

## **Update on Implementation of Executive Compensation Policies at City Agencies and Corporations**

**Date:** November 17, 2016

**To:** Executive Committee

**From:** Executive Director, Strategic and Corporate Policy

**Wards:** ALL

### **SUMMARY**

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On August 25, 2014 City Council requested boards of City agencies and corporations to develop senior executive compensation policies, adhering to the guiding principles set out in the City Manager's report. The guiding principles, based on a total rewards approach, includes requirements to set a base salary range using a relative public sector comparator analysis, places a 25% limit on variable incentive and/or merit pay, limits employer pension contributions to 1.0 time the employee contribution, and a review of senior executive benefits.

The objective of the August 2014 report was to ensure that senior executive compensation policies at agencies and corporations are set within a framework that is fair, transparent and accountable, and complements similar practices across the Toronto Public Service.

City Council requested that executive compensation policies be applied to new senior executive compensation contracts and to existing contracts that permit compensation adjustments, either during an existing term or under renewal. Agencies and corporations are to review their policy every four years.

Compensation reviews have been undertaken by agency and corporation boards, with support from the City Manager's Office and independent external expertise. Where executive compensation studies were completed, boards conducted market studies including preparation or updating of detailed job descriptions, compensation reviews involving wage comparator analyses of "like" public sector organizations, establishment of base pay salary ranges, merit / variable pay and benefits best practices, and development of comprehensive executive compensation policies based on market research.

The purpose of this report is to provide City Council with an update on compliance by agencies and corporations and ongoing City oversight. Attachment 1 to this report provides a status update for each agency and corporation.

## **RECOMMENDATIONS**

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The Executive Director, Strategic and Corporate Policy recommends that:

1. City Council receive this report for information.

## **FINANCIAL IMPACT**

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There are no financial implications from adoption of the recommendation in this report.

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

## **DECISION HISTORY**

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At its meeting of August 25, 26, 27 and 28, 2014 in considering EX44.8 Executive Compensation Policy at City Agencies and Corporations, City Council requested City agency and corporation Boards, excluding restricted Boards, to develop a comprehensive senior executive compensation policy, independent of management, applying the guiding principles set out in Attachment 1 to the August 6, 2014 report from the City Manager and the City Solicitor.

In this decision, City Council also required all City agency and corporation boards to ensure that future employment contracts for senior executives contain a provision for employee consent to the disclosure of their individual compensation through an annual public report through the Board, and request that existing senior executives of those bodies provide similar consent.

Further, City Council required boards to review their executive compensation policy every four years after the initial policy is approved (excluding restricted Boards), with results to be disclosed on public websites and annual reports, and authorized the City Manager to incorporate this requirement into existing and future Relationship Frameworks, Shareholder Declarations and Directions.

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

At its meeting of July 12, 13, 14 and 15, 2016 in considering EX16.10 Toronto Hydro Corporation - Annual General Meeting and 2015 Annual Report and 2015 Annual Audited Financial Statements, City Council, directed the Toronto Hydro Board to review its senior executive compensation policy and forward it to the City Manager for inclusion in a report through Executive Committee in 2017, and such policy to incorporate the guiding principles adopted by City Council, including public sector comparators, a limit on variable/incentive or merit pay at 25% of base salary, to be applied to new employment contracts or existing contracts that permit compensation adjustments.

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

At its July 11, 12 and 13, 2012 meeting, in considering EX21.19 Executive Compensation 2011 for City Agencies and Corporations, City Council adopted the following:

- that the Shareholder Directions for all wholly owned corporations be amended to require public disclosure of individual executive compensation, to the extent permitted by law, as part of annual reporting to the Shareholder, obtaining consent where required from individual executives, and authorized the City Manager to execute the revised Shareholder Directions in a form approved by the City Solicitor.
- requiring City agencies and corporations, and requesting the Police Services and Library Boards, to report to their individual compensation and salary ranges to the City Manager in a form and at a time satisfactory to the City Manager as permitted by law, and ensure future employment contracts for executives contain a provision for employee consent to the disclosure of their individual compensation to the City Manager, and in a confidential report to Council.
- requesting the City Manager report to City Council on executive compensation of City agencies and corporations once per term of Council commencing in 2015, such report to include individual salary ranges and aggregate compensation for executives by agency type in a public report; and individual executive compensation, including base salary, bonuses, expenses and the value of benefits, in a confidential attachment.

This report is located at the following link:

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

On March 5, 2012 in considering EX16.6 Executive Compensation Disclosure for 2010 by Build Toronto, Invest Toronto and the Toronto Port Lands Company, City Council requested the City Manager to consider, as part of his report back on executive compensation at these corporations, the compensation disclosure policies of agencies and corporations.

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

## **ISSUE BACKGROUND**

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In order to ensure that senior executive compensation policies at agencies and corporations are set within a framework that is fair, transparent and accountable, City Council directed agencies and corporations to establish an executive compensation policy pursuant to key guiding principles.

The guiding principles include:

- a detailed job description for each senior executive position (functions, responsibilities and level of accountability);

- a total rewards approach that is comprehensive and considers all aspects of compensation including base salary, variable / incentive pay / merit pay, and benefits including pension benefits;
- a comparator analysis for each senior executive position to establish the median (midpoint) base salary using industry comparators in the public sector;
- a base salary range for each senior executive position with the midpoint of the base salary range at the median for the industry public sector comparators;
- feasibility of a merit pay system based on meeting individual and/or organizational goals that are measureable, with merit pay not to exceed 5% of the annual base salary; feasibility of utilizing variable / incentive pay as a means of motivating superior performance, not to exceed 25% of base salary; and a program for annual performance assessment of senior executives;
- a benefits package that is competitive and helps attract and retain senior executives, that is appropriate for the demographics of the senior executive talent pool, and that provides the public value for money; and
- a policy on executive termination payments in senior executive compensation policies.

City Council's directive for agency and corporation executive compensation reviews includes most of the City's boards. The Toronto Police Services Board and the Toronto Public Library Board are restricted boards under the City of Toronto Act, 2006, and have specific legislation setting out their authority to manage their human resources. City Council has limited authority to direct the policies of these boards. However, City Council's approved executive compensation framework was distributed to these boards as a resource for consideration.

The following boards whose staff are City employees and already governed by corporate executive compensation policies were also excluded from the requirement to conduct the executive compensation review: Board of Health (Toronto Public Health staff) and the Board-run community centres (i.e. Association of Community Centre Boards).

## **COMMENTS**

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### **1. Status of Implementation of Executive Compensation Policies**

Most of the City's agencies and corporations have completed their reviews and adopted executive compensation policies pursuant to City Council's direction in this regard. Attachment 1 provides a status summary by board and corporation.

A small number of boards have not yet completed their reviews but policy development is well underway in most cases.

These agencies include:

- The Toronto Atmospheric Fund completed a comparative compensation assessment by the Delta Consulting Group in February, 2015 and plans to bring forward an aligned policy for approval by the TAF Board in February 2017.
- Civic Theatres Toronto Inc. (including Sony Centre for the Performing Arts, Toronto Centre for the Arts, and the St. Lawrence Centre for the Arts), have deferred implementation of their executive compensation policies given the consolidation into Civic Theatres Toronto. An executive compensation policy will be developed once the Chief Executive Officer is on board for Civic Theatres Toronto.
- Invest Toronto is in the process of being wound down given the establishment of Toronto Global.
- The Arena Boards have completed their reviews and the City Manager's Office is providing policy support to ensure they have executive compensation policies in place over the next few months.
- Toronto Hydro Corporation Board approved its executive compensation policy in March 2015, revised February 2016. The corporation is currently reviewing its policy with respect to City Council's directions at its Annual General Meeting in July 2016, and is to report back in 2017 on elements of the policy such as limiting its variable pay at 25% of base salary, use of public sector comparators, and application of the policy to new contracts and existing contracts that permit compensation adjustments.

## **2. Policy Development Support for Small City Agencies**

Small City agencies have limited capacity to deliver on corporate initiatives. The City Manager's Office has therefore worked closely with those agencies in clusters of similar boards to facilitate completion of their executive compensation reviews.

The City Manager's Office secured the services of the OCG Strategy and Organizational Consulting group (OCG), a City HR vendor of record, to coordinate comprehensive, consistent executive compensation policies for the Arena Boards, with direct oversight and coordination by the City's project coordinator. It should be noted that further City support is required for Arena Boards to enable them to consistently and appropriately adopt their compensation policies.

Facilitated by the City Manager's Office, the Boards of Heritage Toronto and Yonge Dundas Square also utilized the independent services of OCG to develop their policies.

## **3. Disclosure of Executive Compensation by Boards**

As part of the City Manager's recommended framework approved by Council in August 2014, the following data on executive compensation at agencies and corporations was provided:

- a report on average total cash compensation made to City agency and corporation executive heads for 2011 and 2012 by organization type, and for agencies segregated by size (large, medium and small agencies) based on their number of employees;
- comparators for average total cash compensation for senior executives, demonstrating the ranking (percentile) of compensation levels for senior executives of service agencies and corporations relative to their peers; and
- in confidential attachments to that report, detailed senior executive compensation data and comparator data for individual service agencies and City corporations compared to 50 other North American industry comparators.

The disclosure and comparative analysis of salary ranges provided in that report contributed to development of the guiding principles used for agency and corporation executive compensation reviews listed in this report.

In 2015 and 2016, City Corporations reported individual senior executive salaries and benefits in compliance with City Council policy, as part of their corporate information disclosure in Annual General Meetings held by City Council.

The City Manager will report to City Council on executive compensation of City agencies and corporations once per term of Council and will submit a report in 2017, including:

- a. individual salary ranges and aggregate compensation for executives by agency type in a public report; and
- b. individual executive compensation, including base salary, bonuses, expenses and the value of benefits, in a confidential attachment.

#### **4. Monitoring and Support by the City Manager's Office**

As directed by City Council, agency and corporation boards (except for restricted boards) are to review their executive compensation policy every four years after the initial policy is approved, and are to publish the results on their web sites and in their annual reports.

The City Manager will continue to monitor and provide support to the boards' application of their executive compensation policies to applicable positions, and will continue to canvass Boards for annual salary disclosures.

#### **Conclusion**

City Council's directive was approved for the purpose of facilitating a more transparent and accountable executive compensation environment, and to provide a framework for the City's agencies and corporations to develop policies based on current leading practices. Consistent application of the City's total rewards approach across agencies

and corporations will create a professional, equitable and service oriented workplace culture that attracts, motivates and retains senior administrators to the broader public service.

## **CONTACT**

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Fiona Murray, Director, Corporate Intergovernmental & Agency Relations;  
416.397.5214; [Fiona.Murray@toronto.ca](mailto:Fiona.Murray@toronto.ca)

Karen Jones, Senior Corporate Management and Policy Consultant, Corporate  
Intergovernmental & Agency Relations; 416.397.4429; [Karen.Jones@toronto.ca](mailto:Karen.Jones@toronto.ca)

## **SIGNATURE**

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Peter Notaro  
Executive Director, Strategic and Corporate Policy

## **ATTACHMENTS**

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Attachment 1: Implementation Status of Senior Executive Compensation Policies at City  
Agencies and Corporations