance compensation to every 2 to 3 years to reflect a longer term performance evaluation. This longer term evaluation should also include key balance sheet metrics including return on capital.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX33.8>

ISSUE BACKGROUND

The services delivered by City agencies and corporations play an important role in shaping the overall quality of life and attractiveness of Toronto as a place to live, work, play and invest. Attracting, motivating and retaining talented senior executives to City agencies and corporations helps ensure the sound, effective leadership needed for the excellent delivery of high quality City services. While needing to compensate senior executives appropriately to attract, retain and motivate highly talented executives, there is also a need to ensure that the compensation of senior executives yields value for money to the City of Toronto as the shareholder and its taxpayers and ratepayers.

This report proposes that City agencies and corporations develop a senior executive compensation policy, where not already established, to ensure compensation is set in a transparent, rational, and accountable fashion that protects the public interest while being fair to senior executives so that talented executives are attracted, retained and encouraged to perform. The policy framework proposed in this report maintains the right of the agency or corporation Board as the employer to set the details of its compensation strategy while adhering to the key principles to ensure more transparency and accountability in setting executive compensation.

This report defines senior executives as the head of the organization, and the senior management team that reports directly to the head. It does include middle management or supervisory staff further down the organization. In some community based agencies with minimal management staff the head may be the only senior executive.

City staff acquired the assistance of external human resource consultants for the gathering of data and preparation of advice found within this report.

COMMENTS

Executive Compensation at City Agencies and Corporations

Table 1: 2011 and 2012 Average Total Cash Compensation¹ for Executive Heads²

Organization Type	2011 Average	2012 Average	Change	% Change
City Corporations	\$434,092	\$470,168	+\$36,076	+8.3%
City Service Agencies (excluding AOCCs and Arenas)				
Large (500+ staff)	\$277,578	\$289,966	+\$12,388	+4.5%
Medium (100-500 staff)	\$234,393	\$235,167	+\$774	+0.3%
Small (<100 staff)	\$132,331	\$135,167	+\$2,836	+2.1%
City of Toronto				
	Salary Range		Change	
	2011	2012	2011-2012	
City Manager	\$297,096 – \$341,632	\$302,738 – \$348,129	1.9%	
Deputy City Managers	\$228,373 – \$262,644	\$232,705 – \$267,631	1.9%	
1. Average Total Cash Compensation - The sum of all cash components: base salary, merit pay, and variable pay 2. Executive Heads - The lead staff person in the organization (eg. CEO, President, ED).				

Table 1 above shows the average total cash compensation (all cash payments) made to City agency and corporation executive heads for 2011 and 2012 by organization type, and for service agencies segregated by agency size based on the number of employees. The analysis excludes AOCCs and Arena Boards. AOCC senior executives are City employees and data for Arena Board senior executives is contained in Confidential Attachment 2 as it relates to identifiable individuals.

The data shows that the heads of City corporations on average increased their total cash compensation by 8.3 percent between 2011 and 2012 to \$470,168. Increases to average total cash compensation for City service agency heads ranged from 0.3% to 4.5%. Average total cash compensation for the heads of large, medium and small City agencies was \$289,966, \$235,167 and \$135,167 respectively in 2012.

In comparison to the heads of City agencies and corporations, the compensation for City Manager and the Deputy City Managers grew 1.9 percent between 2011 and 2012. In addition, from 2009 to 2013, City of Toronto non-union staff compensation grew 7.0 percent while the consumer price index for Toronto rose 9.7 percent.

The City Manager and Deputy City Managers are responsible for delivering a wide range of services administered by approximately 37,000 staff with an operating budget envelope of approximately \$8 billion. City agencies and corporations combined have approximately 23,000 staff. The Toronto Transit Commission and Toronto Police Services are the largest agencies with approximately 13,000 and 8,000 employees respectively and operating budgets of about \$1 billion each. Toronto Community Housing Corporation employs approximately 1,300 full time staff with an operating budget of approximately \$662 million. Toronto Hydro has approximately 1,500 full time employees, and an operating budget of approximately \$635 million.

Confidential Attachment 2 provides more detail in respect to senior executive compensation at City agencies and corporations.

Comparator Analysis of Executive Compensation at City Agencies and Corporation

Table 2 below shows the average 2012 total cash compensation for senior executives at City agencies and corporations, including the executive head, chief financial officer (CFO) and, vice-president/general manager position. The analysis also compares the average total cash compensation for City corporations and agencies to "like" positions in "like" organizations across **the public, not for profit and private sectors** using comparator organizations.

It must be emphasized that the inclusion of private sector comparators when determining compensation is a unique practice by some City corporations and leads to higher compensation for senior executives, and is not utilized by City agencies and employees. More specifically, the utilization of private sector comparators has resulted in variation in methodology and senior executive compensation levels across City divisions, agencies and corporations.

Table 2: Comparators for 2012 Average Total Cash Compensation for Senior Executives

Position	Average 2012 Total Cash Compensation	Comparator			Compa-Ratios	
		50 th Percentile	75 th Percentile	Average	Percentile	
					50 th	75 th
City Corporations						
Head	\$470,168	\$205,500	\$385,788	\$497,086	229%	122%
CFO*	\$364,341	\$318,530	\$669,636	\$463,181	114%	54%
VP	\$251,932	\$155,000	\$227,519	\$223,867	163%	111%
City Agencies (Excluding Arenas and AOCCs)						
Head	\$202,009	\$243,451	\$276,289	\$252,906	80%	73%
VP/GM	\$161,706	\$162,226	\$191,142	\$166,120	100%	85%

*Two comparator CFOs received short term incentives which raised their total cash compensation significantly

Table 2 shows that the average 2012 total cash compensation for comparators is generally less than for City corporations. The average total cash compensation for senior executives at City corporations approximates or is above the 75th percentile of the comparators. The 50th and 75th percentile is characterized by the position in the rank order from highest to lowest paid executive. For example, the average total cash compensation for the Head position for the comparators at the 75th percentile was \$385,788. This means that 75 percent of the executive heads for which data was collected were paid less than \$385,788 and 25 percent of the heads were paid more. The compa-ratio at a particular percentile is simply a ratio expressed as a percentage of what senior City senior executives were paid relative to their peers in the comparator group.

The comparator analysis indicates that, with the exception of the CFO position, in aggregate and on average senior executives at City corporations are better paid at the 75th percentile relative to their peers.

The comparator analysis indicates that average total cash compensation for the executive heads at City service agencies are on average paid less than the comparators at the 75th percentile. However, the senior executives that report to the executive head are paid about the same as the comparators at the 75th percentile.

Table 2 shows aggregate data that is averaged between City corporations, agencies and the comparators. Confidential Attachment 2 provides disaggregated comparator data for individual City corporations and service agencies compared to 50 other North American industry comparators.

Guiding Principles and Leading Practices in Developing Executive Compensation Policies

Guiding Principles

Attachment 1 to this report sets out guiding principles to be considered by City agency and corporation Boards in developing a senior executive compensation policy. Staff advise that using a Total Rewards Approach would increase accountability at City agencies and corporations by ensuring they have a clear and justifiable rationale for compensation of their senior executives. Furthermore, the development of a principled and transparent senior executive compensation policy framework for City agencies and corporations would enhance the level of awareness and understanding by City Council and the general public on how executive compensation levels are set and would create a more disciplined method of setting executive compensation.

Senior executive compensation policies should consider the following components:

- a detailed job description for each position outlining the duties, qualifications and skills required to perform the job;
- a salary range for the position setting out the base compensation with a minimum, maximum and the job rate set at the median informed and taking into account a relative public sector comparator analysis;
- a merit pay component, where appropriate;

- a variable pay/incentive pay component, where appropriate;
- a benefits package;
- pension benefits, where appropriate;
- a clear articulation of work related expenses allowed;
- qualitative elements of compensation such as recognition, work environment and culture, career opportunities/development; and
- an annual performance appraisal system.

Specific details of executive compensation policy principles are discussed within Attachment 1 to this report.

Leading Practices

The following outlines a series of leading practices which City staff advise should be considered by City agency and corporation Boards in their review of executive compensation policies.

The Purpose of Executive Compensation Policy

Typically executive compensation policy and strategy are designed to:

- align compensation with business outcomes;
- support organizational strategy;
- control compensation costs;
- maintain internal equity and address compression issues;
- achieve and maintain pay equity;
- reinforce the desired corporate culture;
- help define the organization's structure;
- attract and retain talented employees and motivate high performance; and
- ensure competitiveness with comparator organizations in the market.

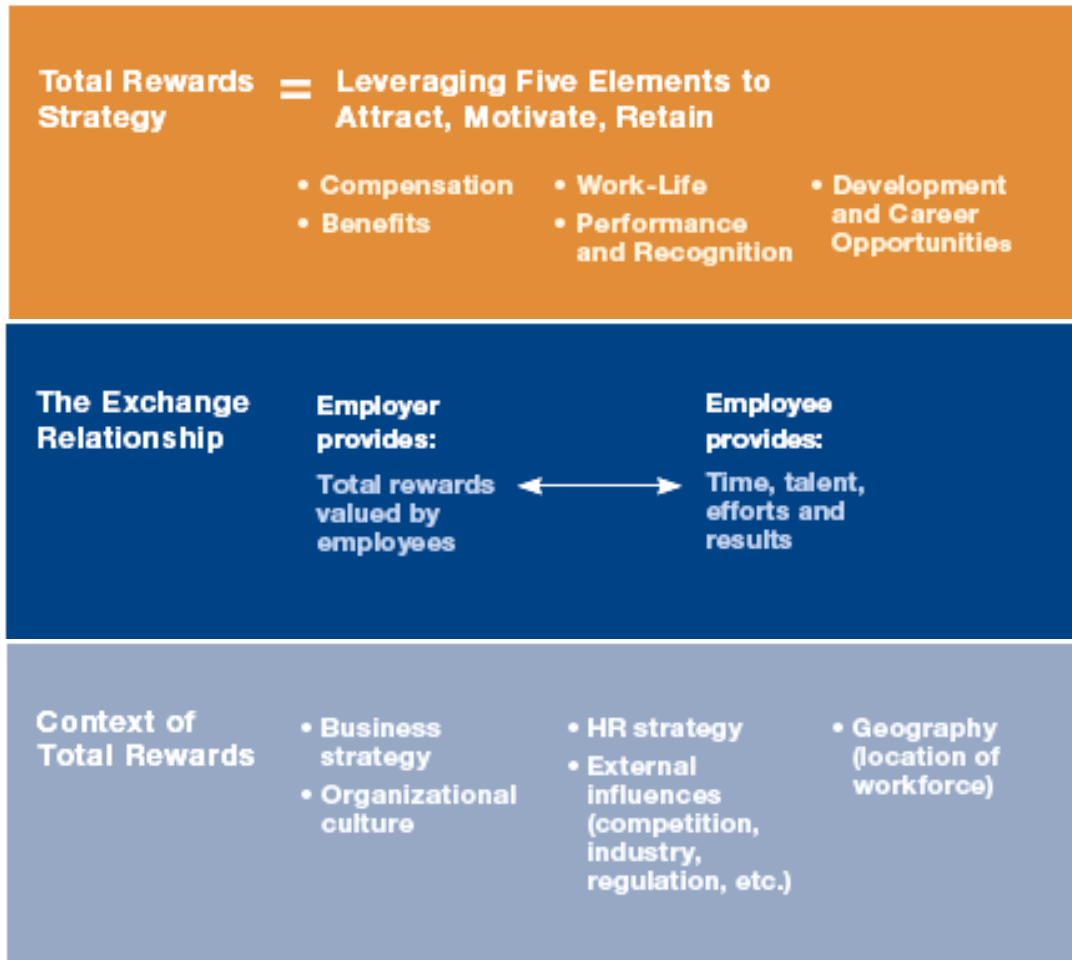
Increasingly an objective of executive compensation policy is to make compensation strategy transparent, disciplined and accountable so that executive compensation reflects real performance of the individual and the performance of the organization as viewed by its stakeholders, including the shareholder. In addition, with public sector organizations accountability means executive compensation is related to the overall "public value added" of the organization in respect to achieving the strategic "public good objectives" as an agent of the government.

Total Rewards Approach to Executive Compensation

This report recommends that City agencies and corporations develop a senior executive compensation policy utilizing a Total Rewards Approach. As shown in Table 3 below a Total Rewards Approach is a broad based conceptual compensation assessment tool that includes consideration of traditional compensation elements such as salary, variable/incentive pay and

benefits along with more qualitative elements of work such as recognition of performance, work-life balance, and career/development opportunities.

Table 3: The Total Rewards Approach to Executive Compensation



By creating the appropriate mix of monetary compensation, benefits and work environment incentives, executives will be attracted to work for the employer for a long time, and will be highly motivated to perform their job well. Business and human resources strategy, organizational culture, workplace/work force location, and external factors such as industry competition all form part of the considerations in developing a Total Rewards based executive compensation policy.

Currently the mix of compensation components used by City agencies and corporations varies widely. For example some City agencies and corporations rely heavily on variable/incentive pay to encourage superior executive performance but provide minimal employee benefits. Other organizations do not rely on variable/incentive pay but benefits are provided. Using the Total Rewards Approach as an assessment tool City agencies and corporations can consider and craft the most appropriate senior executive compensation policy for their organization to attract, retain and motivate senior executives in a manner that is fair and also accountable to City Council.

Summary

This report presents 2012 compensation values for senior executives at City agencies and corporations and provides comparisons with "like" organizations for "like" positions. It recommends that City Boards be requested to develop a senior executive compensation policy, adhering to identified best practices and principles. This does not apply to City agencies where the employees are City employees (AOCCs and Toronto Public Health).

The objective of the report is to ensure that senior executive compensation policies at City agencies and corporations are set within a framework that is fair, transparent, and accountable, and complements similar practices across the broader City of Toronto public service.

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SIGNATURE

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ATTACHMENTS

Attachment 1 – Guiding Principles in the Development of Senior Executive Compensation Policies

Confidential Attachment 2: Comparator Analysis and 2012 Senior Executive Compensation

Confidential Attachment 3: Report from the City Solicitor