



REPORT FIN-2022-001

TO: Mayor and Members of Council

FROM: Mary Hasan, Director of Finance/Treasurer
Glenn Schwendinger, Chief Administrative Officer

MEETING DATE: January 13, 2022

SUBJECT: Budget Development and Control Policy - Final
File No. A09 BUD

RECOMMENDATIONS

THAT Report FIN-2022-001 regarding Budget Development and Control Policy – Final be received; and

THAT Council adopt the amendments to the Budget Development and Control Policy attached as Schedule A to Report FIN-2022-001; and

That Council direct staff to amend the Budget Development and Control Policy attached as Schedule A to Report FIN-2022-001 based on Option ____ outlined in Report FIN-2022-001 for the Cost of Living Adjustment.

DISCUSSION

Purpose

The purpose of this report is to provide Council with the final Budget Development and Control Policy attached as Schedule A to this Report based on direction from Council at their October 27, 2021 Capital Budget Meeting and November 17, 2021 Operating Budget Meeting.

The purpose of this report is to also report back on the recommendation for Cost of Living Adjustment for the 2022 budget and future year budgets. A memo has been prepared by the Chief Administrative Officer with recommendations attached as Schedule B to this Report.

Background**October 27, 2021 Capital Budget Meeting**

Council at its Capital Budget Meeting held on October 27, 2021 through Council Resolution No. 2021-332 directed staff to make certain amendments to the budget development and control policy which have been reflected in Schedule A to Report FIN-2022-001.

November 17, 2021 Operating Budget Meeting

Council at its Operating Budget Meeting held on November 17, 2021 through Council Resolution No. 2021-367 and 2021-368 directed staff as follows:

- That staff be requested to report back prior to the end of the budget process on a more equitable method of calculating the Cost of Living Adjustment such as rolling averages; and
- That Council authorize a cost of living adjustment of 2.00% as a placeholder increase until such time that staff report back on a more equitable method of calculating the Cost of Living Adjustment.

Cost of Living Adjustment

The previous version of the Budget Development and Control Policy presented to Council at its October 27, 2021 Capital Budget Meeting outlined the following:

- a) The Director of Finance/Treasurer or designate will determine and incorporate in the base operating budget a cost of living adjustment (COLA) based on:
 - i. The CPI for Ontario From August to August and
 - ii. The COLA determined by comparator municipalities surveyed in the Township's Compensation Review.

In response to Council's direction from the November 17, 2021 Operating Budget Meeting, a detailed memo has been prepared regarding COLA, its calculation, application, etc. and is attached as Schedule B to this report. The following two options are provided for Council's consideration:

Option 1:

- a) The Director of Finance/Treasurer or designate will determine and incorporate in the base operating budget a cost of living adjustment (COLA) based on:

- i. A 5 year rolling average of the CPI for Ontario from August to August for the current proposed budget year; and
- ii. The COLA's approved or proposed by comparator municipalities surveyed in the Township's Compensation Review will also be provided for Council's information.

Option 2:

- a) The Director of Finance/Treasurer or designate will determine and incorporate in the base operating budget a cost of living adjustments (COLA) based on:
 - i. The CPI for Ontario from May to May for the current proposed budget year and present to Council for approval prior to the preparation of the proposed operating budget.
 - ii. The available COLA's approved or proposed by comparator municipalities surveyed in the Township's Compensation Review will also be provided for Council's information.

A blacklined version of the updated Budget Development and Control Policy based on Council's direction from the October 27, 2021 Capital Budget Meeting and November 17, 2021 Operating Budget Meeting is attached as Schedule A to Report FIN-2022-001.

Financial Implications

None

Applicable Legislation and Requirements

Municipal Act, 2001

Attachments

Schedule A – Budget Development and Control Policy

Schedule B – COLA Memo

Title: Budget Development and Control Policy

Date: October 27, 2021

Adoption: October 27, 2021 through Council Resolution No. 2021-332

Amendment: _____ through Council Resolution No. _____

Subject: BUDGET DEVELOPMENT AND CONTROL POLICY

File No: A09 BUD

1. Purpose

The Budget Development and Control Policy has been developed by the Township of Puslinch ("Township") to serve as a guideline for the development and control of the Township's annual budgets.

2. Definitions

- a) **Balanced Budget:** Operating and capital revenue and expenditures are balanced with funding sources for the budget period. Transfers to and from applicable Reserves as approved by Council may be required to balance differences between budgeted revenues and budgeted expenditures. Current operations are financed from current revenues.
- b) **Director of Finance/Treasurer:** means the individual appointed by Township Council in accordance with the Municipal Act.
- c) **Discretionary Reserves:** Council has the authority to establish Discretionary Reserves in accordance with the Municipal Act. Discretionary Reserves do not require the physical segregation of money or assets. Discretionary Reserves are part of the general revenue fund, and therefore, do not earn interest on their own. In order to reduce, and, if possible avoid short-term borrowing, a Discretionary Reserve is one financial management technique that can be helpful and provides a cash management device to enhance cash flow. It also eliminates the need to levy for the full cost of various capital projects in one particular budget year.
- d) **Long Term Financing:** This includes debt or any other obligation for the repayment of money. For Ontario municipalities, debt would normally consist of debentures as well as either notes or cash from financial institutions, but could also include loans from Reserves.

- e) **Modified Accrual Basis:** Transactions are recognized in the period in which the transactions occur or are received. The budget includes capital expenditures rather than amortization expense. Revenues and expenditures are reported as a gross amount rather than a net revenue or net expense amount.
- f) **Reserves: Discretionary Reserves and Restricted Reserves** are formed to meet various liabilities such as the replacement and/or acquisition of capital assets or the stabilization of the tax levy. Both **Discretionary Reserves** and **Restricted Reserves** are considered during the annual operating and capital budget process and for the purpose of long-term financial planning.
- g) **Restricted Reserves:** Restricted Reserves are established through legislation or grant funding agreements. For example, the Development Charges Act, the Planning Act, the Building Code Act, and other legislation require that municipal governments maintain specific **Restricted Reserves**. **Restricted Reserves** are comprised of funds received for special purposes and are segregated from the general revenues of the **Township**. All earnings derived from such investments must form part of the **Restricted Reserve**. **Restricted Reserves** are created solely for the purpose prescribed for them.

Examples of **Restricted Reserves** include:

- Monies received in lieu of land for park purposes as set out in the Planning Act (ie. Cash in Lieu of Parkland);
- Monies received as development charges (DC's) as set out in the Development Charges Act (ie. Administrative Studies DC, Parks and Recreation Services DC, Fire Services DC, and Roads and Related Services DC); and
- Monies received as part of the Canada Community-Building Fund (previously known as the Federal Gas Tax Fund).

- h) **Township:** means the Corporation of the **Township** of Puslinch.

3. Budget Principles and the Basis of Budgeting

- a) Council's responsibility is to approve appropriate budgets and financial policies for the **Township**. Approval reference throughout this policy that infers Department Head, Chief Administrative Officer, **Director of Finance/Treasurer**, and Council will progress with initiation from the Department Head, reporting to the Chief Administrative Officer, and **Director of Finance/Treasurer**, with final reporting to Council.
- b) All programs/service levels approved by Council are carried out within the approved annual budget.

- c) Budget planning and administration are a primary responsibility of Department Heads.
- d) The **Township** operates by way of a **Balanced Budget**.
- e) The **Township's** budget is prepared on a **Modified Accrual Basis**.
- f) Long-term financial sustainability of the **Township's** services and the development of adequate **Discretionary Reserves** to fund the **Township's** financial requirements is a priority during budget development.
- g) Commitment is to deliver services in a cost effective manner that balances investments made in **Township** priorities with mitigating cost increases to taxpayers.
- h) Annual budgets and associated documents are living documents that are updated annually and are realistic and sustainable for the established/approved service levels.
- i) Operating and capital expenditures are funded through an optimal mix of public funding, user fees and charges, grants, **Discretionary Reserves**, **Restricted Reserves**, and other self-generated revenue to minimize impacts to taxpayers.
- j) The operating and capital funding requested in the annual budget will consider the existing base operating and capital funding allocation to avoid significant shifts between operating and capital programs.
- k) **Long Term Financing** for capital projects may be considered based on the life of the proposed asset being acquired.

4. Guiding Principles

- a) The **Township's** budget development will be guided by the initiatives, priorities and timelines identified by:
 - i. Asset Management Plan (AM Plan)
 - ii. Development Charges Study
 - iii. Energy Conservation and Demand Management Plan
 - iv. Recreation and Parks Master Plan or other related plans
 - v. Master Fire Plan or other related plans
 - vi. Roads Management Plan or other related plans
 - vii. Ontario Structure Inspection Manual Report (Bridges and Culverts) or other related inspections for **Township** infrastructure
 - viii. Council Objectives – Direction to Staff or other related Council resolutions or directions provided throughout the year.

- b) No expenditures shall be incurred until the budget for the current fiscal year has been approved by Council unless Council provides a pre-budget approval for the expenditure.
- c) Staff prepares a budget for Council's consideration incorporating Council authorizes a Township total blended tax increase on the median/typical Single Family Home equal to not greater than the proposed budget year's Consumer Price Index (CPI) inflation rate as outlined in the Ontario Budget and as determined by Statistics Canada and Ontario Ministry of Finance before adding on the dedicated capital levy impact for the proposed budget year.

5. User Fees and Charges

- a) User fees and charges shall be automatically adjusted annually based on the CPI inflation rate as outlined in the Ontario Budget and as determined by Statistics Canada and Ontario Ministry of Finance.
- b) When recommending a new user fee and charge or where the pressure on user fees and charges indicates an alternate rate change over and above the CPI inflation rate to ensure tax subsidization does not increase, the **Township** will consider changes to the user fees and charges that closely reflect the actual cost for providing the service while keeping in line with comparator municipalities.

6. Ten Year Capital Budget and Forecast

- a) The ten year capital budget and forecast is prepared based on revenue and expenditure projections using the most current information available and will be updated annually as detailed information becomes available including an adjustment for CPI over the forecast period. Impacts will be mitigated where possible to maintain the forecast within budget guidelines.
- b) The current year capital budget is approved by Council with the remaining forecast period provided for information and for planning purposes. The forecast may change in future budget deliberations based on new and more up to date information.
- c) Capital budget sheets will be prepared by Department Heads for current year proposed projects and will include a brief description of the project, explanation of the need for the project, operating cost impacts, and any link to AM Plan, other master plans, studies, inspections, etc.
- d) The **Director of Finance/Treasurer** or designate will provide an analysis of the balance in each capital **Discretionary Reserve** and capital **Restricted Reserve** based on the current

year proposed projects, capital carry forward projects, and recommended current year budget contributions to capital **Discretionary Reserves**. The projected balance will be as of the end of the proposed capital budget year. This will be provided when the first draft of the capital budget is provided for Council's consideration.

- e) The **Director of Finance/Treasurer** or designate will provide an analysis of major known capital grant or other third party funding including amounts per year. This will be provided when the first draft of the capital budget is provided for Council's consideration.
- f) The **Director of Finance/Treasurer** or designate will provide Council with the following as part of the first draft of the capital budget for Council's consideration:
 - i. Comparison of the current year capital program compared to previous years.
 - ii. Comparison of the current year ten-year forecast compared to previous years.
 - iii. Capital budget and forecast funding sources by year (ie. grant funding, levy funding, **Discretionary Reserve** funding, **Restricted Reserve** funding).
- g) In the event that a property owner or a group of property owners request that the **Township** undertake a capital project not included in the ten-year capital budget and forecast, such expenditures may be considered provided that the individual(s) making the request agree to fund the expenditure. The degree of funding will be determined by Council on a project by project basis to a maximum level of 100%.
- h) A lifecycle based capital forecast based on the **Township's** AM Plan and updated inspections, studies, plans, etc. will be established for asset replacement projects and updated annually by Department Heads based on current documented costing.
- i) Any new **Township** capital infrastructure is required to be added to the Asset Management Plan in order to ensure replacement based on its lifecycle.

7. Allocation of Capital Funds

Capital funding will be allocated to projects according to the following principles:

- a) Capital funding will be used only for capital projects that are approved by Council.
- b) Capital projects will be closed upon completion. Every effort will be made by the Department Head to complete capital projects within a reasonable time frame. Consideration will be given to recommending the closing of capital projects as a result of unexpected significant delays in project completion.

- c) The annual capital budget will include new capital requirements and amounts approved in prior year budgets that have not yet been completed.
- d) Surplus capital funding determined at the fiscal year-end, for each open capital project, will be reported in the capital carry forward **Discretionary Reserve** or remain in the appropriate **Discretionary Reserve** as a source of financing for future years upon project completion.
- e) Surplus capital funding, determined upon capital project closure, will be transferred to the appropriate **Discretionary Reserve** in accordance with the approved budget or be transferred to the general corporate surplus.

8. Operating Budget Methodology

- a) The department's base operating budget will be prepared by the Department Head in collaboration with the **Director of Finance/Treasurer** using the following methodology with focus on the **Township's** key initiatives as previously approved by Council:
 - i. 2-years of historical data, current year to date data, and prior year approved budget will be reviewed in developing the proposed base operating budget.
 - ii. CPI adjustments for volatile commodity price shifts (ie. fuel, natural gas, etc.).
 - iii. Unavoidable price changes as per contractual obligations (ie. insurance, etc.).
 - iv. Provincial or Federal funding announcements.
 - v. Efficiencies and cost savings achieved through new innovative approaches to delivering services.
 - vi. Revenue and recovery amounts based on the approved User Fees and Charges By-law.
- b) The **Director of Finance/Treasurer** or designate will update salaries, wages, benefits based on salary grid movements and approved staffing changes in the base operating budget.
- c) The **Director of Finance/Treasurer** or designate will determine and incorporate in the base operating budget a cost of living adjustment (COLA) based on:
 - i. The CPI for Ontario from August to August and
 - ii. The COLA determined by comparator municipalities surveyed in the **Township's** Compensation Review will also be provided for Council's information.

- d) Department Heads will provide to the Director of Finance/Treasurer Council as part of the draft operating budget a detailed listing of the following in accordance with the **Township's Staff Expense Policy**:
- i. Conference, Seminar and Training Budget
 - ii. Memberships and Associations Budget
 - iii. Uniforms and Special Clothing Budget
 - iv. Council will be provided the above detailed listing(s) if there are any changes being proposed.
- e) Base budget increase requests are provided separately via a Base Budget Increase form and require approval from the Chief Administrative Officer and **Director of Finance/Treasurer** prior to being presented to Council. Base budget increase requests are required if an operating line item expenditure is increasing due to a proposed new project/initiative/service level/governing legislation. These requests are not incorporated in the base operating budget. The Department Head must indicate whether the base budget increase request is one-time or recurring.
- f) Any increase or decrease to service levels or addition of new **Township** capital infrastructure requires a staff report on resources (staffing and equipment) and operating cost impacts. ~~corresponding increase in resources (staffing and equipment) and the operating budget of the Department.~~

9. Fund Allocation Principles

- a) Any deviation from approved budgets shall be reported to and approved by the Department Head, reporting to the Chief Administrative Officer, **Director of Finance/Treasurer** and ultimately Council as required by this Policy.
- b) Fund re-allocation between the approved operating budget and the approved capital budget is not permitted.
- c) The following re-allocation of funds may occur with approval from Council and the appropriate source of funding is maintained:
- i. Transfers between open capital projects; and
 - ii. Unbudgeted transfers from **Discretionary Reserves** to capital projects; and
 - iii. Unbudgeted transfers from **Discretionary Reserves** to operating programs.
- d) Where it is desirable to reallocate funds between detailed operating accounts within the approved budget allocations in order to achieve the most efficient and effective use of

resources, said reallocations shall be carried out in accordance with this policy and reported to Council through the quarterly financial reporting process.

- i. The Chief Administrative Officer may approve requests from Department Heads to reallocate current budget funds between detailed accounts within approved budget allocations within their own department to a maximum of \$10,000.
- ii. Where it is proposed to reallocate current budget funds in excess of \$10,000, the reporting Department Head along with the **Director of Finance/Treasurer** shall prepare a report seeking Council's approval for the reallocation.

10. Discretionary Reserve Financing and Balances

- a) Council has the authority to establish **Discretionary Reserves** as a financial management tool in accordance with the Municipal Act.
- b) The **Township** will adopt **Discretionary Reserve** financing and **Discretionary Reserve** balances that consider the following:
 - i. Mitigation of current and future risks.
 - ii. Stabilization of the tax levy.
 - iii. Reduce exposure to unpredictable revenues and unplanned funding requests.
 - iv. Multi-year financing of capital projects.
 - v. Replacement value of tangible capital assets.
- c) The use or transfer from any **Discretionary Reserve** requires the approval of Council.
- d) All proposals to establish and maintain **Discretionary Reserves** in any year, whether for current or capital purposes, shall be contained in the budget and shall be presented to Council for approval.
- e) Annual budgets shall not commit to financing from **Reserves** an amount greater than the **Reserve** balance in the account.
- f) Council shall determine annually during the budget process, an amount to be contributed to each **Discretionary Reserve**.
 - a. The **Director of Finance/Treasurer** or designate will provide an analysis of the recommended contributions to **Discretionary Reserves** based on the proposed budget presented and compare these contributions to the previous year approved budget and the current balances in each **Discretionary Reserve**.

- g) The **Township's** operating and capital **Discretionary Reserves** including their use are outlined in Schedule A to this Policy.

11. General Corporate Surplus

- a) Where funds have been appropriated but not incurred prior to the end of the fiscal year, and no legal obligation to expend said funds has been entered into prior to the end of the fiscal year, said funds shall be included in the general corporate surplus and shall be submitted for Council's consideration to be contributed to the AM **Discretionary Reserve** in accordance with Council Resolution No. 2019-347 or to another **Discretionary Reserve** based on Council's direction.
- b) The policy adopted by Council through Council Resolution No. 2019-347 states that Council authorizes the allocation of all budget surpluses into the **Township's AM Discretionary Reserve** for the purpose of meeting future AM obligations.

12. Budget Calendar – Annual Target Dates

Target Dates	Item	Purpose
June	Council Objectives – Direction to Staff	This meeting allows for discussion between Council and Department Heads regarding the overall direction of the proposed budget <u>including the overall direction of service levels</u> . Resolutions passed by Council will be used as the basis for initiating the budget creation process.
July/August	Director of Finance/Treasurer or designate provides user fees and charges and budget instructions to Department Heads.	
August	Proposed User Fees and Charges Report and Proposed By-law prior to presenting at the Public Information Meeting.	
August	EngagePuslinch.ca Survey for proposed User Fees and Charges	
September	Department Heads meet with Director of Finance/Treasurer and Chief Administrative Officer to discuss proposed Capital and Operating budgets.	
September	Public Information Meeting regarding Proposed User Fees and Charges By-law	

October	Approval of User Fees and Charges By-law by Council	Public comments received will be provided for Council's information.
October	Road and Facility Tour with Department Heads and Council	To provide Council with key projects, vehicles, equipment that have been completed as part of the past year's budget and proposed for consideration prior to formal budget presentations.
October	Present Proposed Capital Budget and Ten Year Forecast to Council including Capital Budget Sheets	This meeting provides Council with a preliminary look at the proposed Draft Capital Budget and Forecast. Any direction provided by Council will be used to finalize the Draft Capital Budget and Forecast.
October	EngagePuslinch.ca Survey for proposed Budget	<u>Community engagement through EngagePuslinch.ca will take place up until after the Public Information Meeting in January.</u>
November	Present proposed base operating budget to Council including both detailed and summary expense, Reserve transfer, and revenue reporting.	<p>This meeting provides Council with a preliminary look at the proposed Draft Operating Budget. Any direction provided by Council will be used to finalize the Draft Operating Budget.</p> <p>This meeting also provides Council with answers to questions or updates to the proposed budget based on direction from Council from the October Capital Budget Meeting.</p>
November	<p>The Director of Finance/Treasurer or designate will provide the grant applications and amounts requested including previous year approved grant funding allocations for each organization.</p> <p>Category 3 applicants for funds requested of greater than \$3,000 must delegate to Council in accordance with the Grant Application Policy.</p>	<p>Council will approve the budget grant application allocations to applicants through Council Resolution to be incorporated in the proposed Operating Budget.</p> <p>Funds available under the Grant Application Program are limited to a maximum of 0.50% of the previous year's taxation levy per calendar year.</p>
December/ January	Provide Council with the updated Capital and Operating Budget based on Council's direction from the October and November budget meetings to be	The Director of Finance/Treasurer or designate will provide the tax impact of the proposed levy on the median/typical properties (Single Family Home, Farmland,

	presented at the Public Information Meeting in January.	Small Retail Commercial, and Standard Industrial) in the Township based on MPAC's returned assessment roll received in December which incorporates new assessment growth. This analysis will include the County of Wellington's proposed tax rate and the Education estimated tax rate.
January	Public Information Meeting regarding Proposed Budget.	The presentation materials will include charts and other graphs regarding the proposed budget for the Public's consideration.
By the end of the first week of January of each fiscal year	Last date for submitting current expenditures, revenues and adjustments by Department Heads	
February	Balances in Discretionary Reserves and Restricted Reserves	Balances as of the end of the current fiscal year and over the ten year forecast period.
February	Current Year Completed Capital Projects including how each project's actual costs were funded.	Includes engineering/project management costs as a percentage of total project costs.
February	The Director of Finance/Treasurer or designate will provide a Report to Council with the final budget compared to the prior year approved budget. The final report will include charts and other graphs regarding the final approved budget.	Public comments received will be provided for Council's information. Budget By-law approval with a media release issued upon approval of the budget by-law.
April	General Corporate Surplus Allocation Report to Council	This will be provided after the completion of the Township's annual audit.
May	Tax Rate By-law approval	This will be provided after the County's passing of its Tax Ratio and Tax Reductions By-law and after the Education rates have been set by the Province through Ontario Regulation under the Education Act, as amended.
Quarterly	Quarterly financial reports presented to Council showing budget to actuals.	

Target dates will be adjusted to accommodate on municipal election years.

13. Reporting Requirements

- 1.) The **Director of Finance/Treasurer** or designate shall produce and forward quarterly operating budget versus actual reports to Department Heads and the Chief Administrative Officer for review.
- 2.) The **Director of Finance/Treasurer** or designate shall review the quarterly reports and forward comments to the Department Head and the Chief Administrative Officer on significant account variances.
- 3.) The Department Head shall prepare reasons for any significant variances to provide to the **Director of Finance/Treasurer** and Chief Administrative Officer.
- 4.) The **Director of Finance/Treasurer** or designate shall include for Council's review quarterly financial reports which include departmental detail, expense and revenue summaries, and other pertinent financial data.

14. Attachments

Schedule A – Listing of Operating and Capital **Discretionary Reserves**

Operating Discretionary Reserves

The Township of Puslinch's operating discretionary reserves are outlined below:

- a) Broadband Strategy Implementation
 - i. Funding for the recommendations that came out of the broadband strategy.
- b) Corporate Insurance Contingency Discretionary Reserve
 - i. Funding the unrecoverable portion of insurance claims
- c) Corporate Legal Contingency Discretionary Reserve
 - i. Funding major unrecoverable legal matters.
- d) Election Discretionary Reserve
 - i. Funding the costs of the election every four years.
- e) Operating Carry forward Discretionary Reserve
 - i. Maintaining allocated funding for operational items approved in a previous budget but not yet complete.
- f) Outstanding Deposits Discretionary Reserve
 - i. To account for security and grading deposits ten years or older for the purpose of determining the status of these outstanding deposits.
- g) Public Works Winter Maintenance Discretionary Reserve
 - i. Funding winter maintenance costs as needed to offset unusual/severe winter weather conditions
 - ii. Surplus funds from the winter maintenance operating accounts are captured annually and are allocated to the Public Works Winter Maintenance Discretionary Reserve. If the winter maintenance expenditures exceed the amount budgeted, the deficit is drawn from the Winter Maintenance Discretionary Reserve.

Capital Discretionary Reserves

The Township of Puslinch's capital discretionary reserves are outlined below:

- a) Asset Management Discretionary Reserve
 - i. Implementing the funding requirements for current infrastructure as noted in the 2019 Asset Management Plan.

Schedule A to Budget Development and Control Policy

- ii. The 2019 Asset Management Plan recommended that the Township maintain a minimum target balance of 2.0 million and a maximum target balance of 4.0 million in its Asset Management Discretionary Reserve.
- b) Capital Carry forward Discretionary Reserve
 - i. Maintaining allocated funding for capital projects approved in a previous budget but not yet complete
- c) Corporate Information Technology Discretionary Reserve
 - i. Implementing the recommendations from the County of Wellington and its member municipalities Operational Services Efficiency Review in response to the Provincial Modernization Grant.
- d) Gravel Roads Improvement Discretionary Reserve
 - i. Improving the Township's gravel roads as authorized by Council at its January 2, 2020 Budget Meeting



2022 COLA Memo

A portion of the November 17, 2021 resolution of Council stated:

“That staff be requested to report back prior to the end of the budget process on a more equitable method of calculating the Cost of Living Adjustment such as rolling averages.”

The resolution wording of finding a “more equitable” method for COLA calculation indicates that there is a concern on the part of some that the current method is not equitable. The purpose of this memo is to provide additional information regarding the methodology used for the calculation and application of COLA to the Township’s pay grid.

Background

COLA is applied annually to the Township’s pay grid to ensure that compensation rates remain comparable to similar municipalities in the area. As Council is aware, when a market review is undertaken to ensure wages are at an appropriate level, if regular incremental adjustments are not made, a significant adjustment will need to be made every 4-6 years which will have significant budgetary impacts at that time.

Ensuring that the Township’s pay grid remains current is essential to ensure that it can retain its skilled and dedicated staff as long as possible and that when recruitment is necessary, that quality candidates can be attracted and brought on to the team. There are numerous reports prepared by municipal organizations which all have the same general conclusions. A large portion of the municipal workforce across the province and country are at or very near retirement age. Analysis has shown that there is a deficiency of skilled, qualified, and experienced individuals to move into these roles. While there are clearly entry level positions in municipalities, there are also many positions which take years of progressive experience to qualify for to be able to do effectively. Analysis by a number of organizations has indicated that as a result of this deficiency in qualified individuals, the only alternative will be for municipalities to actively compete with each other for quality staff. That is where the retention piece with competitive wages becomes very significant.

The reality is that staff turnover costs the municipality both in productivity and in the bottom line. Depending on the position, it can take 2 business cycles (i.e. years) or more for an individual to be fully trained and experienced with the particulars of the municipality and to be operating at the desired capacity. That obviously takes time but also investment in training that the municipality hopes to recoup in time. Recruitment is a time consuming and costly process usually taking three months and costing approximately \$4,200 depending on the level of the position. The cost and duration increases depending on the role and level of the position. An additional cost to the municipality that cannot be quantified is the loss of corporate memory that is extremely beneficial when dealing with many issues in terms of response times.



Discussion

The current recommendation presented to Council is that the COLA calculation is based on COLA data posted by Statistics Canada for consumer price index increases for Ontario from August to August. This approach has been in place and presented to Puslinch Council since 2016. This is how salary adjustments have been calculated since that time. This is a common approach used by many municipalities, with the only real variation being the month used for the annual timeframe. In checking around the County, some municipalities use April, some use July, some use August. This means that the annual adjustment made may vary at a point in time, but over the years it all averages out and will equal essentially the same thing. If Council is considering changing this process, it is recommended that a change commence moving forward, but not retroactively. Council had expressed an interest in possibly implementing a 3-5 year average. The current practice at Puslinch (and common with many municipalities) is a one year average. Generally this number is within the range of COLA expressed in the media as it typically is a one year timeframe as well. In the event that council does choose to implement a multi-year rolling average, it is noted that the 3-5 year rolling average could be higher than the current reported annual COLA. This approach could also result in potential concerns such as applying a 3-5 year average COLA value that is higher than the current COLA value in the media, or the impacts of taking 3-5 years to respond to market conditions. The primary importance is to set a policy based on defensible data and then stick with the policy, as the calculations will then balance out over the years. The risk of altering the process in various years to incorporate lower adjustments will result in wages falling behind and that then leads to the challenges outlined above.

Some additional points for Council's information are provided as follows:

The Wellington member municipalities use the one year COLA average (the only difference is the month they use). These are the approved COLA values from their 2022 budgets:

Minto 4.4%
 Guelph Eramosa 4.4%
 Mapleton 4.1%
 Wellington North 3.4%
 Centre Wellington (3 year agreement)
 2.2% (2022)
 1.75% (2023)
 2.0% (2024)

Based on the data available, a 5 year average will amount to 2.12%. It is noted that for the 2021 budget, staff actually recommended forgoing the COLA increase in light of the COVID situation.

The following summary and analysis is provided to show the actual adjustments made in Puslinch:

2015	2016	2017	2018	2019	2020	2021	2022	average
2.00%	1.20%	1.5%	1.69%	2.33%	1.90%	0.00%	4.0% *	1.83%

*recommended based on policy and past practice calculation



Note:

Even with the policy calculation of 4.0% for 2022, the average of the last 8 years is 1.83% which is not excessive.

Additional Data:

As Council is aware based on information in the media regarding COLA, the numbers are moving upward. Additional data from Statistics Canada over the last 12 months indicates the following:

August – 4.00%

September – 4.40%

October – 4.90%

November – 5.00%

Recommendations

1. Not abiding by policy or varying from an ongoing policy to benefit from lower COLA numbers is problematic and will result in the Township's salary grid falling behind. This will lead to staff retention and recruitment problems as well as result in significant budget spikes following market reviews (i.e. every 3-4 years).
2. Whatever policy is decided on needs to be adhered to so it works out over the years.
3. One approach that has been successfully implemented in a number of municipalities is the timing of the COLA calculation and its incorporation into the budget. As council is aware there are many competing priorities in a municipal budget and many significant budget line items that the Township has no control over (i.e. fuel, energy costs, insurance, equipment costs, gravel costs, calcium costs, etc.) If wages are left to one of the last items, invariably that is an area where adjustments are considered to offset increases in other areas. That approach is not sustainable. Therefore it is recommended that COLA calculations be undertaken earlier in the year and brought forward to Council for approval prior to the budget process (based on an earlier annual average of April or May). This approved COLA can then be incorporated into the budget at the beginning of the process giving a much clearer picture.