

**THE REGIONAL MUNICIPALITY OF YORK**

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**REPORT NO. 1**  
**OF THE REGIONAL COMMISSIONER OF HUMAN RESOURCE SERVICES**

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**For Consideration by**  
**The Council of The Regional Municipality of York**  
**on March 29, 2001**

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**NON-UNION PAY FOR PERFORMANCE PLAN**

**1. RECOMMENDATIONS**

It is recommended that:

1. Committee and Council receive and approve the Pay for Performance Plan for non-union employees of the Region as outlined in this report for implementation in 2001.

**2. PURPOSE**

The purpose of this report is to advise Council that we are proceeding with the implementation of the Pay for Performance Plan that was approved by Regional Council on January 13, 2000; and also to provide Regional Council with an update on our proposed pay administration practices.

**3. BACKGROUND**

In May of 1999, Regional Council authorized William M. Mercer Ltd. to conduct a comprehensive review of compensation for The Regional Municipality of York. The results of that undertaking was a comprehensive Job Evaluation review of all (union & non-union) positions in The Regional Municipality of York; a market survey of pay practices against nine (9) comparator organizations (Regions of Peel, Halton, Hamilton-Wentworth, and Durham; the Cities of Mississauga, Brampton and Vaughan; and the Towns of Markham and

Richmond Hill). The results of the market survey illustrated that York Region was below the average of the comparator grouping overall. As a result, William M. Mercer Ltd. recommended a revised salary structure for non-union staff which was approved by Regional Council. The Region implemented a new compensation system for all non-union positions in April 2000 and subsequently negotiated and implemented a new compensation system in the fall with CUPE.

Mercer also reported that "Pay for Performance programs are a significant market trend in both private and public sectors". Their survey of the nine (9) comparator organizations in 1999 revealed that four (4) of these municipalities had Pay for Performance programs and four (4) were considering implementation. "The two most common forms of Pay for Performance are individual bonuses ranging from 5 to 7 of base salary and/or percentage increases based on corporate performance" was reported by Mercer. They also indicated that typical distribution of top performers in organizations would be 20 to 30 percent.

A separate study conducted by William M. Mercer Ltd. was commissioned jointly by the Towns of Markham and Richmond Hill. The survey included the Regions of Peel, Durham, and York; the Cities of Mississauga, Brampton and Vaughan; and the Towns of Richmond Hill and Markham. Of these eight (8) comparator organizations, three (3) indicated they had Pay for Performance plans in place and three (3) indicated that they were considering implementing a Pay for Performance plan.

On January 13, 2000, Council approved The Regional Municipality of York's Compensation Review for implementation. In that report, there was reference made that a "Pay for Performance system, applicable for the non-union staff group, be developed for review by the Finance Committee..." and subject to approval, "be fully implemented in 2001". In the report Mercer recommended that "employees would qualify for individual bonuses based on superior performance as attested through a formal system of Performance Review that provides quantitative and qualitative substantiation".

#### **4. ANALYSIS AND OPTIONS**

There are five (5) elements to the proposed option:

##### **Eligibility**

There would be a two-year phase in period. For 2001, the Chief Administrative Officer, Senior Management Group, Directors and the Managerial level would be eligible (approximately 220 employees). In 2002, all remaining non-union employees would be eligible (approximately 100 employees). At this time there is no consideration to extending the program to include unionized employees without further negotiations with our unions.

##### **Target Payout**

Mercer proposed that a target of 10% of base salary be proposed for senior management and a target of 6% of base salary for technical/professional and managerial staff be used. They indicated that, "these percentages, while low compared to the private sector, would be competitive with other contemporary public sector comparators." This study was commissioned in 1999 and there have been new developments in the public sector which have changed the landscape of performance based pay:

- The Ontario Public Service's Pay for Performance plan has a target payout of 20% of base salary at the Deputy Minister level and 15% of base salary for the Assistant Deputy Minister and senior management group.
- Recently the federal government has tabled a revision to its pay practices in response to what they call "an important crisis in human capital". Citing a "very serious lack of young managers" and concerns about competitiveness, the top civil service positions would be eligible for 20 to 25% bonuses.
- For comparative purposes private sector corporations have had pay for performance bonus schemes in place for many years to incent high performance. Typically they reward annual payments in the range of 25% of base salary.

Mercer also recommended looking into adding a corporate incentive program to the Pay for Performance program during 2001. For the reasons cited above, it is suggested that the payout amounts be as follows:

Rating	% Expected	Year 1 2001	Year 2 2002
Exceptional Performers:	expected to comprise 5 to 10% of the eligible group	Up to 7.5% of salary	Up to 10% of Salary
Commendable Performers:	expected to comprise 20 to 30% of the eligible group	Up to 5.625% of salary	Up to 7.5% of salary
Competent Performers:	competent performance is expected and is reflected in base salary; expected to comprise approximately 60% of the eligible group	0	0

### **Link to Performance**

The Regional Municipality of York has had in place a formal system of performance review, called the PDP (Performance Development Plan) for quite some time. The performance

review system has been revised and updated to reflect increased expectations and integrate objective measures and qualitative measures to support a Pay for Performance plan.

Completion of Performance Appraisals will be, at minimum, an annual process. Performance Appraisals will be based on achievement of business goals for the fiscal review period, and an assessment of key competencies appropriate to the position level. Performance Appraisals will be mandatory with a completion date no later than April 1<sup>st</sup> of each year.

### **Timing**

It is anticipated that payouts will be made sometime in April upon receipt of all completed and approved Performance Appraisals and a final accounting of the amounts to ensure compliance with budget estimates.

### **Controls**

Controls will be in the form of “reasonability” checks initiated by the Human Resource Services Department. Spreadsheets will be distributed to each Department Head listing those that would be eligible for Pay for Performance. Department Heads will be asked to record the planned performance rating and percentage payment, prior to making any commitment to the employee. The accountability for ratings will allow a two level review, i.e. Managers may recommend ratings to the Director for approval, Directors may recommend their ratings of Managers to their Commissioner for endorsement, and so on. These amounts will be tabulated by Human Resource Services on a department level and corporate level and reviewed with the CAO prior to any communication with employees. Checks will be performed for trends in under-rating or over-rating of employees by department. The data will also be compiled corporately to ensure adherence to targeted budget and that the percentage of top performers is reasonable.

The CAO’s performance level would be reviewed by the Chair and Regional Council and an appropriate bonus determined based on results achieved in managing the day-to-day affairs of the Region.

Consideration may be given to modification of the program in years to come to incorporate refinements such as, but not limited to “team” bonuses, open salary ranges (elimination of “steps”) to be financed through the normal budget process for the Pay for Performance account, etc. This would ensure the plan is affordable and balanced while considering modern HR trends in pay practices to support high performance of its employees. It will also assist in identifying future senior managers (succession planning).

## **5. FINANCIAL IMPLICATIONS**

Costs to administer the Pay for Performance program in 2001 have been accounted for and factored into the 2001 budget and will form part of future fiscal budgets submitted for Regional Council approval.

The cost of the Program will be phased in over two years, commencing with the managerial level and upwards for 2001 and the remainder of the non-union group in 2002. For the first year, the payments would also be pro-rated based on April 1, 2000 (9 months), which was the effective date of approval for the Compensation Review. There would be approximately 220 individuals eligible in Year 1 and, presuming a limited growth in the non-union employee population in 2002, an additional 100 employees in the second year.

As the program is limited to top performers, of the 220 eligible in Year 1, it is expected that no more than 40% of that group (88 persons) would receive a performance bonus. The cost would be in the neighborhood of \$300,000 - \$450,000 depending on the performance ratings of those eligible. This would represent 1.6% to 2.4% of gross non-union payroll or 0.45% to 0.67% of total payroll for the first year. Costs for subsequent years would be approximately 3.5% of gross non-union payroll or 0.98% of total payroll.

Costs associated with this program would be born in the year following that in which demonstrated exceptional or commendable performance has been achieved.

## **6. LOCAL MUNICIPAL IMPACT**

While there are no immediate impacts on area municipalities this plan may be referenced by area municipalities in the formulation of their attraction and retention strategies.

## **7. CONCLUSION**

Pay for Performance bonus payments are part of modern pay practice in the Private and Public Sectors and have been in existence for decades successfully used to motivate employees and foster a high performance culture. Attracting and retaining high quality employees to the Region as with every employer today is becoming more difficult. Bonuses are just one element of a planned HR strategy to attract high performance candidates to the Region and retain them thereby affecting service delivery to our residents while contributing to operating efficiency.

This report has been reviewed by the Senior Management Group.

**Respectfully submitted,**

**February 16, 2001  
Newmarket, Ontario**

**J. Davidson  
Commissioner of Human  
Resource Services**

***(Report No. 1 of the Commissioner of Human Resource Services was adopted, without amendment, by Regional Council at its meeting on March 29, 2001.)***