



# Staff Report

## Finance and IT Services

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**Report To:** Committee of the Whole  
**Meeting Date:** April 21, 2020  
**Report Number:** FAF.20.059  
**Subject:** Interfunctional Transfers Policy  
**Prepared by:** Sam Dinsmore, Deputy Treasurer/Manager of Accounting and Budgets

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### A. Recommendations

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THAT Council receive Staff Report FAF.20.059 entitled “Interfunctional Transfers Policy”;

AND THAT Council direct staff to compile the 2021 to 2023 Proposed Budgets using Option X and Allocation Method X;

AND THAT Council direct staff to bring back an Inter-Functional Policy implementing Option X and Allocation Method X.

### B. Overview

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This Report outlines multiple Interfunctional Transfer options for Council’s consideration for inclusion in the 2021-2023 Proposed budgets.

### C. Background

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At the June 10, 2019 Committee of the Whole meeting, Committee received staff report FAF.19.092 which directed Staff to implement electronic timesheets/time tracking software to track and assign actual staffing costs to divisions and projects.

Staff in the Administration Departments have been using excel to track their time since summer 2019 while the implementation of electronic timesheets occurs. Staff used this data to complete zero-based budgeting in the 2020 Budget.

Inter-functional transfers are the cost of a service that one Town Division supplies to another Town Division. For example, Human Resources is responsible for payroll for the entire corporation.

The Town has other inter-functional transfers that are not included in this report as staff are recommending that no changes be made to the way they are calculated. These transfers include equipment rental between divisions that are similar to a fee for service that would be paid to an outside contractor. For example, the Cemetery rents the Roads and Drainage back-

hoe for certain activities. The Cemetery is then charged a per hour rate for the use of the equipment. Staff are not recommending a change to these types of transfers.

For the other transfers, staff will be using the time tracking software and excel sheets to build the base of the Interfunctional transfers for the 2021-2023 budget. This is the most accurate way to charge out the Administrative Divisions to other Town Divisions. Attachment 1 outlines the "Administrative" Divisions that will be charged out, as well as the non-Administrative Divisions that will be charged. Staff have also calculated a per hour overhead rate for each of the respective Administrative Divisions, and this overhead rate is charged out with every hour that is allocated to a non-Administrative Division.

However, staff will also need to rely on budgeted and other calculation methods to cost out additional time that Administration staff do not charge out to other Divisions, or where it is not possible to accurately charge out time to other Divisions. For example, it is not possible for the payroll staff to accurately charge out their time to each non-Administrative Division when entering or administering bi-weekly payroll. Therefore, this time and overhead will either stay with the Human Resources Division as non-allocated time or could be costed out based on a calculated method. Additionally, each Administrative Department has Salaries and Benefits that will not be allocated to other Divisions due to vacation and sick time.

The following options are for Council's consideration as to how staff will assign out this non-allocated time.

**Option #1**

Staff do not transfer out any time that is not specifically allocated to another Division. Salaries and Benefits, as well as overhead will stay in their respective Divisions.

**Option #2**

Staff transfer out all time and overhead that is not specially allocated to another Division based on certain calculated methods, except any vacation and sick time. The Salaries and Benefits for this time will stay in the respective Administrative Divisions. Attachment 2 outlines some potential calculation methods for specific items that may not be entirely allocated out.

**Option #3**

Staff transfer out all time and overhead that is not specifically allocated to another Division based on certain calculated methods, including all vacation and sick time. This would mean that all Administrative Divisions would have a zero for their bottom budget line.

In addition to the Options above, staff also encounter the issue to transferring time from one Administrative Division to another, specifically if Council chooses Option #2 or #3 above. For example, Human Resources spend time that would be allocated to the Finance Division, and the Finance Division spends time on the Human Resources Budget. This creates a circular effect where time and overhead would move among the Administrative Divisions. Therefore, if Council chose Option #3 above, then the Administrative departments would not have a zero budget line because of Administrative Divisions charging to each other.

The following options are for Council's consideration as to how staff will transfer time that will go from one Administrative Division to another.

**Allocation Method #1**

Staff use a direct method and do not transfer any time from one Administrative Division to another. This time and overhead would be allocated out to the non-Administrative Divisions based on the calculated methods in Attachment 2.

**Allocation Method #2**

Staff use a step method which allocates costs from the Administrative Divisions in a sequential process. For example, staff would start with Council, and allocate all of its time out, and then move on to the CAO and allocate all of its time out, but the CAO cannot allocate any time back to Council, etc.

**Allocation Method #3**

Staff use the reciprocal method which allocates costs to all Divisions, including other Administrative Divisions. In this method, for example, Finance time could be charged to Human Resources, and Human Resources time could be charged back to Finance.

Staff recommend using Option #2 in conjunction with Allocation Method #2. This would represent accurate data and reflect staff's actual time allocations. The following Analysis Section further explores each of the three Options and Allocation Methods in Detail.

## **D. Analysis**

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**Option #1**

This Option would easily transfer actual time that the Administrative Divisions specifically spend on other Divisions, based on time tracking, as well as an hourly overhead rate. However, this Option does not consider any of the time that staff spend on tasks that cannot be accurately or realistically allocated to another Division. For example, the annual financial audit, payroll, and the corporate aspects of the annual budget could not be transferred to any other Division and would stay in the respective Division of the staff performing these tasks.

Based on the data that staff have since the summer when time tracking began, staff estimate that Interfunctional transfers being charged to the non-Taxation Funded Divisions (Water, Wastewater, Building, and Harbour) would greatly decline and increase the impact on taxation. This is due to the tasks that are not easily allocated, such as the time that Finance Customer Service staff spend on Water and Wastewater users and billing, as they cannot realistically allocate each phone call, email, and inquiry that they receive.

For comparative purposes, the following chart illustrates the estimated change in Taxation and non-taxation Divisions from the current inter-functionals included in the 2020 Budget if Option #1 is chosen.

Division	2020	2021	\$ Change	Impact on User-Fee	Impact on Tax Levy
Short Term Accommodation	\$ 0	\$ 25,000	\$ 25,000	13%	-0.15%
Development Engineering	\$ 0	\$ 45,000	\$ 45,000	8%	-0.27%
Harbour	\$ 45,758	\$ 10,000	\$ (35,758)	-6%	0.22%
Building	\$ 249,349	\$ 45,000	\$ (204,349)	-17%	1.23%
Water	\$ 510,192	\$ 72,260	\$ (437,932)	-11%	2.64%
Wastewater	\$ 310,486	\$ 10,000	\$ (300,486)	-10%	1.81%
<b>Total</b>	<b>\$ 1,115,785</b>	<b>\$ 207,260</b>	<b>\$ (908,525)</b>		<b>5.48%</b>

## Option #2

This Option would transfer actual time that the Administrative Divisions specifically spend on other Divisions, based on time tracking, as well as an hourly overhead rate. This Option would also address the time staff spend on tasks that cannot be accurately or realistically allocated to another Division. For example, staff would allocate the time that is sent on the financial audit to other Divisions, based on Divisional budgets, as outlined in Attachment 2.

Based on the data that staff have since the summer when time tracking began, staff estimate that Interfunctional transfers being charged to the non-Taxation Funded Divisions (Water, Wastewater, Building, and Harbour) would have a minimal impact on taxation. However, there would still be time remaining in all of the Administrative Divisions due to sick and vacation time that would not be allocated to other Divisions. Staff recommend using Option #2 as this would accurately reflect staff's time.

For comparative purposes, the following chart illustrates the estimated change in Taxation and non-taxation Divisions from the current inter-functionals included in the 2020 Budget if Option #2 is chosen.

Division	2020	2021	\$ Change	Impact on User-Fee	Impact on Tax Levy
Short Term Accommodation	\$ 0	\$ 50,000	\$ 50,000	25%	-0.30%
Development Engineering	\$ 0	\$ 75,000	\$ 75,000	14%	-0.45%
Harbour	\$ 45,758	\$ 40,000	\$ (5,758)	-1%	0.03%
Building	\$ 249,349	\$ 160,000	\$ (89,349)	-7%	0.54%
Water	\$ 510,192	\$ 497,260	\$ (12,932)	0%	0.08%
Wastewater	\$ 310,486	\$ 265,000	\$ (45,486)	-2%	0.27%
<b>Total</b>	<b>\$ 1,115,785</b>	<b>\$ 1,087,260</b>	<b>\$ (28,525)</b>		<b>0.17%</b>

## Option #3

This Option would transfer actual time that the Administrative Divisions specifically spend on other Divisions, based on time tracking, as well as an hourly overhead rate. This Option would also address the time staff spend on tasks that cannot be accurately or realistically allocated to another Division, as well as allocating all sick and vacation time that would not be allocated to

any Division. The Salaries and Benefits for sick and vacation time would be added to each respective Division's overhead rate and would be allocated to other Divisions. Depending on what Allocation Method is chosen from the options presented, the Administrative Divisions could all have a zero dollar bottom budget line.

Based on the data that staff have since the summer when time tracking began, staff estimate that Interfunctional transfers being charged to the non-Taxation Funded Divisions (Water, Wastewater, Building, and Harbour) would have a minimal impact on taxation.

For comparative purposes, the following chart illustrates the estimated change in Taxation and non-taxation Divisions from the current inter-functionals included in the 2020 Budget if Option #2 is chosen.

Division	2020	2021	\$ Change	Impact on User-Fee	Impact on Tax Levy
Short Term Accommodation	\$ 0	\$ 55,000	\$ 55,000	28%	-0.33%
Development Engineering	\$ 0	\$ 85,000	\$ 85,000	15%	-0.51%
Harbour	\$ 45,758	\$ 45,000	\$ (758)	0%	0.00%
Building	\$ 249,349	\$ 170,000	\$ (79,349)	-7%	0.48%
Water	\$ 510,192	\$ 507,260	\$ (2,932)	0%	0.02%
Wastewater	\$ 310,486	\$ 275,000	\$ (35,486)	-1%	0.21%
<b>Total</b>	<b>\$ 1,115,785</b>	<b>\$ 1,137,260</b>	<b>\$ (21,475)</b>		<b>-0.13%</b>

It should be noted that the estimates used in all three Options above will differ depending on the Allocation Method used.

### **Allocation Method #1**

The direct method of allocation would only transfer costs to non-Administrative Divisions. This would mean that any time that Finance allocated to Human Resources, for example, would not be transferred, but would stay in Finance.

Additionally, any costs where it is not practical to allocate out, such as payroll, would still be allocated out to non-Administrative Divisions, but at a higher percentage. For example, if the Roads and Drainage FTE's are 10% of the Town (including the Administrative Divisions) it may become 13% of the Town's FTE's if the Administrative Divisions are removed from the equation.

Staff would use the same calculations methods presented in Attachment 2, with the Administrative Divisions removed from the calculations. The direct method would work best in conjunction with Option #2 or Option #3 presented earlier. Although it could work with Option #1, it would take away much of the accuracy of this option.

### **Allocation Method #2**

The step method would transfer costs to all non-Administrative Divisions in a sequential process. For example, the CAO would allocate all of its time that was allocated based on time

tracking, and then all of its time based on the different calculation methods as presented in Attachment 2. Depending on what Option is chosen, the CAO budget may have a zero dollar bottom line budget. Once the CAO Division has been allocated, staff would move to the second Division, for example, Human Resources. The same steps would be followed as above, except that no costs could be allocated to the CAO. Once the third Division is allocated, it could not transfer any costs to the CAO or Human Resources. These steps are repeated until all Administrative Divisions have been allocated to the non-Administrative Divisions.

Staff would use the same calculation methods presented in Attachment 2, and remove each Administrative Division from the calculations as that Division is allocated out. The step method would work well in conjunction with any of the three Options presented earlier. Staff recommend using Allocation Method #2 as this would ensure that costs are accurately distributed to non-Administrative Divisions.

### **Allocation Method #3**

The reciprocal method would allow Administrative Divisions to charge time to other Administrative Divisions. This option recognizes the relationships between the Administrative Divisions and the Interfunctional transfers would reflect this.

Although the reciprocal method may result in the most accurate results, it could have very different results with each of the three options presented earlier. For example, if Option #3 is chosen with Allocation Method #3, the only dollar amount at the bottom of each Administrative Division would be the costs that it was charged by other Administrative Divisions. Because of this, Allocation Method #3 would work best in conjunction with Option #1.

### **Other Items**

Included in the Facility Maintenance division is the annual cost to operate Town Hall, OPP Detachment, Ravenna Hall, LE Shore Memorial Library, Craigleith Heritage Depot, and the Craigleith Community Centre.

Town Hall maintenance has been included in the calculations for Options 1-3, as all divisions have staff members in Town Hall. For the other facilities, staff is recommending that the actual costs to operate the applicable facilities be fully charged out to the OPP division, Blue Mountains Public Library, and Community Services under all three options.

## **E. The Blue Mountains Strategic Plan**

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### **The Blue Mountains Strategic Plan**

Goal #4: Promote a Culture of Organizational and Operational Excellence

Objective #4: To Be a Financially Responsible Organization

## F. Environmental Impacts

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None.

## G. Financial Impact

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Each option has a different effect on taxation and the user-fee funded divisions. The change to taxation ranges from an estimated 5.5% increase to a reduction of .13%. Because of the various potential effects, staff are recommending that Council give direction on which option to move forward with, after which staff will bring back a subsequent report with the revised policy.

Additionally, depending on which Option and which Allocation Method Council wishes to move forward with, a phase in period may be required to avoid large increases in one year to the user-fee rates. Once staff are given direction as to what options to move forward with, staff will include any phase in recommendations in the subsequent staff report.

For the Facility Maintenance transfers, the chart below looks at the impact on the divisions that will be funding these expenses. Please note that there is no impact to the tax levy as these expenses are being transferred from tax to tax divisions.

Division	Facility Costs	Impact on Division Budget
Blue Mountain Public Library	\$ 90,872	8.26%
Ontario Provincial Police	\$ 36,885	1.35%
Community Services	\$ 28,088	7.18%
<b>Total</b>	<b>\$ 155,845</b>	

## H. In consultation with

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Ruth Prince, Director of Finance and IT Services  
Katherine Dabrowa, Budget Analyst

## I. Public Engagement

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The topic of this Staff Report has not been subject to a Public Meeting and/or a Public Information Centre as neither a Public Meeting nor a Public Information Centre are required. Comments regarding this report should be submitted to Sam Dinsmore, Deputy Treasurer/Manager of Accounting and Budgets at [finance@thebluemountains.ca](mailto:finance@thebluemountains.ca).

## **J. Attached**

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1. Division Classifications
2. Calculation Methods

Respectfully Submitted,

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Sam Dinsmore  
Deputy Treasurer/Manager of Accounting and Budgets

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Ruth Prince  
Director of Finance and IT Services

For more information, please contact:  
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## Division Classifications

Administrative Divisions	Non-Administrative Divisions
Council	Committees of Council
Chief Administrative Officer	Attainable Housing
Communications and Economic Development	Corporate Administration
Clerks	Health and Social Services
Human Resources	Fire
Finance	Legal Services
Information Technology	By-law
	Short Term Accommodation
	Ontario Provincial Police
	Community Services
	Transit
	Parks and Trails
	Tomahawk
	Beaver Valley Community Centre
	Cemetery
	Operations
	Roads and Drainage
	Garbage Collection
	Landfill
	Waste Diversion
	Planning
	Development Engineering
	LE Shore Library and Craigleith Depot
	Building Services
	Harbour
	Water
	Wastewater

## Calculation Methods

Task	Allocation Calculation Method
Accounts Payable	Based on percentage of corporate budget
Audit	Based on percentage of corporate budget
Budget	Based on percentage of corporate budget
Council/Committee Meeting	Based on percentage of COW & Council Staff Reports
Front Counter - Customers	Based on percentage of corporate budget
Mail	Based on percentage of corporate budget
Month-End	Based on percentage of corporate budget
P-Cards	Based on number of employees
Prepare Minutes	Based on percentage of COW & Council Staff Reports
Communications General	Based on number of employees
Accounts Payable	Based on percentage of corporate budget
Accounts Receivable	Based on percentage of corporate budget
Grant Applications	Based on percentage of corporate budget
Insurance	Based on Percentage of insurance premium
Taxation	Based on percentage of corporate budget - Tax Departments
Benefits Administration	Based on number of employees
Committee Meetings	Based on percentage of COW & Council Staff Reports
Internal Training	Based on number of employees
Month End	Based on percentage of corporate budget
OMERS	Based on number of employees
Payroll	Based on number of employees
Year End	Based on percentage of corporate budget
Phones	Based on number of employees
Accounts Payable	Based on percentage of corporate budget