

Clause embodied in Report No. 1 of the Administration Committee, as adopted by the Council of the City of Toronto at its regular meeting held on February 4, 5 and 6, 2003.

## 4

**Performance Pay: Increment Progression Rate - Non-Union**

*(City Council at its regular meeting held on February 4, 5 and 6, 2003, amended this Clause by adding to Recommendation No. (2) of the Personnel Sub-Committee, the words “such report to include the total number of employees, by department and by job classification, who received exceptional performance ratings”, so that such recommendation now reads as follows:*

*“(2) that the Commissioner of Corporate Services, in one year’s time after the implementation of the performance pay program, be requested to submit a report back to the Personnel Sub-Committee, providing a further review on this program, such report to include the total number of employees, by department and by job classification, who received exceptional performance ratings.”)*

**The Administration Committee recommends:**

- (1) the adoption of the recommendations of the Personnel Sub-Committee embodied in the communication (November 19, 2002) from the City Clerk; and**
- (2) that since performance pay is intended to reward exceptional performance, staff be requested to establish a maximum number or percentage of qualifying employees, and include this information in the first status report on performance pay.**

The Administration Committee reports, for the information of Council, having:

- (i) received the report (December 9, 2002) from the Chief Financial Officer and Treasurer; and
- (ii) referred the communication (Undated) from Mr. Richard D. Majkot, Executive Director, COTAPSAI (City of Toronto Administrative, Professional, Supervisory Association, Incorporated) to the Commissioner of Corporate Services for consideration in the implementation of this program.

**The Administration Committee submits the following communication (November 19, 2002) from the City Clerk:**

**Recommendations:**

The Personnel Sub-Committee on November 19, 2002, recommended to the Administration Committee:

- (1) the adoption of the report (November 15, 2002) from the Commissioner of Corporate Services; and
- (2) that the Commissioner of Corporate Services, in one years' time after the implementation of the performance pay program, be requested to submit a report back to the Personnel Sub-Committee, providing a further review on this program.

The Personnel Sub-Committee reports for the information of the Administration Committee, having requested the Chief Financial Officer and Treasurer to submit a report directly to the Administration Committee for its meeting scheduled to be held on December 12, 2002, on the funding of the performance pay program.

Background:

The Personnel Sub-Committee at its meeting held on November 19, 2002, had before it a report (November 15, 2002) from the Commissioner of Corporate Services, recommending that:

- (1) the progression rates through the salary range, based on performance, be approved as presented in Appendix A, effective January 1, 2003;
- (2) the re-earnable lump sum award rate based on performance, be approved consistent with the progression rates presented in Appendix A, effective January 1, 2003; and
- (3) the market rate adjustment of three percent be approved for the non-union group for 2003 and applied in accordance with the pay-for-performance model.

Ms. Alison Anderson, Director of Employment Services, gave a presentation to the Personnel Sub-Committee in connection with the foregoing matter.

(Report dated November 15, 2002, addressed  
to the Personnel Sub-Committee from  
the Commissioner of Corporate Services.)

Purpose:

This is a follow up report on the compensation program for non-union staff addressing the specifics of the pay-for-performance model including:

- (a) progression rates through the new pay grade ranges based on performance; and
- (b) re-earnable performance pay for those at the top of the pay grade range.

Financial Implications and Impact Statement:

Performance adjustments would continue to be budgeted through the normal operating budget process.

The model for progression through the pay grades represents a shift in the distribution of performance pay adjustments rather than an increase and is expected to be cost neutral.

The re-earnable lump sum award is an additional cost. Based on the number of individuals at the top of the new pay grades from the preliminary evaluations it is estimated at \$1.2 million for 2003.

Recommendations:

It is recommended that:

- (1) the progression rates through the salary range, based on performance, be approved as presented in Appendix A, effective January 1, 2003;
- (2) that the re-earnable lump sum award rate based on performance, be approved consistent with the progression rates presented in Appendix A, effective January 1, 2003; and
- (3) that the market rate adjustment of three percent be approved for the non-union group for 2003 and applied in accordance with the pay-for-performance model.

Background:

At its meeting of December 14, 15 and 16, 1999, City Council adopted a new compensation program for executive, management and exempt employees. The key components of the compensation program include:

- (a) a job evaluation tool to ensure internal equity and gender neutrality in compliance with Pay Equity legislation;
- (b) performance pay that promotes, recognises and rewards exceptional performance; and
- (c) market rate comparison to ensure appropriate competitive positioning related to the comparable GTA market in order to attract and retain exceptional employees.

The job evaluation tool has been finalized and over the last two years the preliminary evaluations were completed to place executive, management and exempt jobs into the new pay grades. A performance management program has also been developed and implemented.

City Council approved the proposal from the Hay Group for a pay-for-performance practice for salary adjustments where the incumbent progression through the pay grade range is no longer based on automatic step-rate progression but rather solely on a performance based increment process.

The model included a re-earnable lump sum award for those who have reached or are near the maximum of the salary range. The Hay Group recommendation was for a re-earnable rate of up to five percent.

Staff were requested to submit a further report to Council recommending the appropriate increment progression rate.

Staff were also requested to report back to Council on the re-earnable lump sum award once the results of job evaluation were known, the incumbents placed into the appropriate salary range and the performance management process further developed.

Also approved was that starting in 2001 an annual GTA review based on the comparable external market be conducted to ensure the City maintains competitive salary ranges to the external marketplace. This replaces the practice of across-the-board increases for non-union employees based on union settlements.

For the years 1999, 2000 and 2001, City Council approved the across-the-board increase for non-union employees consistent with the union settlements. In 2002, Council approved a market rate adjustment of three percent to be applied across-the-board for non-union employees and approved the recommendation that the implementation of the full pay-for-performance model be undertaken in 2003.

The delayed timing has also assisted in addressing the issue of organizational readiness for this change in practice.

Comments:

In the transition to the new pay-for-performance components of the compensation program for non-union an interim approach was followed. For the years 1999, 2000 and 2001 all non-union employees received the following salary increases:

2 percent in 1999;  
2.17 percent in 2000;  
3.2 percent in 2001; and  
3 percent in 2002.

Pay grade ranges were also adjusted, therefore the increases received by the employees matched the adjustment to the ranges.

In addition, employees were eligible to progress through the range by three percent based on performance. The three percent was a harmonized amount from past automatic step progressions of the former municipalities. The single amount does not recognise and reward different levels of performance.

In the pay-for-performance model, incumbent progression through the pay grade ranges is not based on an automatic step-rate progression or across-the-board increases, salary increases are based solely on the results from the individual performance assessment process.

The proposed performance progression rates are presented in Appendix A. There is a different rate depending on whether the employee achieved their objectives, demonstrated exceptional performance or were still developmental in the position and unable to meet all objectives.

For the year 2003, the implementation of the full pay-for-performance program includes:

- (1) a review of the comparable external GTA market to adjust the salary ranges for 2003. The salary ranges are adjusted to reflect the changes in market and take into consideration cost of living changes. The adjustment is applied only to the pay grade ranges, it is not applied automatically to the employee's salary. This replaces the across-the-board increases of past practices. The review of the comparable external market has been completed. Information from the Conference Board of Canada and Hay Group Consulting confirms three percent as the prevailing appropriate market rate adjustment for the non-union group for 2003;
- (2) new progression rates through the salary ranges based on performance and incorporating the annual market rate adjustment must be established. The proposed model is presented in Appendix A for approval;
- (3) a re-earnable lump sum performance amount to be approved as part of the pay-for-performance model. These are salary adjustments for those employees who have reached the top of their pay grade and whose performance assessment deems them eligible for a salary adjustment. The base salary is not changed; the amount must be re-earned each year based on performance. The proposed rates are the same as for progression through the paygrade ranges, as presented in Appendix A; and
- (4) re-training of managers on the performance management program with emphasis on the distinction between performance levels.

For the year 2004, employee performance reviews will be moved to a common anniversary date. A common anniversary date for confirming performance objectives better supports departmental annual business planning and budgeting processes.

Conclusions:

The compensation program approved for non-union employees includes job evaluation for internal equity, marked rate comparisons and pay-for-performance. Implementation of the components of the pay-for-performance model will complete the transition to the compensation program for non-union employees. The model includes the progression rates through the pay grade ranges and the re-earnable lump sum award.

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Attachment:

Appendix A.

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## Appendix A

### Pay-for-Performance

#### Progression Rates through Pay Grades

##### Components:

Pay grade ranges are adjusted annually based on market survey results.

Employee progression through the pay grade ranges based on performance i.e., no automatic salary increase when the pay grade range is adjusted; market adjustments are built into the performance increase.

##### Application:

Performance Rating	Total salary performance increase
Achieved Objectives	3 percent + market adjustment
Developmental	1 percent + market adjustment
Did not meet objectives	0 percent

For those meeting the criteria of exceptional performance the amount is three percent (plus market adjustment) plus a two percent bonus not added to the base salary.

Note: employees on legislated leaves receive the market adjustment increase to their salary.

#### **The Administration Committee submits the following report (December 9, 2002) from the Chief Financial Officer and Treasurer:**

##### Purpose:

To provide comments on the funding of the performance pay program.

##### Financial Implications and Impact Statement:

As indicated in the November 15 report from the Commissioner of Corporate Services to the Personnel Sub-Committee, performance pay adjustments will continue to be budgeted through the normal operating budget process. Part year funding in 2003 will be absorbed within the 2003 program salary budgets.

##### Recommendation:

It is recommended that this report be received for information.

Background:

The Personnel Sub-Committee at its meeting held on November 19, 2003, had before it a report (November 15, 2003) from the Commissioner of Corporate Services, recommending that:

- (1) the progression rates through the salary range, based on performance, be approved as presented in Appendix A, effective January 1, 2003;
- (2) the re-earnable lump sum award rate based on performance, be approved consistent with the progression rates presented in Appendix A, effective January 1, 2003; and
- (3) the market rate adjustment of three percent be approved for the non-union group for 2003 and applied in accordance with the pay-for-performance model.

Ms. Alison Anderson, Director of Employment Services, gave a presentation in connection with the foregoing matter.

The Personnel Sub-Committee recommended to the Administration Committee:

- (1) the adoption of the foregoing report (November 15, 2002) from the Commissioner of Corporate Services;
- (2) that the Chief Financial Officer and Treasurer be requested to submit a report directly to the Administration Committee for its meeting scheduled to be held on December 12, 2002, on the funding of the performance pay program; and
- (3) requested the Commissioner of Corporate Services, in one year's time after the implementation of the performance pay program, to submit a report back to the Personnel Sub-Committee, providing a further review on this program.

Comments:

The current budget process includes guidelines for departments when estimating the future cost of performance pay adjustments for non-union employees.

Performance pay costs for those employees within the current pay grades is estimated to be cost neutral based on the model for progression rates as provided by Human Resources.

The estimate for the cost of the re-earnable lump sum payment is based on the number of non-union employees currently at the top of their salary range. For estimating purposes, Human Resources staff assumed that 80 percent of non-union employees would meet their objectives, 10 percent would demonstrate exceptional performance and 10 percent would fall in the categories of not eligible and developmental.

In future, consistent with the current practice, departments will budget performance pay in the program area salary budgets.

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Mr. Richard Majkot, Executive Director, COTAPSAI, appeared before the Administration Committee in connection with the foregoing matter and filed a written submission with respect thereto.