

Total Compensation Review Report to Council

RECOMMENDATION(S):

That Council direct Administration to return to Council no later than 2021 June 30 with a Briefing Note updating their progress in undertaking identified actions based on the data provided from the Consultant review.

HIGHLIGHTS

- Morneau Shepell (“Consultant”) was engaged to help The City of Calgary (The City) understand its market positioning against comparable public and private sector organizations with respect to total compensation including salaries, benefits, pensions and perquisites. The Consultant has delivered their City of Calgary Total Compensation Review (“Report”). Their findings are broken down by employee groups: Senior Management, Exempt, Unions, Sworn Officers and Fire. Administration needs to determine what actions should now be taken to ensure that The City’s total compensation program is competitive, affordable and financially sustainable.
- What does this mean to Calgarians? Calgarians depend on services delivered by qualified, trained and engaged employees every day. The City, like other employers, needs to ensure it can attract and retain talent to serve Calgarians. At the same time, total compensation accounts for over one half of The City’s operating budget. The City has a responsibility to manage tax and rate payer-funded services efficiently and cost-effectively.
- Why does this matter? Compensation costs reflect that The City employs many people to deliver the services citizens depend on, and competitive compensation is critical to attracting and retaining the workforce that delivers value to citizens. Compensation at The City is built upon the tenets of equal pay for work of equal value, competitiveness and affordability. It is incumbent upon The City to ensure its compensation program is competitive, affordable and financially sustainable.
- The Consultant’s findings show that The City’s compensation philosophy and market definition have resulted in a total compensation package that is competitive. More specifically, total compensation benchmarked is at the midpoint (50th percentile) of the combined public and private sector markets, while benefit and pension plans overall, are generally ahead.
- The Consultant has taken a large amount of data and consolidated it into broad, key findings. The elements of compensation and how they work together to form an equitable, competitive and affordable package requires thoughtful and careful analysis to inform specific actions going forward. There should be caution when using this report to develop specific actions going forward. Selecting specific elements of compensation for adjustment may have the effect of jeopardizing the ‘whole’, such as internal equity, or the overall competitiveness of the entire program.
- At the Combined Meeting of Council held on 2019 April 29, Council directed that Administration: *“Act on the request for Administration or a third party Human Resources*

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expert to identify elements of the total compensation package of City of Calgary employees and report directly to Council members.”

- Strategic Alignment to Council's Citizen Priorities: A well-run city

DISCUSSION

Compensation serves a number of critical needs of both an organization and its employees. First and foremost, it enables The City to attract qualified staff to deliver services that citizens value. It also enables the organization to grow talent in careers that will strengthen service continuity and performance, innovation, and deep organization memory and wisdom. Employees are drawn to The City for many reasons including the desire to serve their communities, engage in meaningful work and build a successful career. Compensation provides them with financial stability and well-being. The program at The City also should reassure employees that their compensation is fair, relative to their peers inside and outside of the organization.

The City's compensation program has been built upon three foundational principles: It should be financially sustainable, internally equitable and gender-neutral, as well as competitive with the market. The City has traditionally targeted, for most employee groups, towards the middle of the market comprising a combination of public and private organizations. The target for senior management has traditionally been somewhat higher, given the prevalence of short and long-term incentives in the private sector and in some public sector organizations.

Compensation systems are not static. They need to be monitored and adjusted relative to forces within and outside of the organization. There were a number of factors driving this total compensation market review, including:

- (a) The economic downturn has dramatically shifted the competitive landscape for talent and has also increased the need to examine carefully The City's salary and benefit positioning in the market ensuring sustainability going forward,
- (b) There is some public perception that certain City positions are overpaid,
- (c) Several years of salary freezes for Exempt staff have created internal inequities, and have led to a loss of talent and/or an increasing difficulty in attracting talent in certain positions.

Council and Administration understood the need to undertake an evidence-based and impartial approach to gathering and analyzing competitive market data, in order to inform future actions. Morneau Shepell was engaged through a competitive bid process to undertake this review, supplying the resources and expertise necessary to complete this work on a very short timeline. A City project team provided the Consultant with all pertinent information on City compensation, benefits, pensions and perquisites as they applied to different employee groups, jurisdictions and levels. The team also provided job data on over 190 City positions spanning all departments, jurisdictions and pay grades that the Consultant requested for use in benchmarking against external market comparators. The Consultant decided what organizations

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to include in their market comparisons. Major Canadian municipalities, and large, regional and local public sector organizations were selected. The private sector comparators were large local companies across a range of industries including transportation, energy and construction. The Consultant also used reputable, national survey sources to validate their data and analysis.

Market competitiveness was assessed by looking at the midpoint or median (50th percentile) as well as the 75th percentile of the public sector, private sector, and both sectors combined. The Consultant examined how The City compared to the above market segments, broken down by employee group and further broken down by compensation element: total compensation, base salary, total cash (base salary plus short-term incentives), benefits, pensions and perquisites.

The results show that overall, The City's total rewards package is competitive at the midpoint (50th percentile) of the combined public and private sector markets. This demonstrates that our positioning remains strong and consistent with our philosophy. Specific compensation elements and elements pertaining to certain employee groups do show variation above or below the market. For example, Senior Management total cash compensation falls far behind the private sector due to the absence of short and long-term incentives. The City's benefit and pension plans overall, are generally ahead of the combined public and private sector market, although specific provisions may lag behind.

Given the multiple compensation elements, employee groups, jobs and markets, it is essential that we consider the findings thoughtfully before taking targeted actions. Acting on a finding for only one compensation element could impact the competitiveness of the total reward package. Further, it is important to remember that compensation elements for many employees are collectively-bargained. Most importantly, we now have the data to start to inform actions moving forward.

The Report confirms that The City has succeeded in maintaining a sound, competitive compensation program for its employees. Nevertheless, there are areas to address:

- Administration will start by refreshing our compensation philosophy and reviewing where we should be targeting our total compensation program, base salaries and executive compensation.
- Administration will also begin work on modernizing the Exempt compensation system which has not changed in 20 years.
- Administration will update compensation policy (e.g. use of unrated positions) and governance practices to ensure decision-making is delegated appropriately.
- Finally, Administration will examine the areas highlighted by the report, that appear ahead or behind the market (e.g. base pay for the first few levels of Unioned positions, sickness and accident provisions, supplementary pension eligibility, vacation entitlements).

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STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

- Public Engagement was undertaken
- Public Communication or Engagement was not required
- Public/Stakeholders were informed
- Stakeholder dialogue/relations were undertaken

Project updates were communicated to Union Presidents and MEBAC at various milestones. Web pages were developed on compensation elements for citizens, as well an internal site for our employees.

IMPLICATIONS

Social

There are social and economic benefits to ensuring employees are paid fairly for the work they perform.

Environmental

Not Applicable

Economic

Many Calgary businesses and other organizations have been adversely impacted by recent economic conditions and the tremendous toll brought on by the COVID-19 pandemic. The City must ensure it is managing its business and delivering services in the most economic, efficient and effective manner. To this end, compensation must be both competitive and financially sustainable in this environment.

Service and Financial Implications

Other:

Future financial impacts will be further determined as Administration studies the findings and acts on them to make data-informed changes.

RISK

Taking action on these findings may increase the risk of losing knowledgeable employees and the cost of recruiting new talent. Some segments of our employee population have experienced pay freezes, layoffs and other cutbacks for a number of years.

Inaction may also create similar talent attraction and retention risks for highly-skilled and knowledgeable employees who perceive their total compensation is uncompetitive or unfair. There is also a reputational risk for The City as there is a strong expectation by most stakeholders that these findings will drive and inform action.

**Chief Financial Officer's Report to
Combined Meeting of Council
2020 December 14**

**ISC: UNRESTRICTED
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ATTACHMENT(S)

1. Total Compensation Review Report

Department Circulation

General Manager	Department	Approve/Consult/Inform
David Duckworth	City Manager's Office	Approve
Carla Male	Chief Financial Officer's Department	Approve