



Public Service Secretariat

**GUIDELINES TO DETERMINE, IMPLEMENT AND
EVALUATE MARKET ADJUSTMENTS**

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GUIDELINES TO DETERMINE, IMPLEMENT AND EVALUATE MARKET ADJUSTMENTS

The purpose of these Guidelines is to assist Government departments, agencies, boards and commissions with identifying those positions to which market adjustments (or variable pay), based on the market value of an occupation, should be applied.

Market Adjustments

Market adjustments are a type of remuneration that can be one solution to overcome employee recruitment/retention challenges. A market adjustment is a form of additional remuneration that is based on current market conditions. Market adjustments consider the comparative value of positions that are the same or similar between employers. For example, public sector positions might receive \$65,000 per year and comparable private sector groups might receive \$75,000 – the purpose of market adjustments might be to increase the direct compensation of the public sector position to match, within a reasonable amount, the salaries of the private sector position in order to either recruit or retain employees. In this case, a 15% adjustment (which may also be referred to as a “differential”) could be requested to close the gap between public and private sector salaries.

It may not always be necessary to close the monetary gap completely as other factors, such as benefits (e.g. pension, leave provisions, statutory holidays) may be taken into consideration. On the other hand, in some cases, it may be necessary to pay above the gap in order to recruit or retain employees.

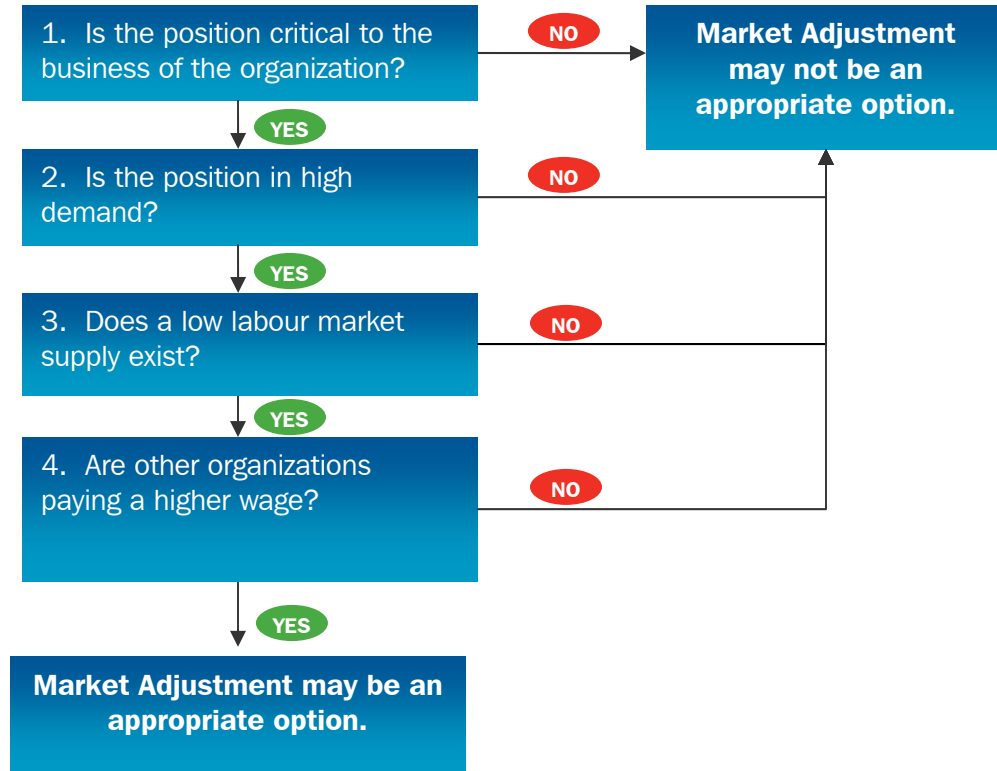
Determining the Need for Market Adjustments

Market adjustments should only be used in exceptional situations, as noted below:

- Other remuneration-based and non remuneration-based strategies (such as succession planning and alternative recruitment practices) have been properly developed, implemented and deemed ineffective.
- The position(s) to which market adjustments would apply currently exists in a low supply/high demand labour market.
- A higher salary is essential to recruit/retain an employee that will serve a critical function that cannot be achieved by any other possible means (e.g. the duties and responsibilities of the position cannot be performed by another employee, or be assigned to an existing position.)

In order to determine whether market adjustments are a viable option, Government departments, agencies, boards and commissions should address the questions noted below in Chart 1 and page 3. Depending on the organization, other issues in addition to those described below may need to be considered. The information gathered for this purpose may be submitted or requested during the analysis of a proposal for a market adjustment.

Chart 1



1. Is the position critical to the business of the organization?
 - Provide detailed evidence of the challenges that this issue creates for the organization.
 - Provide a description of the duties of the position in question, including a description of the service or programs that the position will provide.
 - If the position is providing services to the public, provide statistics or information on the services.
 - Describe the best-case scenario if the position is not recruited or retained.
 - Describe the worst-case scenario if the position is not recruited or retained.
2. Is the position in high demand?
 - Provide detailed evidence that the particular skill set/occupation is in high demand.
3. Does a low labour market exist?
 - Provide detailed evidence that the particular skill set/occupation is in short supply including:
 - i. Data from academic institutions in terms of graduating classes.
 - ii. Out-migration data on the occupational group.
 - Detail recruitment efforts/competition statistics rates (evidence that the organization has been unable to fill the position).
 - Assess whether or not the advertised position description qualifications were too narrow.
4. Are other organizations paying a higher wage?
 - Assess relevant market data (i.e., evidence that market rates for comparable positions are paid at a higher rate).
 - Both public and private sector data should be included.
 - Determine the recommended adjustment/differential in dollars and/or percentage increase.

Once an organization determines that a market adjustment is an option, it should undertake a broader analysis of the potential implications. As noted below, consideration should be given to the extent of the problem, fiscal capacity to implement the adjustment, potential impact throughout the organization and the broader public service, interventions to mitigate the situation and how the adjustment will be evaluated. See below for more detail on these issues.

What is the extent of the problem?

- How many employees or positions are affected?
- How critical is the work of the position to the performance of the organization/the ability of the organization to meet its commitments?
- Are there other ways in which to address the concern or to meet organizational commitments?

Fiscal Capacity

- What is the estimated cost associated with this option?
- Does the organization/department have sufficient funds to cover the cost?
- If not, where will these funds come from?
- What will be the impact of this on the organizational/departmental budget?

What impact will this have on others within the organization?

- Are there inversion or compression situations which will be created as a result of this option being implemented?
- Will other occupations/groups be impacted negatively?
- Will morale of other employees in similar occupations be negatively impacted if they do not also receive a market adjustment, thus impacting productivity?

What impact will this have on other public sector organizations/departments?

- Will other public sector occupations/groups be impacted negatively?

What has the department done to mitigate the situation?

- Describe interventions that have been attempted.
- What has worked?
- What has not?

Will the market adjustment be required for an extended period of time?

- Has the organization/department developed an alternate plan to address the issue?

How will the organization/department evaluate the need for continuance?

- Detail any plans in place.

Does the organization/department have an exit strategy?

- Describe how the organization will evaluate and remove the adjustment, if deemed appropriate to do so.

Is there an evaluation plan in place to determine the effectiveness of the market adjustment on recruitment and retention?

Describe how the organization plans to determine the effectiveness of the differential.

Other Factors to Consider:

- Market adjustments might be applied to whole occupational groups, which can be very costly depending on group size and market differential;
- Market adjustments would not normally be applied to a salary where the market differential is zero or the salary already exceeds the average wage;
- Application may cause or exacerbate internal salary compression and/or inversion issues;
- Once applied, reduction or elimination of the market adjustment can be difficult for employees who become dependent on the additional remuneration; and
- Increases in Government remuneration may prompt competitive employers to also increase salaries in order to remain competitive.

Preparing the Proposal

A proposal to Treasury Board regarding the application of a market adjustment will need to demonstrate related evidence and planning activities.

The evidence necessary for Treasury Board to make an informed decision may vary according to the position, its location, and/or other circumstances that may present. Generally, however, the following can be used to guide the preparation of a proposal.

Evidence

The following are some, but not all, of the possible evidence and other considerations that could be required in a proposal:

- Evidence of current market conditions and a market adjustment, including a demonstration of a labour/skills shortage;
- Evidence that current market conditions will persist for a significant period of time;
- Thorough historical information related to a position, including creation date, recruitment effort, turnover and vacancy;
- Detailed cost estimate of the market adjustment;

- Complete historical information related to departmental efforts to resolve the recruitment/retention issue(s);
- Appropriate evaluation that determined the efficiency and impact of previous departmental efforts; and
- Comprehensive presentation of relevant plans and planning activities.

Planning

The planning components of the proposal should address anticipated issues that would accompany the use of market adjustments. These include the following:

- Periodic review of market conditions to determine if a market adjustment should be increased, decreased, maintained or eliminated;
- An implementation plan that describes clear goals and objectives, steps for implementation, available resources, how employee expectations and reactions will be managed, steps for discontinuance, and other relevant information that may be required;
- An evaluation plan that describes how the organization will determine the impact of the market adjustment on the ability to recruit and/or retain employees;
- Development of internal or external candidate pools;
- A communication plan that addresses anticipated reactions to the application and discontinuance of the market adjustment; and
- A copy of the notification to the affected employee(s) which details the amount, start and end date as well as the time line for evaluation of the market adjustment.

Departments, agencies, boards and commissions may also wish to include other pertinent evidence to support the request for a market adjustment.

Submitting a Proposal

Departments

1. At the Government department level, the Deputy Minister would ensure that the submission is prepared in accordance with the policy and guidelines and submitted to his or her Minister for review.
2. The Minister reviews the submission.
3. Upon approval, the Department forwards the proposal to the Deputy Minister of the Public Service Secretariat with a copy to the President of Treasury Board.
4. The Public Service Secretariat analyzes the proposal and prepares a comment for Treasury Board consideration.
5. Treasury Board considers the submission and either makes a decision, or forwards a recommendation to Cabinet.
6. If necessary, Cabinet considers the recommendation and makes a decision.

Agencies, Boards and Commissions

1. The Chief Executive Officer ensures that the submission is prepared in accordance with the policy and guidelines and submitted to the respective Board Chair for review.
2. The Board Chair forwards the submission to the Minister for review.
3. The Minister reviews the submission and requests departmental staff to conduct an analysis.
4. Upon approval at the Departmental level, the proposal is forwarded to the Deputy Minister of the Public Service Secretariat with a copy to the President of Treasury Board.
5. The Public Service Secretariat analyzes the proposal and prepares a comment for Treasury Board consideration.
6. Treasury Board considers the submission and either makes a decision or forwards a recommendation to Cabinet.
7. If necessary, Cabinet considers the request and makes a decision.

Chart 2 below outlines the submission process for Government departments as well as agencies, boards, and commissions.

Chart 2

