

Toronto Hydro Corporation Review of Executive Compensation Policy

Date: January 10, 2018
To: Executive Committee
From: City Manager
Wards: All

REASON FOR CONFIDENTIAL INFORMATION

Toronto Hydro Corporation (THC) has stated that certain information relating to third parties included in the report is confidential due to the security of the property of the City, due to its competitive nature and the arrangements Toronto Hydro Corporation has with the third parties providing this information.

Further, Toronto Hydro Corporation has stated that other information about officers of Toronto Hydro Corporation and Toronto Hydro-Electric System Limited included in the report is confidential as it contains personal information about identifiable individuals which is not disclosed under law in Toronto Hydro Corporation's Annual Information Form.

SUMMARY

This report recommends the receipt of Toronto Hydro Corporation's Executive Compensation Policy. This is in response to City Council's direction in 2016 for the Board of Toronto Hydro Corporation to review its senior executive compensation policy and incorporate the guiding principles for executive compensation at agencies and corporations established in 2014.

RECOMMENDATIONS

The City Manager recommends that:

1. City Council receive this report for information.

2. City Council direct that the confidential information contained in Confidential Attachments 1, 2, 3 and 4 remain confidential in their entirety.

FINANCIAL IMPACT

There is no financial impact associated with this report. The Acting Chief Financial Officer agrees with this statement.

DECISION HISTORY

At its meeting on November 28, 2017, Executive Committee deferred consideration of Toronto Hydro Corporation's Review of Executive Compensation Policy until the meeting of Executive Committee on January 24, 2018.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX29.9>

At its meeting on July 12-15, 2016, City Council adopted with amendments item EX16.10 – Toronto Hydro Corporation Annual General Meeting and 2015 Annual Report and 2015 Annual Audited Financial Statements. At that meeting, City Council as sole shareholder directed the Board of Toronto Hydro Corporation to review its senior executive compensation policy and forward it to the City Manager for inclusion in a report to City Council, through Executive Committee in 2017, and such policy incorporate the guiding principles adopted by City Council on August 25, 2014 in Item EX44.8, including the following requirements:

a. complete a comparator analysis for each senior executive position to establish the median (midpoint) base salary using industry comparators in the public sector (excluding private sector comparators), the comparators must be "like" public sector agencies and corporations of similar size, organization structure, business risk, and management complexity; and

b. where variable/incentive pay is established, it shall not exceed 25 percent of base salary, inclusive of merit pay.

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

At its meeting on August 25, 26, 27 and 28, 2014, City Council adopted item EX44.8 – Executive Compensation Policy at Agencies and Corporations – including requirements for City agencies and corporation boards to develop a comprehensive senior executive compensation policy, independent of management, applying a set of guiding principles and practices.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.ex44.8>

COMMENTS

The Board of Toronto Hydro Corporation has approved its senior executive compensation policy, including a review of the policy as requested by Council. Toronto Hydro Corporation submitted it as a report to the City Manager on November 24, 2017, in order to be brought forward to Executive Committee, and required that the report remain confidential and be treated as such by the recipient and City Council.

Public information on Toronto Hydro Corporation's executive compensation can be found in annual reporting to the City through Toronto Hydro Corporation's Annual General Meetings, including:

- Toronto Hydro Corporation Annual Information Form - Part 12, Executive Compensation
- Toronto Hydro Corporation Executive Compensation Disclosure

As directed by Council, Toronto Hydro Corporation's review was to incorporate the guiding principles for the development of senior executive compensation policies adopted by City Council through 2014.EX44.8 – Executive Compensation Policy at Agencies and Corporations. Those guiding principles are summarized below.

1. Develop a detailed job description for each senior executive position.
2. Adopt a Total Rewards Approach in developing a senior executive compensation policy. The review must be comprehensive and consider all aspects of compensation including base salary, variable/incentive pay, merit pay, and benefits including pension benefits.
3. Complete a comparator analysis for each senior executive position to establish the median (midpoint) base salary using industry comparators in the public sector (excluding private sector comparators). The comparators must be "like" public sector agencies and corporations of similar size, organizational structure, business risk, and management complexity.
4. Establish a base salary range for each senior executive position. The midpoint of the base salary range should be the median (50th percentile) for the industry comparators, which include public sector comparators only. The minimum base salary should be no less than 15% less than the median (50th percentile) and with the maximum base salary no more than 15% of the median (50th percentile).
5. Document a clear and detailed rationale for the use of each comparator as part of the comparator analysis for each senior executive position to indicate why the use of the comparator is appropriate.
6. Consider the feasibility of a merit pay system based on meeting individual and/or organizational unit goals which are measurable to enable senior executives to progress through the base salary range as an incentive to achieve exceptional individual performance. Merit pay must not exceed 5% of the annual base salary.

7. Investigate the feasibility of utilizing variable/incentive pay as a means for motivating superior performance. Variable/incentive pay shall not exceed 25 percent of base salary, inclusive of merit pay.

8. If a variable/incentive pay program is implemented, payments to senior executives must only occur where they demonstrate superior performance exceeding expected performance as indicated by transparent, quantifiable performance measures. The stated performance measures, among other things, should relate to:

(i) Strategic objectives articulated in the organization's Strategic Plan;

(ii) The demonstrated growth in public value of the organization;

(iii) The creation of a positive, dynamic, professional, ethical, service oriented workplace culture that attracts, motivates and retains employees; and

(iv) Timely and thorough implementation of applicable City Council directives including Shareholder Directions, Relationship Frameworks, applicable City of Toronto corporate policy, and recommendations of City accountability Officers and internal ethics executives.

9. A review must be conducted of employee benefits to create an employee benefits package that helps attract and retain senior executives while ensuring that the benefit package is competitive, appropriate for the demographics of the senior executive talent pool, and provides the public value for money.

10. The employer pension benefit contribution (registered plan or supplemental private agreement) for senior executives should be reviewed. The ratio of the employer contribution must not exceed 1.0 times the employee's contribution based on their base salary, except as allowed under pension plan policy or applicable law.

11. Senior executive compensation policies must contain a policy on executive termination payments including development of a standard process for the determination of the amount of the payout.

12. Develop and implement a program for annual performance assessment of senior executives.

CONTACT

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SIGNATURE

Peter Wallace
City Manager

ATTACHMENTS

Confidential Attachment 1 - THC Executive Compensation Letter

Confidential Attachment 2 - THC Executive Compensation Report and Attachments 1 (Executive Compensation Benchmark Results), 2 (Toronto Hydro Performance Statistics) and 3 (Role profiles of Toronto Hydro Executive Team)

Confidential Attachment 3 - THC Executive Compensation Attachment 4 (Toronto Hydro Corporation 2016 Annual Information Form)

Confidential Attachment 4 - THC Executive Compensation Attachment 5 (Approved Toronto Hydro Executive Compensation Policy)