

# EXECUTIVE COMPENSATION PROGRAM FOR ONTARIO'S PUBLICLY FUNDED SCHOOL BOARDS



January 2018

## Background Information

The 72 Ontario school boards of the four publicly funded education systems worked through a Steering Committee to develop a Province-wide sector-based proposed Executive Compensation Program for Directors of Education, Associate Directors, Supervisory Officers, and other executive positions, as per the Act and the Government Regulations.

The Steering Committee was comprised of leadership from the following groups:

- Association des conseils scolaires des écoles publiques de l'Ontario ("ACEPO") Association des gestionnaires de franco-ontarienne ("AGEFO").
- Association franco ontarienne des conseils scolaires catholiques ("AFOCSC"),
- Conseil ontarien des directrices et des directeurs de l'éducation de langue française ("CODELF")
- Council of Ontario Directors of Education ("CODE")
- English Catholic Council of Directors of Education ("ECCODE")
- Ontario Catholic School Trustees' Association ("OCSTA")
- Ontario Catholic Supervisory Officers Association ("OCSOA")
- Ontario Public School Boards' Association ("OPSBA")
- Ontario Public Supervisory Officers Association ("OPSOA")
- Public Council of Ontario Directors of Education ("PCODE")

The school boards across the province and our Board, the Near North DSB, are committed to supporting and ensuring the goals of the Act are met, including:

- Standardization - providing a consistent, evidence-based approach to setting compensation, based on research and consultation;
- Balance - managing compensation costs while allowing the school boards to attract and retain the talent necessary to deliver high quality public services; and,
- Transparency - enhancing the transparency of executive compensation decisions through public consultation and posting.

The proposed Executive Compensation Program developed for all Ontario school boards is intended to be transparent, evidence-based, and meets the requirements of the Act and the Government Regulation. At the Near North DSB, the proposed Executive Compensation Program applies to the following designated executives:

Designated Executive	Executive Class
Director of Education	Director of Education
Superintendent, Business	Executive / Supervisory Officer
Superintendent, Support Services	Executive / Supervisory Officer
Superintendent, Program and Schools	Executive / Supervisory Officer
Executive Officer, Program and Schools	Executive Officer

## Key Considerations

The school boards considered the following in the development of the proposed Province-wide Executive Compensation Program, including the proposed Executive Compensation Philosophy and the proposed Executive Compensation Framework:

- The need for common, rational compensation tools and executive management compensation principles that provide consistency / fairness in executive compensation and guidance for individual school boards to make reasonable compensation management decisions
- The need to reduce the current compensation compression that exists between executives and Principals, as salaries negotiated through collective agreements continued to increase during the executive compensation freeze, making it difficult to attract individuals to take on executive level accountabilities
- The need to keep pace with the evolving Ontario market and remain competitive
  - During the public sector executive compensation freeze, Canadian salaries typically increased by 2% - 3% annually and pay structures or grids typically increased by 1% - 2% annually, as per Mercer's Compensation Planning Surveys
  - Based on information from Mercer, over the past five years, salaries in Ontario have also increased by approximately 2% - 3% annually
  - Over the past five years, there has been over a 5% change in the consumer price index and an annual inflation rate of greater than 1.3%
- The need for external comparisons with the market to attract and retain high quality executive talent
- **The need for internal equity and a common Framework across the 72 Ontario school boards**
- The need to apply standards of accountability and complexity when determining the appropriate level of each school board, using a Province-wide Accountability & Complexity Matrix with a set of Core and Non-Core factors (see section 6: *Executive Accountability & Complexity Matrix*)
- The need for a balanced approach between affordability and attraction / retention needs
- The need for individual school boards to have the flexibility and accountability to determine the placement of their specific executives within the base salary range

# Key Development Steps

Based on the identified key considerations and using common compensation design principles, the Steering Committee, working together with Mercer consultants, developed the Province-wide sectoral proposed Executive Compensation Program.

The development process involved the following steps:

1. Formation of a Steering Committee with representatives across each of the types of school boards (e.g., Public, Catholic, English, French)
2. Collection of organization, job, and compensation information from Directors of Education, Associate Directors, Supervisory Officers, and other executives through the use of an Excel / online questionnaire
3. Development of a consensus-based Executive Accountability & Complexity Matrix, taking into consideration analysis on the data collected
4. Development of a consensus-based proposed Executive Compensation Philosophy through experiences from the Steering Committee as well as past recruitment practices
5. Development of a consensus-based proposed Executive Compensation Framework, using common compensation design practices and constructs

## Executive Compensation Philosophy

### Executive Talent Needs

The school boards require highly skilled and highly principled leaders to lead the organization in providing, promoting, and enhancing publicly funded education. Student achievement and success is a critical public service and requires innovative leadership to further advance the current public education system, taking into consideration technology advances that can assist with student learning. In their leadership capacity, executives are required to work and communicate with a variety of unique community groups, Government, and other stakeholders, understanding and taking into consideration the school board's population diversity when making decisions (i.e., spoken languages, socio economics, and differing abilities of students, parents, and other community members).

Directors of Education and Academic Supervisory Officers are typically recruited from the education sector (often within the school boards). Recently, there has been difficulty attracting and retaining executive talent at the school boards, due to the compensation compression resulting from executive compensation freezes and increasing Principal and Teacher salaries through collective bargaining. There have also been challenges attracting and retaining Business Supervisory Officers and other executives, who often have increased opportunity for alternative employment. These executive jobs are typically recruited from a variety of broader public sector organizations, as well as private sector organizations.

The compensation freeze has also made it difficult for lateral movements to other boards. The potential to entice Directors and Senior Officers with experience has been severely compromised as Administrators are rarely willing to move for a decrease in compensation.

### Compensation Elements

The school boards provide maximum compensation for executives up to the 50th percentile of the selected external comparator organizations, as per the Government Regulations. Compensation for school board executives consists of base salaries, pensions, and benefits. Each component of compensation plays an important role in the attraction, retention, reward, and recognition of the executives needed to carry out the school board's mission.

**Base Salaries:** Base salaries provide regular compensation to executives for their contributions to the organization. The proposed Provincial Program outlines a base salary range for school board executives. Individual base salaries may vary across executives considering their tenure, experience, relative accountabilities, and relative scope within the organization and across school boards.

**Pension and Benefits:** Consistent with the Government Regulations, our school board provides similar pension and benefits arrangements to those provided to non-executive managers in our board. Additional coverage or elements are only provided to executives if there is a critical business need and / or it is needed for the effective performance of the executive’s job. At this time, the Near North DSB does not provide additional car allowance, however, our Board encompasses a very wide geographic area (over 17,000 km<sup>2</sup>) and we hold the expectation that our executives will have frequent, in person contact with the schools they supervise and, as such, the Near North DSB should have the authority over any decision to offer this additional allowance.

## Executive Accountability & Complexity Matrix

An Accountability & Complexity Matrix was developed to systematically group the school boards into seven levels. This Matrix uses a set of five Core and two Non-Core factors to rate, rank, and review each school board based on accountabilities, size, and other complexity criteria.

The table below presents the five Core factors:

Core Factor Dimensions	Levels						
	1	2	3	4	5	6	7
	P1 < P20	P20 < P40	P40 < P60	P60 < P80	P80 < P99	P99 +	P99 ++
Projected Operating Budget (\$Millions)	\$1 - \$60	\$61 - \$140	\$141 - \$230	\$231 - \$380	\$381 - \$1,500	\$1,501 - \$2,500	\$2,501 +
# Schools	1 - 20	21 - 35	36 - 50	51 - 85	86 - 200	201 - 400	401 +
Projected Enrolment	1 - 4,700	4,701 - 9,700	9,701 - 17,900	17,901 - 33,900	33,901 - 99,550	99,551 - 200,000	200,001+
# Full-Time Equivalent Teachers	1 - 290	291 - 660	661 - 1,180	1,181 - 2,220	2,221 - 7070	7,071 - 10,000	10,001 +
# Superintendents	1 - 2	3 - 4	5 - 6	7 - 9	10 - 20	21 - 25	26 +

The number of levels was determined using an initial quintile (five level) approach with additional levels 6 and 7 added to capture the further accountabilities and complexities of the largest school boards (that significantly differed from those in level 5). The number of levels was also tested using Mercer’s proprietary job evaluation system, International Position Evaluation.

The table below presents the two Non-Core factors that may have been used to modify the school board level.

<b>Geographic Complexity</b>	Takes into consideration the size of the board (i.e. NNDSB is over 17,000 square kilometres), but more so the complexities that typically arise from having to manage a broad set of differences/complications across a geography. This also relates to interacting with multiple municipalities, townships, or community groups, as well as the potential requirement to effectively interact with stakeholders in multiple languages or with significant cultural differences.
<b>Community Partnerships</b>	Takes into consideration the typical nature of the relationships and associations with First Nations and / or community partnerships and the complexities that can be associated with multiple First Nations’ bands or other community partners within a board’s geography as well as any other added diversity issues.

Based on the Accountability and Complexity Matrix, the Near North District School Board is a level **3**

## Proposed Comparator Organizations

The Government Regulations stipulate that a minimum of eight comparators must be used in the Comparative Analysis and development of the Executive Compensation Framework. In addition, all comparator organizations must be comparable with respect to three or more of the following factors:

- A. The scope of responsibilities of the organization's executives
- B. The type of operations the organization engages in
- C. The industries within which the organization competes for executives
- D. The size of the organization
- E. The location of the organization

Comparable positions generally include those that are similar with respect to essential competencies (knowledge, skills, and abilities), relative complexity, and the level of accountability associated with the position. The Director of Education executive class is compared to the head of an organization (e.g., President or Chief Executive Officer) and the Supervisory Officer executive class is compared to the Vice President level at comparator organizations.

A set of proposed external comparator organizations were developed taking into consideration the factors outlined above, the markets that the school boards compete for executive talent, and the size and complexity of the school boards in each level. There are nine comparators for each school board level and a total of 35 comparators, with a 75% weighting on education-focused organizations. While of the factors outlined above are important, size is a key consideration when doing executive compensation comparisons and was used in the selection of all comparators. The table below outlines the external comparator organizations in our level. In addition to these comparators, the school boards conducted a series of internal analyses and the current compensation levels and practices at all 72 school boards were considered in the development of the proposed Framework. Each school board was compared to every other school board through the Executive Accountability & Complexity Matrix.

Market Segment	Level 3 External Comparators
Education	Brock University
	Cambrian College
	Fleming College
	London District Catholic School Board
	Education Quality and Accountability Office
	Ontario Educational Communications Authority
	Ontario French Language Educational Communications Authority
Broader Public Sector	Simcoe County
	Ontario Government Executive

# Proposed Executive Compensation Framework

The proposed Executive Compensation Framework sets the base salary ranges for each of the school board’s designated executives and was developed using common compensation management principles as well as the proposed external comparators identified in section 7, Potential Comparator Organizations.

The base salary range maximums are less than the 50<sup>th</sup> percentile compensation cap. As per the Government Regulations, the compensation cap was calculated using the maximum total cash compensation provided to comparable positions at the proposed external comparator organizations. The base salary range minimums were developed using a relatively common percentage range spread from the minimum to the maximum of the range. The base salary ranges for the Directors of Education are slightly larger as it is considered a “career range”, the top position within the school board where an executive may stay within the position for many years. The executive ranges increase across the seven levels as there is increasing job variability.

While the Act and Government Regulations do not specifically require the development of ranges, base salary ranges were developed, so executives can be differentiated and paid appropriately, considering internal equity and consistency, as well as other individual characteristics, such as tenure, experience, and their relative accountabilities. Therefore, executives may be paid at different levels within the range based on these criteria.

The base salary ranges were developed taking into consideration the Principal salary grids (up to the end of the 2017/2018 school year). In order to reduce the compression and attract school board employees to executive positions, we strive to maintain approximately a 5% differential between the executive minimum and the maximum Principal salaries. As a result, the proposed Executive Compensation Framework may need to be revisited based on future collective bargaining or changes to collective agreements related to Teacher and Principal compensation.

The table below details the base salary range minimums and maximums for the Directors of Education, Associate Directors, and other executives (including Supervisory Officers).

*Base salaries are presented in CAD \$000's*

School Board Level	1	2	3	4	5	6	7
<b>Directors</b>	\$166 - \$198	\$176 - \$218	\$192 - \$237	\$208 - \$257	\$224 - \$277	\$239 - \$296	\$255 - \$316
<b>Associate Directors</b>	\$158 - \$166	\$167 - \$176	\$183 - \$192	\$198 - \$208	\$213 - \$224	\$228 - \$239	\$243 - \$255
<b>Executives</b>	\$140 - \$157	\$140 - \$166	\$140 - \$176	\$140 - \$185	\$140 - \$194	\$140 - \$204	\$140 - \$213

Our Board is accountable for determining the appropriate placement of our designated executives within the base salary range. The following criteria will be considered when determining their placement in the base salary range:

- The scope of the executive work, including the accountabilities and complexities of the position;
- External public sector comparators and internal school board comparators (at the same level as well as the levels directly above and below); and,
- The tenure, experience, and other individual characteristics (often a composite) of incumbents.

The table below details the Director of Education, Associate Director, and Executive base salary ranges for Level 3 school boards, including our Board:

<b>Director of Education</b>	\$192 - \$237
<b>Associate Directors</b>	\$183 - \$192
<b>Executives</b>	\$140 - \$176

# Executive Pay Envelope and Proposed Maximum Rate of Increase

The Government Regulations requires the calculation of a pay envelope (total of all actual base salaries paid to executives) and an annual maximum rate of increase. The table below outlines the pay envelope at the Near North District School Board and the proposed maximum rate of increase.

Envelope	Proposed Maximum Rate of Increase
1,007,245.00	5%

Actual annual increases paid to executives may be less than the proposed maximum rate of increase and individuals may receive more or less than the proposed maximum rate of increase, considering a variety of criteria, including their tenure in the designated executive position. Increases will not be provided beyond the range maximum. Upon implementation of the Framework, the envelope may be prioritized for executives below the minimum of the range or executives in other unique circumstances.

The table below details the rationale for the proposed maximum rate of increase relative to the factors outlined in the Government Regulations.

Factor	Proposed Maximum Rate of Increase
The financial and compensation priorities of the Ontario Government	The Government has identified a need to take a balanced approach to managing public sector compensation, recognizing the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensuring that public services continue to remain affordable. For executives, the Government wants to ensure that broader public-sector organizations are able to attract and retain the necessary talent to deliver high-quality public services while managing public dollars responsibly.
Recent Executive Compensation Trends	The school boards closely considered both executive compensation trends within the broader public sector as well as the sectors from which the school boards attract executive talent. The following trends reflect the findings of Mercer's most recent compensation planning study: <ul style="list-style-type: none"> <li>- Canadian broader public sector average executive compensation increases are projected to be 2.6%; and,</li> <li>- Canadian services (non-financial) average executive compensation increases are projected to be 2.8%.</li> </ul>
Comparison of Percentage of Operating Budget for Executive Salaries between our Board and its Comparators	The school boards regularly review the appropriateness of their executive organizational structures and staffing and believe that they are appropriate given the complexity of the organization, and do not warrant an overall reduction in the annual maximum increase to the pay envelope.
The Effect on the Ability to Attract and Retain Talent	The school boards have difficulty attracting and retaining executive talent as Principal and Teacher salaries continued to increase, resulting in significant salary compression. The proposed maximum rate of increase must consider increases for represented jobs within the organization, as they are an important source for attracting talent to future executive positions. The proposed maximum rate of increase must provide the flexibility required to balance affordability with the need to avoid long term pay compression, or inversion, between layers of management and between management and the bargaining units. In 2014, the Near North DSB launched a search for a Director of Education. It was extremely challenging as our Board has long been recognized as having one of the lowest paid Directors in Ontario. There was no interest expressed from any current Directors at any other Boards in the province or in fact the country to relocate to the Near North for such a significant drop in pay. Our potential to entice Directors with experience is severely compromised and Senior Officers with experience are reluctant to take on the additional responsibilities of Director for compensation that is too closely matched to what they receive in their current roles. Enticing Senior Officers to the Near North has had the same challenge. Administrators are rarely willing to move for a decrease in compensation.