



To: General Purposes Committee

Date: May 29, 2006

From: George Duncan
Chief Administrative Officer

File:

Re: Exempt/Management Staff Compensation Plan

Staff Recommendation

1. That effective June 29, 2006, the Exempt Employee (Exempt/Management Staff) Compensation Program be updated as outlined in the Staff Report (dated May 29, 2006), including implementation of the attached revised salary band schedule, job families, and salary band values (exclusive of the CAO and CAO position);
2. That the Exempt Employee Compensation Program be implemented as per current administrative practice (Note: no changes to approved administrative procedures or the Officers Designation Bylaw are required).

George Duncan
Chief Administrative Officer
(4338)

REVIEWED BY TAG	YES <input checked="" type="checkbox"/>
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Staff Report

Statutory Closed Meeting Criteria:

This report meets the following statutory closed meeting criteria:

90(1)(c) labour relations or other employee relations

Recommendation on Disclosure

This report will be subject to routine review to determine whether the need for confidentiality has passed and will be brought forward to Council with a recommendation on disclosure when appropriate.

It is anticipated that this matter could be released publicly.

Origin

In February 2005, the CAO provided a report to Council outlining the need for a comprehensive review of exempt staff compensation. This report outlined the challenges the City was encountering in our efforts to recruit new personnel. The CAO provided the example of three public works positions that the City had been repeatedly unsuccessful in our attempts to fill. The CAO also covered the critical importance of retaining valuable personnel in the current highly competitive job market. It also identified the significant increase in costs associated with the need to recruit new personnel should the City not be successful in its efforts to retain existing staff. The report and ensuing discussion also highlighted the risk of incurring otherwise avoidable costs on major projects if key personnel were to be lost during this critical stage of the City's transition process. In this regard, staff demonstrated through the use of a risk registry that one of the highest risk management exposures identified in the risk registry was the loss of key senior personnel. In the final analysis, it was apparent that if the City does not ensure compensation levels keep pace with the external market, the City will unnecessarily expose itself to the risk of losing valuable staff to other organizations, and that the cost to overcome the compensation gap between Richmond's pay scale and the market rate is only nominal compared to the value of the City's major projects and the costs associated with the consequences of not taking the appropriate action in a timely manner.

Background

Today, employers face one of the most competitive recruitment markets that BC or Canada has ever experienced. For example, a recent newspaper article titled "War for Talent? Just Ask People Out West" commented on a 20-page insert ad placed in a Winnipeg newspaper that was designed to deliberately woo people to jobs with the City of Calgary. The current competitive market is more challenging for the municipal sector, particularly in the area of trades work, because factors such as job security or greater certainty of steady or reliable employment, that in the past were factors that assisted municipal organizations to overcome the disadvantages of the generally lower levels of compensation they offer, are no longer priorities for this employee group.

Over the past 15 to 20 years, Richmond has been predominantly reactive, as opposed to, proactive in managing the Exempt/Management Staff compensation process. Between approximately 1986/1987 and 2000, Exempt Staff compensation was only reviewed and possibly adjusted in response (after the fact) to evidence that it had fallen significantly behind the market and/or due to predictions of some potential pending negative impact that would be encountered if action was not taken. This point is demonstrated by the fact that each major compensation review or market survey that was undertaken and/or significant salary adjustment awarded to Richmond Exempt Staff between 1989 and 1998 coincided (three times) with the recruitment and/or immediately following recruitment of a new CAO. In each instance, it was either or both the challenge of attempting to recruit new senior people (CAO's and Deputy CAO's) or the new CAO's needing to recruit/retain new personnel that was the main motivation or justification for conducting a review or for adjusting the pay scale of the Exempt/Management staff compensation plan.

Analysis

The preferred and appropriate method of managing compensation is to establish and maintain a functional and reliable compensation and benefits plan that is updated within appropriate intervals against the external market. Council took a significant positive step approximately four or five years ago when the practice of awarding regular adjustments for Exempt Staff that coincide with increases awarded to the City's three groups of unionized employees was initiated. Although this positive factor has not been sufficient to keep Exempt/Management Staff compensation from falling behind the market, it may have been the difference – the factor that, for the time being, has protected the City from losing more staff than we have to other organizations. Ideally, a functional compensation program, as presented in *Attachment 1 – City of Richmond Exempt Employee Compensation Philosophy & Program and the Applications & Costing of 2006 Recommendations*, that will satisfy the role that compensation plays in the important recruitment/retention equation will include: 1) regular annual adjustments that are comparable to increases that are awarded to other employee groups and external market competitors; 2) external market surveys and resulting adjustments conducted at regular intervals (three years is recommended); and 3) flexible benefits packages from which employees can customize their plan by choosing specific benefits that best suit their needs.

The above-noted goals will be achieved by updating the current formal compensation policy framework and the salary band pay scales to meet current market values as proposed in the recommendations of this Staff Report.

Attached for your reference are the following: the Current Salary Structure (Attachment 2), the Proposed Salary Structure (Attachment 3), and the graphical representation of the Proposed Salary Structure (Attachment 4). The graphic representation depicts the monetary relationship between the three job families and the Plan's improved ability to ensure competitive salary without compromising internal equity.

In the February 2005 Staff Report, the CAO noted that given that the most significant salary gaps were apparent at the more senior management levels, an interim adjustment to some of the senior management salary bands should be made immediately, notwithstanding that the compensation review was already in progress. It was intended that these incremental changes would provide an

interim solution until such time that the comprehensive compensation plan could be completed and could be brought forward to Council as anticipated in the second quarter of 2005. Work loads, however, prevented staff from bringing the plan forward in the anticipated time frame, therefore, the compensation report was rescheduled for presentation in the Fall 2006. Due, however, to the loss of a transportation engineer and other current attempts by other employers to recruit Richmond staff, it was decided that the compensation report should come forward immediately. This Report provides details on the proposed updated Exempt Salary Compensation Program. If approved, the new program will ensure Richmond exempt/management staff are compensated according to the real market value of their positions and support the City's efforts to successfully recruit and retain high quality staff.

The primary influencing factor behind the desire to update the compensation program is the critical need for the City to retain key personnel at the present stage of the broad-based corporate work plan. The special projects that Richmond is involved with are so unique that it is not possible to recruit new staff with the same level of specialized knowledge and experience. This Report will touch on the risk implication of losing key staff during a market that is so competitive that replacing them could be prohibitive. In this regard, the most basic principle of the CAO's compensation philosophy is reflected in instructions to the HR Division: The City of Richmond should never lose valued employees to an organization that resides in our competitor group solely due to pay rate. The City must be determined to remain competitive in our efforts to protect human resources in whom the City has a financial investment through knowledge transfer, training and development, and who are consistently delivering a return on that investment.

In the past approximately one year, the GVRD, the City of Vancouver, and Translink have updated their compensation plans and implemented new salary band scales using a compensation objective that places them in the higher range of the market. The City of Surrey, although they do not appear to have redesigned their plan, and possibly others, have also increased their salaries. For example, Translink and GVRD have now entered the market place offering salaries for engineers (engineers are the primary occupation of concern) that are significantly higher than those of the City. Although both the GVRD and Translink are considered larger organizations in terms of budgets, if Richmond cannot offer competitive remuneration, the City can expect to continue to lose some of its most talented people. Over the past several years, Richmond has lost six engineers: two to Translink, two to other municipalities, and two to the private sector. The GVRD poses a significant threat for the future because it has increased compensation and also has many staff eligible for retirement. Engineering is not the only area under threat, however, the challenges we have encountered in attempting to recruit management personnel who are primarily engineering types to the Public Works Division, combined with the already actual and potential loss of more engineers to other organizations, adequately illustrates the point.

It is important to point out that many of our other staff (such as in Planning and Finance) are regularly solicited by other employers and employment agencies.

In addition to the current risks being faced in retaining high quality staff, the City has also had significant problems in attracting new staff. We have spent over 18 months trying to hire people to two mid-management positions in the Corporate Services and Business and Financial Services Departments, and the report previously referenced the difficulties of recruiting to the Public

Works Division which yet remain unresolved. Further indications of the effect of below market salary ranges became clear when we hired replacement managers (two separate incidents) for the vacant works yard positions from much smaller BC cities, only to have both decline the position when their current employer was able to counter with a salary above that which we could pay based on our approved salary band schedule. The potential risks that are associated with failure to respond to the prevailing competitive recruitment market, and for which Richmond is vulnerable at the present time, are significant.

Council and Senior Management have invested considerable time in the past year to try to ensure that staff do not burn out due to excessive workload by putting policies in place that encourage, if not require staff, to use the time off for which they are eligible. Council has further assisted this effort by approving new positions in areas of need. Unfortunately, if the salaries for these positions are not sufficient to attract good quality staff, the exercise will become counter productive. Staff will spend extensive amounts of time and money on the hiring process, yet the opportunity to successfully attract the calibre of people we require will be impeded by factors that are actually all within the control of the Corporation and could have been overcome.

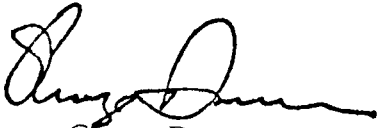
Given that Richmond is the 4th largest City in BC (close to tied for 3rd) and the 25th largest in Canada, and the nature and complexity of issues that the City deals with on a day-to-day basis, plus the magnitude of work loads staff are presently encountering, it is imperative that we are able to recruit and retain talented personnel. Other City and private sector organizations recognize the calibre of our employees and are readily inclined to "poach" our staff. To date, Richmond has, to some extent, benefited from the high rating that our Exempt/Management staff give to the quality of the work environment and the overall appeal of the type of challenges their jobs offer. As a result, competitor employers have not been as successful as they might otherwise have been to date, however, we also cannot rely on this one factor to continue to overcome the apparent disparity between Richmond's and the external market pay scale.

Financial Impact

There is no additional level financial impact on the operating budget as adequate salary contingency funds exist within the 2006 base budget that can be utilized to cover the exempt salary compensation plan. The total maximum increased cost for salaries to implement the necessary salary adjustments that are a result of updating the 1998 Compensation Program to the proposed 2006 Program will not exceed approximately \$720,000 (if all staff were to be assigned to the full market job rate). The Costing Summary is provided as Attachment 5. There will also be an associated increase in the cost of benefits. However, not all staff will be assigned to the full job rate. Staff will be assigned to salary bands and specific job values in accordance with standard practices, i.e. in consideration of job classification, internal equity, experience, performance, contribution to corporate initiatives, adherence to corporate values, and with regard to any imminent recruitment and/or retention issues. Therefore, the actual costs will be less than represented in the above-noted estimate. The total Exempt Staff 2006 salary budget is approximately \$12.5 million and \$88.1 million for total City salaries. The increase to implement the new plan would represent a 5.8% increase in Exempt employee salary costs or less than 1% (specifically .82%) increase in the City's total salaries cost, if the maximum allowable salary increases were to be awarded.

Conclusion

The level of compensation provided through the current Exempt/Management salary bands is inconsistent with current job market values and is an impediment to the City's need to retain and attract a desirable calibre of employees. The Exempt/Management Staff Compensation Plan should provide remuneration that appropriately and accurately compensates staff for the quality and value of services provided. The recommended Exempt/Management Compensation Program will provide the means to ensure that our objectives for recruitment and retention of exempt employees will be met, and that Richmond staff are compensated fairly and equitably for their work and contribution.



George Duncan
Chief Administrative Officer
(4338)

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Attachment 1

CITY OF RICHMOND

EXEMPT EMPLOYEE COMPENSATION PHILOSOPHY & PROGRAM

Purpose:

The purpose of this Compensation Philosophy statement is to detail Richmond's goals/principles in regard to exempt employee compensation. To be clear, the material contained herein is a statement of intent, not a guarantee. It is intended to be a guide in making effective compensation decisions that will reward employees for the value they contribute to the organization.

The City of Richmond intends to maintain an exempt employee compensation program that will:

- provide appropriate market value and reward for the value of services provided;
- eliminate or minimize ongoing external market source risks to retention;
- ensure the City remains competitive in the marketplace in recruiting./attracting talent.

Essentially the program should facilitate the corporation's efforts to attract the necessary talent needed to meet and further the strategic interests of the municipality's current and changing business. Not only must the compensation program be sufficiently attractive to provide talented employees with a reason to join, become engaged and remain focused in their continuing efforts to improve citizen value, but it should also enable and encourage the flexibility required to reward and retain those individual contributors who are challenged to achieve targeted results both within and beyond their own portfolios.

The current program was introduced in 1998 and has not been updated since its introduction. The proposed program will address the many aspects of compensation that have changed during the period since the City last reviewed compensation practices in 1998.

Compensation Principles

In the design, ongoing review and management of the employee compensation program, the City of Richmond will be guided by these principles:

- *Internal equity:* The City will use the Richmond Exempt Job Family evaluation plan to ensure job value is internally equitable, non-discriminatory, fairly assessed and based on objective job and rating criteria.
- *Competitive:* The external marketplace will be regularly monitored to be certain our employees have pay opportunities consistent with our desired competitive positioning. The goal is to deliver base salary opportunity at the 75th percentile level of our defined external marketplace of other similar sized local government organizations across Canada and other local public and private-sector organizations.
- *Performance and Values based:* Adherence to corporate values and demonstrated levels of performance must continue to be factors in the determination of levels of compensation. Most importantly, performance for compensation purposes must be linked to specific Council and corporate goals/objectives using quantitative measures as the basis for assessment that will be reported through the corporate performance review and evaluation programs.

- *Flexible:* The exempt employee compensation program will be revised as business conditions, employee needs and citizen requirements change and/or are modified. Such flexibility is necessary to ensure market, attraction/retention and compression issues are addressed.
- *Clear and understandable:* To achieve the end result of “no surprises”, the exempt employee compensation philosophy and program will be managed in a way that provides for clarity and understanding for employees, Council and citizens.

The CAO has instructed the HR Division to adhere to the following principle, if required, to retention of valued employees:

- The City of Richmond should never lose valued employees to an organization that resides in our competitor group solely due to pay rate. The City must be determined to remain competitive in our efforts to protect human resources in whom the City has a financial investment through knowledge transfer, training and development, and who are consistently delivering a return on that investment.

Compensation Elements:

The exempt staff compensation philosophy is not yet a total compensation program (TCP), but will form a basis from which to develop in future years. To become a TCP would require inclusion of all the following elements: Base Salary, Variable Pay and Employee Benefits.

- **Base Salary:** The base earnings level derived from the City of Richmond pay bands without any “add-on’s”.
- **Variable Pay:** Corporately-approved compensation adjustments in recognition of overtime, travel requirements, project work, service pay, etc. Variable pay may be added, amended or deleted as per the requirements of the corporation. At present, in order to remain consistent with practices of other organizations (external market competitive assessment) when making comparison for compensation purposes, these “add-on’s” are not considered part of base salary.
- **Employee Benefits:** The exempt benefits program within the City of Richmond is a standard package within our industry. Until the City of Richmond amends it’s benefits philosophy to one of more defined monetary value/personal selection such as a “personal/health spending account”, benefits should not be considered part of the Exempt Compensation program.

Job Family Classification System

Each position is allocated to a Job Family defined as follows:

a. Corporate Support (CS)

Positions generally provide information and/or support for various operations and processes drawing upon knowledge of general and executive office practices and general operating policy. Positions typically operate at a tactical level in the organization. Roles typically perform duties that support other processes and/or roles and may be relatively independent at more senior levels.

b. Professional (P)

Provides advanced knowledge in area of expertise to provide technical direction and leadership for a process, system and/or functional area to protect the organization and minimize risk. Individuals draw upon knowledge of the principles, practices, and procedures of their area of expertise. Provides others with expert advice on issues of current and emerging practices,

technologies, and methodologies. Role may be responsible for leading people; however, emphasis of role is about providing individual contribution rather than leading people.

c. Management/Leadership (ML)

Works at a high operational and/or strategic level where decisions generally have an effect on corporate policy and performance. Leadership of employees represents a significant portion of overall responsibilities. Ensures the overall effectiveness of a functional area or department by providing leadership and direction. Manages the human, financial and operational resources of the area or department. Facilitates the achievement of the department's or area's goals by implementing strategies and processes and building a high performing team.

The Job Family Classification System will continue to evolve and is intended to eventually include a fourth family:

d. Leaders and Developers of Leaders (DL)

Generates the vision(s) and strategies that Council adopt to become the prominent goal(s)/destination(s) that the City corporation pursues on behalf of Council and the Community. Guides and instructs the efforts of the corporate administration. Invests in and sponsors the development of talented staff who demonstrate capacity for promotion.

An important flexibility factor built into a Job Family classification system is the ability of incumbents and positions (PCC #'s) to be moved from one job family to another. Projects or ancillary assigned duties of either a short term or permanent nature that change the focal point of the position may necessitate job family reassignment and compensation adjustment. The same is true of career-path decisions made by individual employees.

Within each Job Family, the positions are rated by an evaluation committee appointed by TAG. Job Family Descriptors and rating guidelines enable the evaluation of the following five factors the City has determined to be crucial for inclusion within the exempt group:

- Education and Experience
- Working Relationships
- Responsibility
- Complexity
- Political interface/reliance of the political body.

The end result is an equitable internal rating of exempt positions that allows for the creation of salary bands for the three current job families (soon to be four with DL) segmented into five levels each for Professional, Managerial/Leadership and Corporate support.

Pay bands to ensure external equity have been statistically correlated to marketplace information gained through current market surveys and published compensation data arising from (in decreasing order of priority) the public, quasi-public and private sectors applicable to our competitive job market talent pool.

Compensation Survey Comparators

Twenty municipal positions were surveyed on behalf of the City of Richmond by Watson Wyatt Worldwide:

- | | |
|---|---------------------------------|
| * General Manager, Engineering and Public Works | * Manager, Building Approvals |
| * General Manager, Finance and Corporate Services | * Manager, Economic Development |
| * General Manager, Parks Recreation and Culture | * Manager, Facilities |
| * General Manager, Urban Development | * Manager, Finance |

- * Fire Chief
- * City Clerk
- * Director, Engineering
- * Director, Information Technology
- * Director, Recreation & Cultural Service
- * Director, Transportation

- * Manager, Human Resources
- * Manager, Policy Planning
- * Manager, Sewerage and Drainage
- * Project Engineer
- * Executive Assistant to G.M.
- * Manager, Water Services

Four more positions were considered in the final analysis of published data and other survey sources to cross check the validity of the proposed range structure and competitiveness. These positions were:

- * General Manager, Human Resources
- * Staff Solicitor
- * City Solicitor
- * Manager, Occupational Health/Safety

Competitive comparators within municipal government were divided into local and national corporations which were a match to our organizational presence (size, structure, business approach, business/policy processes, nature and magnitude of challenges, major projects, potential source of competition for recruitment and retention, etc).

Municipal – Local

- * Vancouver
- * GVRD
- * Surrey
- * Coquitlam
- * Delta

Municipal – National

- * London, Ontario
- * Hamilton, Ontario
- * Edmonton, Alberta
- * Regina, Saskatchewan
- * Saskatoon, Saskatchewan

Additionally, Watson Wyatt has utilized the following published survey data for inclusion of other public, quasi-public and private sector comparators in Richmond's salary band calculations. The main source of data was heavily weighted (75%) to our surveyed municipal government compensation with provincial/federal government, quasi-public and private sectors receiving a 25% statistical weighting in the variety of data cuts conducted by Watson Wyatt.

- 2005/06 Watson Wyatt Worldwide Annual Canadian Salary Survey
- 2005/06 Watson Wyatt Canadian Municipal Salary Survey for Senior Leader Positions
- 2005 Mercer Human Resources Consulting Executive, Management and Professional Compensation Survey
- 2005 Mercer's Information Technology Compensation Survey
- 2005 AON's National Compensation Survey

Please note: the above survey format represents the most thorough compensation review process and market survey ever conducted by the City.

Recommended Pay Bands for Job Families

Utilizing the incoming survey data and fitting same to our revised classification system, fifteen (15) pay bands have been developed at the P75 level for three of the four Job Families to upgrade current pay bands to competitive levels for recruitment and retention. The fourth family (DL) will be utilized in the future by the CAO for the purposes of assisting the succession planning and the development of talented

Maximum: The outer limit of compensation to be provided an incumbent whose performance in the position continually exceeds expectations and if necessary, steps taken to ensure retention.

Compa-Ratio: The quotient resulting from dividing an incumbent's base salary by the midpoint of the position's pay band.

Example: Salary is \$85,000.00
Band Midpoint is \$85,000.00
Compa-Ratio is 1.00

The midpoints of Richmond's pay bands have been calculated using external data to meet the competitive compensation philosophy objective of paying at the 75th percentile of our defined comparator marketplace. Translation: twenty-five percent (25%) of the firms which are Richmond's "like" competitors will pay more than Richmond for a fully competent employee in that classification. 75% of the firms that are Richmond's likely competitors will pay the same or less.

Pay band width has been expanded to create more flexibility for internal equity and project assignments beyond the normal scope for a position (see retention premium components at page 8). Differentials between and within pay bands have also been established in accordance with the following accepted compensation philosophy:

- Band minimums and maximums will be calculated using the range midpoint (job rate) as the basis for the following calculations:
 - The band Minimum will be 75-80% of the job rate.
 - The band Maximum will be 105% of the job rate.
 - *NOTE:*
 - The band Maximum has been set close to the Midpoint because job rates are at the 75th percentile.
 - Compensation levels above the Midpoint are to be provided ONLY on an annual renewable retention premium basis. **NB: This is not an annual bonus system.**
- Band width (from minimum to maximum) will be calculated from the minimum and range from roughly 30% at lower bands within the job families to 40% at higher bands within job families.
- Band differentials (the percentage difference between midpoints of successive bands within the same job family) will increase as the pay bands increase. This concept recognizes the ever-increasing levels of responsibility and contribution expected from more senior levels.

Pay Band Administration/Application

In the administration of Richmond's pay bands for exempt staff, the following guidelines provide for the continuing effectiveness of our 75th percentile competitive positioning:

- a. *Pay bands may be adjusted annually* based on market conditions and/or the need to compete for a competent labor force. A comprehensive survey should be completed between two to three years (depending on market progression) to ensure continuing competitiveness in exempt job categories.
- b. *Continuation of the practice of awarding annual pay band adjustments* (across-the-board) that coincide with increases awarded to other employee groups will help to keep the program current

and to ensure that compression is contained at current levels or eliminated. Such increase should ideally be implemented on January 1st of each calendar year. This annual adjustment will consider increases in the cost of living, negotiated changes to Union collective agreements (as has been the policy for many years), and/or also recognize the labor market pool from which exempt personnel are recruited/retained and protect against compression. Therefore, the CAO may direct HR to conduct the following assessments prior to range adjustment decisions for annual managerial/professional adjustments:

- i. an annual review of published data,
- ii. surveys of general indices and trend lines,
- iii. identification of compression issues requiring specific problem resolution
- iv. increases awarded to any other employee group

c. *Progression Increment:* A new employee hired into a position and who possesses the basic skills, knowledge and ability to perform the required entry-level tasks will most likely be employed at the applicable pay band minimum and the job rate. From that point onwards, the employee is gaining additional skills, knowledge and ability that must be compensated on a regular basis until the incumbent is fully competent and earning the current job rate, i.e. the range midpoint. A guideline for Richmond's job families is as follows:

Corporate Support:

Minimum to Midpoint

- May take up to 24 months for CS 1 to CS 4; 36 months for CS 5
- Progression increment awarded every 6 months for CS 1 to CS 4
- Progression increment awarded annually for CS 5

Professional:

Minimum to Midpoint

- May take 24-36 months at levels P 1 to P 3
- May take 36-60 months at levels P 4/P 5
- Progression increment awarded annually

Managerial/Leadership:

Minimum to Midpoint

- May take 24-36 months at levels ML 1 to ML 3
- May take 36-60 months at levels ML 4/ML 5
- Progression increment awarded annually

The amount of the progression increment is not defined in the aforementioned schedule, but a decision matrix could be formulated to better direct departmental decision-making. The progression increment should take into account the approximate timelines noted above, but must be a percentage a General Manager must approve and recommend to the CAO as reasonable following an assessment of an individual employee's progress or lack thereof. Please note that employees eligible for progression adjustments are also eligible for the annual pay band adjustment; to not do so would curtail advancement in the pay band. Also, please note that the progression adjustment is not a new procedure. It is consistent with long standard past practice.

Inadequate performance or failure to advance in the acquisition of skills, ability, and knowledge must not be ignored. Should failure occur, progression increments and annual band adjustments are not to be granted. The employing manager must discuss this situation with their General

Manager and the GM, Corporate Services. Consistent with the current and past systems, final approval remains with the CAO.

- d. *The starting salary for a new employee* is a decision to be made jointly by the employing manager and Human Resources for recommendation to the CAO and will be located on the minimum to midpoint portion of the applicable pay band (compa-ratio will be < 1.0). Based on an assessment of the new employee's capabilities, the manager and HR will take into consideration the aforementioned progression guideline and set the initial salary accordingly. Fully capable employees should ideally be granted up to 95% of the pay band midpoint with a further adjustment being made to midpoint (job rate) level upon successful completion of the six-month probationary period. Each case will be decided upon its own merits.
- e. *The range midpoint (job rate)* is the rate the City of Richmond should be paying for a fully competent and satisfactory employee (compa-ratio = 1.00). As this job rate is set at the 75th percentile of our competitive marketplace, employee's who are not in the developmental portion of their pay band and who are assessed as being less than fully competent and satisfactory, will not be eligible to receive the full amount of the annual range adjustment. Compensation for such incumbents will be less than any pay band adjustment and the employee's compensation will therefore go backwards in the salary range (compa-ratio < 1.0) until corrective action justifies other decisions.
- f. *The Retention Increment* portion of a salary range will extend from the midpoint to maximum (compa-ratio > 1.00) and is reserved for a number of corporately approved compensation adjustments. *It must be emphasized again that compensation above the range midpoint is ONLY to be provided on an annual renewable basis.*

In keeping with TAG's focus for performance management to be an integral component of this retention increment segment of compensation philosophy, eligible incumbents must present exceptional performance that is measured against corporate objectives to be considered for such an increment. Consistent with past programs, especially those involving compensation at the high end of the pay band, the CAO is the final arbiter.

The following compensation adjustment(s) may be considered for implementation for an individual employee. Such adjustment(s) will require the approval of Human Resources to ensure the integrity of the compensation system is maintained. Again, the CAO is the final arbiter.

1. **Performance-based Adjustment:** Richmond senior management demands a high level of performance commensurate with P75 compensation. The City does not yet have a performance assessment system that is designed specifically to drive compensation adjustments. In the interim however, General Managers in concert with their Directors, utilize an internal formula-driven approach as follows to reward those exempt managers who are extraordinary contributors.

The City of Richmond will assume that its exempt workforce composition, performance levels and compensation adjustments for exempt are comparable to the shape of a normal Bell curve. This means that 80 % of the workforce is deemed to be fully competent (at midpoint or job rate where CR=1.0), 10 % are in the process of developing their competencies or are not satisfactory (CR<1.0) and 10 % are above average performers or in receipt of a compensation adjustment (CR>1.0).

% of exempt	10%	80%	10%
Min		Mid	Max
		Job Rate	
CR<1.0		CR=1.0	CR>1.0

The aforementioned is translated into reality by establishing a “rule” (changeable by the CAO) that the compa-ratio for the City of Richmond exempt workforce and each division therein may not exceed CR=1.0. This recognizes the authority of each General Manager to manage their divisional compensation by adjusting individual compensation such that the CR=1.0 for their division. In effect, compensation decisions may force “robbing Peter to pay Paul”. It must be noted that if all exempt employees are assessed as high performers, then high performance is the average and therefore payable at the job rate.

Any performance adjustments provided excellent performers beyond the job rate are payable ONLY on an annual renewable basis, subject to performance measurement and CAO approval, and may not exceed the pay band maximum. The individual must re-earn performance compensation via stellar performance in the next annual cycle. Stellar performance must also be accomplished through performing extraordinary duties that fall outside the job parameters in order to qualify.

It must also be noted that an employee who consistently receives annual performance increments to place them towards or at the pay band maximum should be seriously considered for promotion to a higher-level position to maximize utilization of their skills. This aspect of the program is a necessary tool for ensuring an active and effective succession plan is in place.

2. **Change in Duties:** Exempt employees in Richmond may receive additional duties or changes to their responsibilities of a nature that may not warrant reclassification to a new role in a higher pay band. Such employees may be provided with a base salary increase for assuming new duties or changes of duties to recognize their increase in responsibility without having to be reclassified to a higher role or pay band. General Managers, with the approval of the CAO, may initiate an adjustment of up to 5.0% of the pay band midpoint with the uppermost limit being the pay band maximum. This adjustment will cease upon those duties being completed or sufficient additional duties being added to warrant a reclassification to a higher pay band or different job family.
3. **Professional/Skill Development:** Richmond is a strong proponent of skill development, but the reward for increased education currently comes from upward reclassification if and when a higher-level job is obtained. Upon acquiring additional formal job-related training and education (to be further defined) that increases the employee’s knowledge, skills or abilities, the General Manager, with the approval of the CAO, may recognize same by a base salary adjustment within the employee’s pay band. Such adjustment may not exceed 2.5% of the pay band midpoint with the uppermost limit being the pay band maximum. Such an adjustment will cease upon the individual being reclassified to a higher pay band or to a different job family.
4. **Role Adjustment:** A certain position or group of positions might have to be adjusted to maintain a defined level of market competitiveness. A method will be developed to expose, measure and track those positions that may be losing their competitive edge.

Such positions could be allocated to a higher-level pay band (designated as *out of scope*) to maintain competitiveness to the appropriate labour market. Utilizing a biennial survey approach may negate the need for this component because market competitiveness will remain current.

5. **Retention:** Competition for skilled municipal staff is such that many of our exempt employees may be in a position to be “poached” by other municipal or private organizations. A retention adjustment may provide a base pay salary adjustment to prevent an employee who occupies a critical or key position from seeking outside employment. This is the individual component of the Role Adjustment outlined in “4” above which takes a little more research and implementation time. Obviously rules would have to be wrapped around such a concept, but our human assets are critical for success. It is also emphasized that base pay is only one tool we can utilize for retention and is typically not the exclusive reason people leave; other elements such as challenging work, professional development and career opportunities are critical.
 6. **Internal Alignment:** This adjustment is appropriate when an employee is significantly underpaid relative to pay band peers and performance for all is satisfactory. These situations usually arise because of marketplace conditions requiring that higher compensation be offered to attract new employees and the compensation rules get “bent” to meet a short term need. If care is not taken, a longer term employee could fall behind. This compensation program will resolve such issues at the earliest opportunity.
 7. **Recognition:** Richmond operates within a team-based environment for many projects, but individuals also have an excellent opportunity to shine by completing an assignment relative to City events, projects or tasks. In recognition of outstanding achievement or accomplishment for an event, project or task, individuals could be rewarded with a recognition award commensurate with the investment of time and effort. This is best recognized by a lump-sum payment as opposed to in-range adjustment and should not form part of the formal compensation program.
- g. *The range maximum* does signify a cap on the compensation to be provided an incumbent within the position occupied. An employee in the uppermost portion of a pay band should be reviewed for potential promotion, Job Family relocation or aggressive development in preparation for a more senior position. Failure to do so may result in an employee looking elsewhere for that “next” step. Internal succession planning should take precedence using the flexibility accorded by this compensation program. Also note the job family matrices provide an excellent tool for mapping out the requirements of the next step within a natural career progression.

Exempt Compensation Committee

The Exempt Compensation Program is administered by the Human Resources Division. A compensation committee composed of two General Managers, the Director of Human Resources, and a Manager of Human Resources appointed by the GM- Corporate Services, are responsible for program development, maintenance and administration. All amendments to the program structure require a recommendation from TAG and CAO approval.

Re-Classification Requests

An employee may request a review of their classification – either pay band or Job Family – by initially discussing the basis for the request in a joint meeting with their General Manager and immediate manager. Such a request may be initiated at any time by the employee, the manager or General Manager.

The basis for this review must be the submitted Exempt Compensation Program “Position Profile”. The employee, manager and General Manager will review the initial profile and re-submit to Human Resources a newly completed, signed-off document clearly identifying (in bolded type) those changes being made from the previous submission. A written explanation of the rationale for “why” the position is deemed to be under-valued or in the wrong Job Family must accompany the completed Position Profile.

Human Resources will utilize the position profile to rate the position and/or job family designation. If deemed necessary and before any rating, a meeting will be scheduled with the manager and employee to clarify any questions, concerns or understandings arising from the position profile. The decision of the rating committee will be communicated to the employee, manager and general manager in writing. All documentation will remain on file for future reference.

Should a reclassification to a higher pay band or another Job Family be approved, Human Resources will meet with the manager to conclude a recommendation on the appropriate salary and placement in the pay band.

Reclassification reviews will be a priority of the Exempt Compensation Committee with an expected turnaround time of thirty days. Any salary adjustments forthcoming from such a review will be made retroactive to the HR date stamp signifying the date of receipt of all required information, that is, the revised position profile and written supportive rationale.

Queries re Individual Salary Determination

Placement within a pay band is vested with the General Manager subject to the conditions of this Exempt Compensation Program. Employees wishing to discuss any adjustments to their base salary should do so with their General Manager.

Future Development

Acceptance of the recommended concepts for Exempt Management Compensation will result in further development of the principles and processes described herein, specifically:

- Further refinement of Job Family definitions, development of job families, and levels with specificity focused on job competencies.
- Refinement of Position Profile rationale for each exempt position.
- Implementation of approved compensation adjustments.
- Compensation linkage to performance assessment objective measures.
- Proper communication detail for exempt employee reference.
- Exempt compensation administration system for TAG and HR reference.

City of Richmond
Exempt Compensation Program
Application & Costing of 2006 Recommendations

The purpose of this section is to outline the costs and methodology associated with constructing the pay bands from the formal salary survey conducted among our comparators within the competitive marketplace and published compensation data.

1. Constructing Richmond's Base Data

Richmond's current salary structure for 2006 was used as the base reference. The 15 pay bands are home to 97 active exempt incumbents having assigned PCC #'s. Fifteen (15) other exempt positions are not included in these calculations because seven (7) are vacant and eight (8) are TFT/RPT classifications. To ensure "apples to apples" cost calculations, this group will be the database for analysis of compensation options to be presented.

Within the current salary structure, two employees are paid beyond the range maximum (High). Approximately 81 are paid at or between the range mid-point and the high point of the range. The balance falls under the mid-point. The range maximum for the City of Richmond had come to be recognized in practice as the competitive job rate. This is a likely result of the extent to which the rate schedule fell behind market values. An analysis of exempt group actual base salary to current job rate (pay band maximum) produces an average compa-ratio of approximately 97%.

All survey and published data have been adjusted where appropriate to take into consideration, recent increases. Richmond's data has also been adjusted accordingly.

2. Market Data Findings

Data from Richmond's custom survey conducted by Watson Wyatt was analyzed with a focus on the actual base salary of incumbents from the municipalities reporting. Base salary levels of comparable public, quasi-public and private organizations provided in published data and minimally weighted (25%) were also included to ensure comparability with our competitive talent pool. All survey response data was reviewed for quality of match (on job detail, not title) to our defined positions being surveyed and only those categorized as a close match were utilized.

Richmond's competitive salary objective has been defined at the 75th percentile (P75). Please note that market data has been the driver for establishing competitive pay bands – not current job rates or actual base salary levels for our exempt employees. The 75th percentile position appears to be the start of the safe zone or the position at which Richmond's pay rates become competitive with the City's top competitors for talent.

Survey data for the benchmark positions surveyed provided detailed compensation specs on 10 of the 15 pay bands covering the three Job Families. Management/Leadership (ML) contained 14 benchmark positions, Professional (P) utilized 9 and Corporate Services (CS) Job Families had one. Comparing the 2006 market data to current 2006 job rates (pay band maximum) shows the group of benchmark positions to be valued at only 90% of market (group average) at the 75th percentile level.

At a more detailed summary level:

- two benchmark positions are below 80% of the market index
- twelve benchmarks are between and 80-89% of market
- seven are between 90-100 % of market
- three are between 101-110 % of market

Caution was exercised to minimize data skew arising from the sample of benchmark positions to ensure a proper gauge of Richmond status within the competitive marketplace. The conclusion was clearly that although CS classifications are within acceptable parameters within the current market, Professional and Management/leadership job families are lagging in an economy that is getting even more competitive.

3. Building the Proposed Salary Structure for our Three Job Families

Survey and market data were used to build a proposed salary structure for Richmond at the 75th percentile level. Fifteen ranges cover the recommended three Job Families. Multiple changes in the proposed structures should be noted compared to our current pay band construction:

- The differential recommended between each of the five pay bands per Job Family recognizes the significance of increasing job value (job knowledge, working relationships, responsibility & complexity) as classification levels increase. Increasing differentials are especially true within ML and P Job Families; less and flatter differentials are proper for CS.
- Range minimums are consistently at 75-80% of the job rate.
- Range maximums are consistently at 105% of the job rate.
- Range spreads have more than doubled from the current system to provide needed flexibility.

Construction of the proposed salary structures for the P75 level was completed with an objective of moving the market index to an overall average of 100% when comparing proposed job rates (now band midpoint) to market data across our benchmark positions representing the three job families. Our data indicates the ranges proposed are very comparable to market. The proposed ranges produce a 99% market index of proposed job rates to market survey data.

4. Cost of Proposed Salary Structure

Applying the proposed salary structure to the actual base salary data of Richmond's exempt employee group (excluding vacant and TFT) for the different percentiles will provide a cost estimate for decision-making purposes.

Adopting a new salary structure must take into account placement of individuals from the previous system into that which is being proposed. Therefore the 75th percentile costs have been calculated for the following three data points:

- Cost to move to the minimum of the new salary range.
- Cost to move to the same place in the new range as was enjoyed in the previous system.
- Cost to move to the new competitive job rate (midpoint).

Note: The CAO's Recommendations in the Staff Report state that Exempt Staff are not to automatically be moved to the same place in the new range that they hold in the old range. Therefore, the cost to adopt the new plan will be less than stated.

5. Red Circled Rates

Red circling has been defined for costing purposes as the incumbent's current base salary exceeding the proposed job rate (midpoint). Fifteen employees are identified as being red circled. No adjustment is to be forthcoming until the pay band job rate exceeds the incumbent's salary due to future range adjustments.

Given that some specific positions are compensated above the appropriate pay band job rate because of unionized workforce compression (e.g. fire management), specific salary decisions remain to be made for each case. Such adjustments would be considered "out-of-scope" and appropriate compensation would be provided without disruption to the internal equity classification system.

- Upon implementation, it is proposed the new salary structure freeze "true" red circle rates until current compensation eventually returns to within the job rate by virtue of future pay band adjustments.

6. Implementation:

If P75 is acceptable, it is recommended General Managers work with Human Resources to properly allocate each individual exempt incumbent to their proper location within the pay band. All placements must receive final approval from the CAO. The recommended salary ranges should be followed as well as application of the forced Bell curve compa-ratio approaching 1.0. Any anomalies will be dealt with at that time. Final and accurate costing can only then be completed.

If total costs are not acceptable, consideration could be given to a two-year, four-adjustment phase-in. This approach was taken by Vancouver and the GVRD in 2005. In both these municipalities, the compensation competitive objective has been publicly stated to be at the 75th percentile. Please note however, the adjustment(s) provided for in the second year must also take into account any range adjustment necessitated by cost of living/competitive requirements that should have been included in that year's calculation. The method of incremental implementation, however, will not address current recruitment and retention challenges.

Proposed Salary Structure (2006)*

Band	Min	Mid (Job Rate)	Max	Differential	Range Spread
ML5	132.2	176.3	185.1	6.4%	40%
ML5b	124.3	165.7	174.0	29.5%	40%
ML4	96.0	128.0	134.4	24.3%	40%
ML3	82.4	103.0	108.2	18.4%	31%
ML2	69.6	87.0	91.4	12.3%	31%
ML1	62.0	77.5	81.4		31%
PF5	109.5	146.0	153.3	27.0%	40%
PF4	86.3	115.0	120.8	19.8%	40%
PF3	76.8	96.0	100.8	14.3%	31%
PF2	67.2	84.0	88.2	13.5%	31%
PF1	59.2	74.0	77.7		31%
CS5	59.2	74.0	77.7	14.7%	31%
CS4	51.6	64.5	67.7	13.2%	31%
CS3	45.5	57.0	59.9	9.6%	31%
CS2	41.6	52.0	54.6	9.9%	31%
CS1	37.8	47.3	49.7		31%

* reflects the new job family structure and the market data at the City's desired competitive level (75th percentile)

Costing Summary

Attachment 5

	P75
Total Number of Employees	9
Payroll Cost	8,413.35
Cost to Minimum	2,319
Cost to Comparative	7,149.15
Cost to Job Rate	849.890
# Red Circled	15

Costing Summary (Actual Costs)
Exempt Staff Compensation Program
Implementation Plan

Total Number of Employees: 97

Cost to Move to Approved Rate: \$242,273

% increase against total salary costs: .28 of 1%

% increase against exempt staff salary cost (at implementation): 2.8%