

CITY OF FORT SASKATCHEWAN

Historical Staff Surpluses and Mitigation Strategies

Purpose:

To provide Council with information on historical staff surpluses and possible mitigation strategies.

Background:

For fiscal 2016, the City's actual salaries, wages and benefits were \$1,320,521 below budget with \$1,046,977 of the staff surplus coming from general operations and \$273,544 coming from snow removal and utilities. The staff surplus was 1.83% of the 2016 approved operating budget of \$72.3 million.

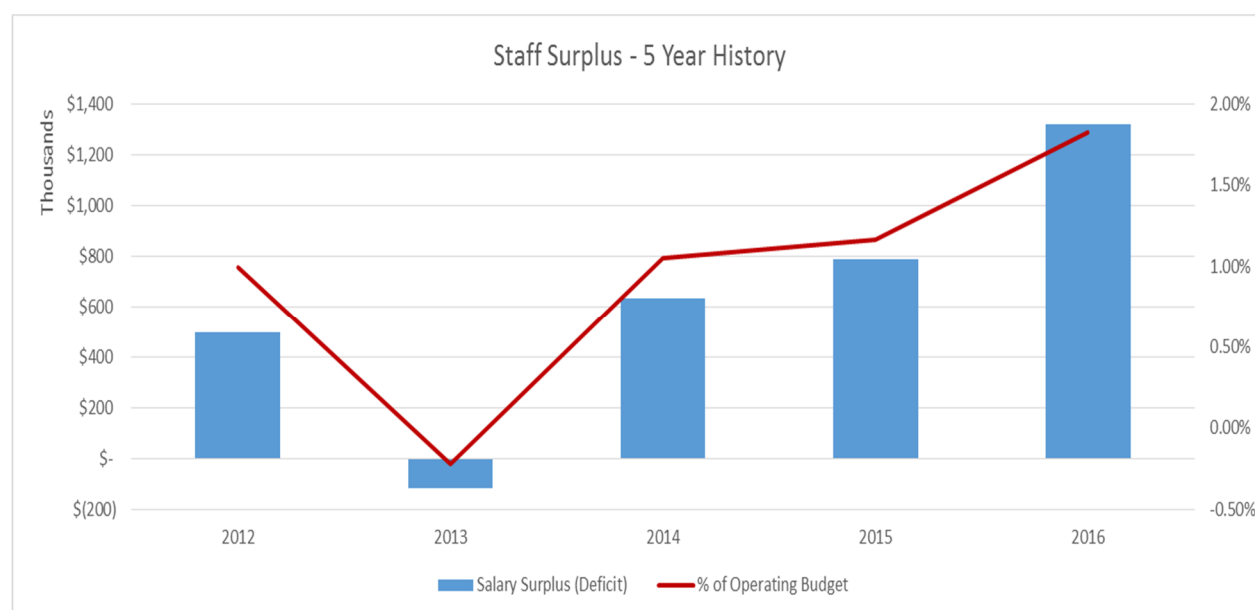
Salaries, wages and benefits represent the City's single largest operating expenditure and account for 36% of the 2017 approved operating budget. The City budgets for salaries, wages and benefits comprehensively and utilizes all available information at the time the budget is prepared. However, despite best efforts, staffing surpluses and deficits can arise and vary in amount from year to year due to the following circumstances:

- Differences between actual staff vacancies and budget
- Differences between actual start dates and budget
- Differences between actual pay scales and budget
- Extended delays in filling vacant / new positions
- Employing temporary contract workers to cover staff vacancies and shortages
- Hiring of replacement staff at different pay scales than former staff

Given the importance of personnel costs to the overall budget, the City's budget processes and expenditure projections must provide a clear picture of where payroll dollars are headed.

Historical Staff Surpluses:

Figure 1



For the purpose of this report, Administration reviewed the historical staff surpluses over the past 5 years from 2012 to 2016. The results are summarized in Figure 1. Staff surpluses over this period ranged from a deficit of \$116,963 in 2013 to a surplus of \$1,320,521 in 2016. As a percent of each year's operating budget, staffing surpluses ranged from a low of -0.22% in 2013 to a high of 1.83% in 2016. Other years fell between 0.99% and 1.16%, which could be considered the normal range given the slight variation over multiple years. Therefore, as the outlier years, 2013 and 2016 require some further analysis and explanation.

The staffing deficit in 2013 of \$116,963, or -0.22% of the total operating budget, was the result of a combination of circumstances. The 2013 operating budget included no new staffing positions which meant that, aside from merit pay increases and a \$65,800 approved cost of living adjustment, no additional staffing dollars were added to the budget which could have contributed to a staffing surplus. In addition, there was a slight reduction in the overall number of staff vacancies compared to other years, and there was a payout made to a former employee.

The staffing surplus in 2016 was notably higher than in previous years for several reasons. First, staffing vacancies were significantly higher in 2016 compared to 2015 and 2014 due to increased staff turnover and restructuring within departments. Second, there were more new staffing positions approved in the 2016 operating budget relative to 2015 and 2014, which, in some cases, took several months to fill. Last, some cost of living adjustments for non-union employees were approved in the 2016 operating budget but not awarded to staff until 2017.

Current Budget Practices and Mitigation Strategies:

Administration reviewed the City's current budget practices for salaries, wages and benefits along with possible mitigation strategies to reduce future staff surpluses. There are certain aspects to the way the City budgets for salaries, wages and benefits which could lead to staffing surpluses. Examples of these are as follows:

1. The City budgets at a 100% staff complement.

In other words, the approved operating budget does not include any provision for staff vacancies. This does not reflect reality as not all staff positions will be filled 52 weeks out of the year. Governments that fully fund staffing positions, do so knowing that they are building some contingency into their budgets. They argue that this added level of contingency provides them greater flexibility to respond to unforeseen expenditures and emergencies, and mitigate these risks. Others place a greater value on accuracy and the use of reasonable estimates, and incorporate an estimate for staff vacancies into their budgets.

As a mitigation strategy, the City could consider reducing the overall annual budget for salaries, wages and benefits by 1% to 2% to account for staff vacancies during the year.

2. The City budgets a start date of January 1 for new staff positions.

This means that the operating budget includes 100% of the first year's approved salary and benefits for each new staffing position. However, in practice, most new positions do not get filled until later in the year. This is due to the fact that considerably more staff time and resources are needed to fill new positions than to fill existing positions. Also, it can take longer to fill higher level positions and those requiring specialized knowledge or skills.

The People Services department advised that, on average, new positions can take from 3 to 7 weeks to fill union positions, and from 10 to 12 weeks to fill non-union positions.

As a mitigation strategy, the City could consider delaying the start date budgeted for new staff positions. A reasonable start date that reflects the average time needed to fill new positions would be April 1. This would be equivalent to 75% of the new position's first year salary and benefits. In the subsequent budget year, the salaries and benefits for these new positions would automatically adjust to 100%.

3. The City budgets for new staff positions at the highest pay grade level, or equivalent.

In common with many government organizations, the City uses a step pay grade system to compensate its employees. For budget purposes, all staffing positions are budgeted at the highest pay grade level relative to each position. This process ensures that the full costs of each new hire is communicated and approved as part of the annual budget process. However, new staffing positions are typically not filled at the highest pay grade level, and will vary by individual and by position according to the qualifications and experience required. Most new staff positions are filled at intermediate pay grade levels to allow for employee evaluation and progression.

As a mitigation strategy, the City could consider reducing the budgeted pay grade levels for all new staff positions from the highest grade level to an intermediate grade level. For example, budgeting at step 3 of a 6 step pay grade system, or equivalent.

Next Steps:

During the year, the City changed its process of reporting quarterly variances to include year-to-date comparisons of actuals to budget. In addition, the City changed its method of forecasting revenues and expenses to projections based on monthly budgets by department. This will enhance the tracking and reporting of staff surpluses, and will allow opportunities to take action as needed.

In addition, Administration is preparing a comprehensive Budget Policy to establish principles and guidelines for the preparation of operating and capital budgets, to support the management of revenues and expenses, and to control operating budget surpluses. The policy is scheduled to be presented to Council at the September 12, 2017 regular Council meeting.

The Budget Policy work will further assess and consider the mitigation strategies presented in this report as additional guidance for the budgeting of salaries, wages and benefits, and to reduce the potential of large staff surpluses in the future.

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