



**STAFF REPORT
ACTION REQUIRED**

Voluntary Separation Program

Date:	September 9, 2011
To:	Executive Committee
From:	City Manager
Wards:	All
Reference Number:	

SUMMARY

The purpose of this report is to provide City Council with information on the City Manager's recently launched Voluntary Separation Program, and to seek approval from City Council to implement the Voluntary Separation Program in the City of Toronto.

RECOMMENDATIONS

The City Manager recommends that City Council:

1. Rescind the original Voluntary Separation Program adopted by Council in 1998 and replace with a new Voluntary Separation Program for employees who are bargaining unit, non-union exempt and management staff as presented in this Staff Report to provide for:
 - (a) A payment, to eligible employees, of an amount not to exceed 26 weeks' salary as a lump sum payment (or salary continuation to bridge to age 55), based upon her/his salary, and his/her continuous years of service, at a rate of:
 - (i) three weeks' salary per year of service for union and exempt staff; and
 - (ii) four weeks' salary per year of service for management staff;
 - (b) Transition allowance, for non-retiring employees, of up to \$3,000 depending upon service and employee type.

2. Fund the Voluntary Separation Program (for City divisions) and any subsequent separations including any ancillary payments for vacation and sick leave payouts that are required to effect permanent, sustainable savings for the 2012 budget, be funded from the following sources:
 - i) savings in the 2011 operating budget
 - ii) the tax stabilization reserve

3. Should any Agency consider a voluntary separation program, that such program be similar to the provisions of the City's new voluntary separation program and that the agencies submit a report to Executive Committee through the Budget Committee regarding such proposed program.

Financial Impact

Cost Estimate Projections

The estimated one-time cost of the Voluntary Separation Program is \$41M. Funding for this program will be made from the following sources:

- i) savings in the 2011 operating budget
- ii) the tax stabilization reserve

The Voluntary Separation Program (VSP) will result in permanent base budget savings of approximately \$58.9M (Gross) and a permanent reduction projected at approximately 700 permanent employees. A breakdown of the projected one-time costs and permanent budget savings is as follows:

Breakdown of VSP One-Time Costs and Permanent Savings
(-millions-)

Position Affiliation	Voluntary Separation Cost (<u>one-time</u> costs)	Permanent Base Budget (Gross) Reduction (i.e. full year's <u>base</u> savings achieved)
Bargaining Unit	\$19.6	(\$48.9)
Non-union exempt/ Management	\$ 4.0	(\$ 10.0)
Transition Allowance	\$.500	n/a
VSP Cost	\$24.1	(\$58.9)
Vacation/Sick Pay costs	\$16.9	
Total Cost/Savings	\$41.0	(\$58.9)

Assumptions included in the Calculation of Above VSP Costs:

- management is estimating the ability to approve approximately seventy per cent of the more than 1,000 applications received (to date), for a total of 700 approved applications, since some applications will not be accepted if deemed essential and required to meet core service delivery

- 12% (84) of the approved applications would be from applicants in management positions and 88% (616) would be from applicants in bargaining unit positions (representing the current distribution in the permanent workforce)
- estimates have been provided in this report, however, the total cost of the VSP program will depend upon the final number of VSPs approved by the City Manager
- the cost provided on sick bank payouts, to eligible employees, and vacation payouts on termination or retirement are standard payout entitlements for terminating or retiring employees

Every effort will be made to cover the costs of separation within the 2011 budget. Should this source prove to be insufficient, the next funding source recommended is the tax stabilization reserve which holds the unused portion of the 2010 surplus (\$88 million).

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

Equity Statement

The City is committed to ensuring fairness and equity in all of its policies and programs. The implementation of the Voluntary Separation Program will be consistent with this commitment.

ISSUE BACKGROUND

In order to effectively address the 2012 operating budget pressure and to address key structural budget challenges, the City Manager established, in early January 2011, a Steering Committee of key senior management representatives to best determine the means to meet this challenge and, if and when possible, minimize the impact upon core services and staff. As part of this planning process, that included the establishment of the Core Service Review and Service Efficiency Studies processes, a Corporate-wide Workforce Planning Working Group of Division Heads and senior Human Resources managers, chaired by the Executive Director, Human Resources was created to develop strategies for effectively managing (increase) attrition to meet the 2012 operating budget targets.

The City's (Toronto Public Service) current rate of 'natural' attrition was approximately 3% for 2010 and would not provide attrition levels and savings, notwithstanding the City Manager has had a hiring slowdown in effect since 2010, to meet a significant goal of cost containment to meet the 2012 \$774 million budget pressure.

As a strategy to effectively manage attrition, the Workforce Planning Working Group recommended, and the City Manager endorsed, the creation of a new Voluntary Separation Program for permanent employees of the Toronto Public Service (TPS). The implementation of a VSP is intended to enhance the rate of natural attrition, and provide a relatively cost-effective means for achieving the City's reduction goals. The program is one strategic tool available to the city to help manage and downsize the City's workforce, resulting in savings comprising a significant component of the overall City budget. There are other strategies that may also be available including, for example, reductions in budget allocations for non-salary expenditures, potential layoffs and involuntary terminations.

The VSP was announced on July 12, 2011, with an application closing date of September 9, 2011. It was aligned to be available for use by the City during the service and budget review periods.

COMMENTS

Program Details

On July 12, 2011, the City Manager announced a corporate-wide VSP. This program was made available to all permanent employees, management, exempt non-union and union, in the Toronto Public Service, excluding employees who are represented by IAFF (TPFFA) Local 3888. The announced program applied only to employees in the Toronto Public Service.

Under the terms of the VSP, an employee is eligible to receive up to a maximum of 26 weeks of her/his salary as a lump sum payment, based on her/his continuous years of service with the Toronto Public Service.

- Employees who are eligible to retire with an immediate pension will receive retiree benefits, if eligible, in accordance with their collective agreement or City policy.
- Employees who would become eligible to retire with retiree benefits if their separation payment were paid as a salary continuation will be eligible to receive salary continuance until the end of the month they turn age 55 with any remaining money paid in a lump sum upon retirement.
- Employees who are not eligible to retire with retiree benefits are entitled to receive a benefit/transition allowance, the amount of which is based on their service calculation and employee type

Employees who wished to be considered for participation in the VSP were required to complete and submit an application to the Human Resources Division no later than Friday September 9, 2011.

Following the City Manager's July 12th announcement, staff in the Human Resources Division and Pension, Payroll & Employee Benefits Division co-hosted a total of 23 Information Sessions, held between July 26th and August 15th, and attended by over 1300 City employees, to address employees' questions on the program. Human Resources Division staff have responded to 841 email inquiries and 217 telephone inquiries. In addition, staff in the Pension, Payroll & Employee Benefits Division responded to over 1700 e-mail and phone enquiries from the time that the program was announced until September 2, 2011.

Integration of VSP into 2012 Budget Process

At the same time that the VSP was announced, each of the divisions within the Toronto Public Service was asked to prepare a downsizing plan that would demonstrate how the division was Staff report for action on Voluntary Separation Program.

planning to meet the 2012 budget pressure, and that would possibly reflect anticipated changes resulting from the core service review. The downsizing plan would serve as a tool to assist management in determining the feasibility of approving applications to the VSP.

VSP Approval Process

As of September 8, 2011, more than 1,000 applications have been received.

Following the September 9, 2011, application deadline, a management review process will be undertaken throughout the balance of September, to assess all applications and determine the feasibility of approving the application. Pending Council approval of the VSP, applicants will be notified of the approval or rejection of their applications, beginning in October, with exits expected to take place up to December 31, 2011.

A key criteria for determining the ability to approve a package will be the ability to permanently delete the applicant's position. This standard is directly linked to the division's downsizing plan and will result in achieving long-term savings for the City, by permanently reducing the position from the City's budget.

The review process will involve a centralized analysis by Human Resources staff of all applications received, followed by individual meetings with each division head to review VSP applications received from their divisional staff, in conjunction with reviewing the division's Downsizing template (aligned to their 2012 budget submission and service reviews).

In addition, to facilitate as broad and flexible an approach as possible, a corporate-wide perspective also will be applied, so that even where one particular division may not have a need to downsize or reduce a particular position (classification), consideration will be given to whether the application can be approved and the reduction taken elsewhere, in another City division. Through the existing redeployment process, staff can be moved to fill vacancies created in some areas, and allow for reductions to be taken in other areas.

Following the divisional review process and then the corporate-wide review process, the recommendations for approval of VSP applications will be presented to the Deputy City Managers and City Manager for final approval.

Notwithstanding the above process, there will continue to be a need to effectively deliver services to the public. Any approval of a VSP must also be appropriately considered and aligned with the Service Review Program and 2012 budget decisions. It is recognized that there is a balance between the need to meet the budget challenges and reduce government costs to effectively meet the city's budget pressures and the effective delivery of services to the public. In addition, the review process for final approval of any VSP must also consider the importance of retaining key talent and achieving equity and diversity goals at a time when there will be significant potential future key skills demands.

Agencies, Boards and Commissions

A number of City agencies have contacted the City Manager to discuss the feasibility of offering similar programs to achieve budget savings. The City Manager is supportive of these initiatives provided that the agencies establish a program with similar provisions and that the agencies look to any 2011 savings to fund the program. Should the savings be insufficient, the agency head should submit a report to Executive Committee through the Budget Committee to identify the projected costs and savings of the program and own funding sources to enable the City Manager and Deputy City Manager/Chief Financial Officer to identify appropriate sources to fund any residual costs.

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SIGNATURE

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