

Type of Decision									
Meeting Date	Friday, December 7, 2012				Report Date	Thursday, November-29-12			
Decision Required	X	Yes		No	Priority	X	High		Low
Direction	x	Information Only			Type of Meeting	X	Open		Closed
REPORT TITLE									
Merit Pay Policy Report - 07/12/12/1103									

**SUBJECT:** Preliminary discussion of merit policy as discussed on November 16, 2012 during the Clerk's Performance Appraisal and as requested by members of Council.

**RECOMMENDATION:** That the following resolution be passed.

**WHEREAS** some members of staff have reached "job rate";

**AND WHEREAS** it is felt that these individuals still deserve increased compensation when their performance warrants it by exceeding the norm for the position they hold;

**AND WHEREAS** even before reaching the final step on the grid some employees may in any given year perform in a way in which they have earned their step increase but have also performed in such a way as to warrant extra compensation for exemplary performance or contributions to the municipality;

**THEREFORE BE IT RESOLVED** that the Council of the United Townships of Head, Clara & Maria does hereby adopt a Merit or Bonus pay component to the current salary system.

**BACKGROUND/EXECUTIVE SUMMARY:** Self-explanatory. Council members in attendance for the Clerk's PA discussed the situation within the municipality where various employees are currently at "job rate" and have reached the end of the salary grid or soon will and should still be eligible for a bonus or merit lump sum payment when their performance has been exceptional and has resulted in significant benefit for the municipality.

Staff was directed to update the current salary grid system to reflect the utilization of a merit and/or bonus pay component. A draft has been created and prepared for Council input.

In a merit system an employee can be paid more money or a bonus based on a system that measures the work performance of the employees objectively.

Merit is to recognize those employees who exceed the basic competencies and accountabilities of their position and who demonstrate job growth, career growth, high performance outcomes and/or high project outcomes or other exceptional behaviours. Definitions are included in the draft.

Performance reviews and merit are two separate processes. Performance reviews are meant for employee development. Merit is to award staff for their growth in their accountabilities and competencies.

Background information is provided below.

Financial Considerations: Obviously bonus or merit pay will result in increased expense for the municipality based on the percentage increase agreed to by Council. The amounts required annually are impossible to predict. It would depend on the individual employees who warrant the bonus and the position on the grid where they are located.

For explanation purposes a merit award of 5% calculated on the highest step of each position at current rates would result in a total possible lump sum payment of \$9,854.03. This eventually would not likely ever be realized, this is the highest possible for explanation purposes.

The economic state of Head, Clara & Maria is different than that of the province and the federal government who have a freeze on staff incentives and benefits. It must be acknowledged that the reason behind these freezes is because of the deficits in which the provincial and federal governments are currently operating.

The municipality of the United Townships of Head, Clara & Maria is not operating in a deficit and in fact is in a healthy financial position in relation to revenues and reserve totals. These increases are realizable without a corresponding increase in taxes.

Others Consulted: As directed by members of Council on November 16, 2012. The following websites provide excellent tools and background for compensation strategies in the non-profit sector.

<http://www.hrcouncil.ca/hr-toolkit/compensation-systems.cfm>

<http://www.ilo.org/public/english/region/asro/bangkok/download/11-13dec02perform2.pdf>

Approved and Recommended by the Clerk

Melinda Reith,

Municipal Clerk

*Melinda Reith*

Directly from <http://www.hrcouncil.ca/hr-toolkit/compensation-wages.cfm> ...

### **“Pay increases, bonus and incentive plans**

#### **Pay increases**

Base pay is a fixed regular payment made to an employee in exchange for performance of the duties and responsibilities of their role. When an employee receives an increase to their base pay, it is considered a pay increase. There are various reasons and methods for determining an increase, but the common factor is that the increase changes the level of ongoing base pay.

#### **An annual cost of living increase**

- This is an annual increase offered to employees, regardless of performance, with the intention of increasing base pay for each role on the salary scale by a set percentage in order to combat

increases in the cost of living. When this is offered regularly, employees can begin to see it as an entitlement.

- Cost of living increases are usually provided on an annual basis to all employees at a rate recommended by the Executive Director and approved by the Board of Directors and is contingent on the overall financial stability of the agency.

#### **A market adjustment following a compensation review against pre-established criteria**

- Market adjustments are typically made following the receipt of market survey data. This data is usually received and evaluated towards the end of either your fiscal or calendar year. Organizations will evaluate their salaries against market data and, if required, adjust base salaries for roles that are below the range of market. Many organizations have predetermined the percent of market they want to be paying at – i.e. a decision to pay at the medium, or 75th percent.
- If a type of position in the organization is significantly overpaid compared to market, some companies will notify employees and either not provide an increase or actually reduce the midpoint for that role which could cause an employee to become “red circled” (unable to qualify for any salary increases until their salary comes in line with market)
- This adjustment is usually implemented for all impacted positions early in either the fiscal or calendar year. Many small organizations are moving away from the standard cost of living increase and performing market adjustments instead.

#### **A promotional increase**

- A promotion is the advancement of an employee to a position that is evaluated at a higher grade level than the position to which the employee is currently assigned.
- An employee who is being promoted will receive a promotional increase at the time of the promotion aligned to the appropriate point in the new salary range considering performance, qualifications, and market information.
- Promotion is usually based on availability and preparedness.

#### **A merit increase**

- Merit increases are awarded to recognize the outstanding contribution of employees and to compensate them for their high level of performance.
- Performance is the key factor in awarding a merit increase and can be the factor that moves a person through the salary scale towards midpoint or greater. Merit increases can be awarded on an employee's anniversary date following a formal performance review or at the beginning of a calendar year, depending on your compensation structure and philosophy.

#### **Bonus payments**

Bonus pay is compensation over and above the amount of pay specified as wages or salary and it is only distributed as the organization is able to pay or as outlined in an employment contract.

Bonus pay is used by many organizations to improve employee morale, motivation, and productivity or as a thank you to employees who achieve a significant goal.

As long as bonus pay is discretionary by the employer, it is not considered to be a contract. If the employer promises a bonus, they may be legally liable to pay it out.

#### **Incentive plans**

Incentive plans have not typically been popular in the non-profit sector. However, leaders are starting to see a change in perspective regarding the use of incentive plans. Providing incentive plans, especially to senior level staff, can enable organizations to compete for talent they would otherwise have not been able to pursue.

- Incentive plans are established to reward employees for improved commitment and performance and as a means of motivation
- An incentive plan is designed to supplement base pay and fringe benefits

- A financial incentive plan may offer a percentage of base salary, stock options or a cash bonus, whereas a non-financial incentive plans offer benefits such as additional paid vacations or increased professional development”