

Date: 2021-05-01

Subject: **Organizational Separation Costs – 10 Years’ Review**

Secondary Title: A review of data from 2010 - 2020

Contact: **Sandeep Aujla, HR Director (Sandeep.Aujla@Brampton.ca;**

Report Number: Corporate Support Services-2021-563

Recommendations:

1. That the report from Michael Davidson, Commissioner, Corporate Support Services and Sandeep Aujla, Director, Human Resources, Corporate Support Services, dated May 1, 2021, to the City Council Meeting of May 5, 2021, re: organizational separation costs’ review, be received.

Overview:

- **Employment contracts include termination clauses that set out the terms and conditions related to organizational exit and defines an employee’s right to notice, severance pay, or termination pay in lieu of notice under the applicable employment standards legislation.**
- **The termination clause will typically provide an employee with either a fixed notice period or a formula for calculating the notice period based on the employee’s years of service. The termination clause will also specify what benefits and variable compensation, in addition to base salary, will be continued during the notice period.**
- **This report was prepared in response to the Council request to review organizational separation costs, which get incurred when employees have their employment either terminated, primarily, without cause, or the employee reaches a mutual agreement of separation with the organization.**

- **For the purposes of this report, the analysis has been limited to the organizational exits in the last ten years at the City of Brampton and the term ‘separation costs’ refers to the overall costs associated with employee exit, including severance pay, termination pay, and pay in lieu of notice.**

Background:

It is standard practice for employment contracts to contain a termination clause that articulates the terms and conditions related to organizational exit, termination without cause and employee’s right to notice, severance or termination pay in lieu of notice under the applicable employment standards legislation.

Termination of employment is considered a serious and last resort option.

In Ontario, under the Ontario Employment Standards Act, 2000 (“ESA”), the separation entitlements include a

- minimum period of notice of termination (statutory notice and/or termination pay),
- severance pay (if applicable),
- benefit continuation and vacation over the notice period, and
- common law reasonable notice and/or pay in lieu of notice.

Over the last ten years, there has been a significant variability in the number of employees’ exits and the resulting separation costs, which are reviewed in this report.

Current Situation:

Over the last ten years (including 2 full Council terms and 1 partial Council term), the organization has been led by eight Chief Administrative Officers (CAOs), both in a permanent and acting capacity. Each of them processed employee exits at a different rate.

Furthermore, the employment contracts at the City of Brampton have had significant variability under different leaders with regards to the language of the termination clause, specifically the number of months noted in the formula to calculate the notice period in cases of termination without cause.

Notwithstanding the discrepancies in the termination clauses in employee contracts, the following tables summarize the total number of employee separations and associated separation costs for the last ten years, by Council term.

Table 1 – Council Term Comparison (Count of Cases and Financial Impact)

Term	Count of Employees	Separation Costs
2010 – 2014	47	\$3,801,100
2014 – 2018	194	\$24,613,300
2018 – 2022*	57	\$9,438,600
Total	298	\$37,853,000

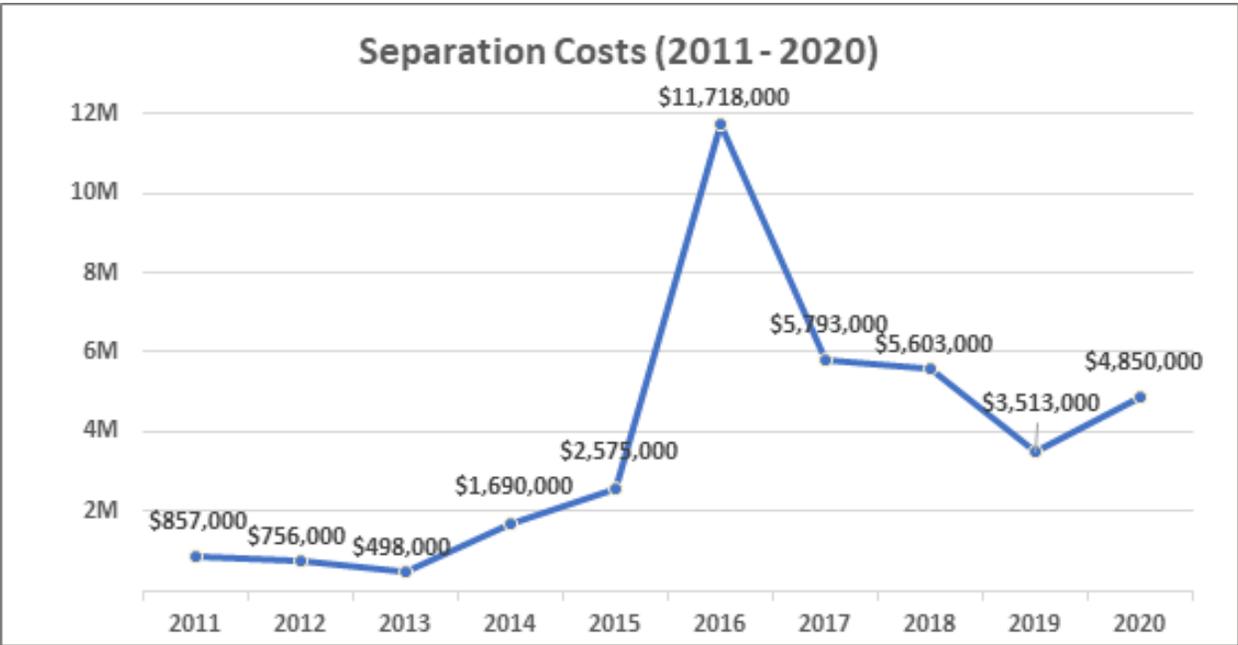
**Includes settled terminations up until March 30, 2021.*

Each term of Council begins in December and costs have been adjusted to line up with these Council terms. For example, the 2010 – 2014 term includes separations from Dec. 1, 2010 – Dec 1, 2014. A few notable contextual comments and insights include:

- The 2014 – 2018 Council members supported a corporate realignment initiative, meant to identify efficiencies, and streamline departmental processes. This led to a significant increase in separations during that Council term.
- The 2018 – 2022 separations included a greater proportion of senior leaders, which resulted in higher overall termination costs.

Table 2 – Year-Over-Year Comparison (Count of Cases and Financial Impact)

Year	Count of Employees	Separation Costs
2011	14	\$857,000
2012	9	\$756,000
2013	5	\$498,000
2014	19	\$1,690,000
2015	17	\$2,575,000
2016	78	\$11,718,000
2017	47	\$5,793,000
2018	53	\$5,603,000
2019	29	\$3,513,000
2020	27	\$4,850,000
Total	298	\$37,853,000



Noted below are a few insights identified by reviewing the last ten years of data:

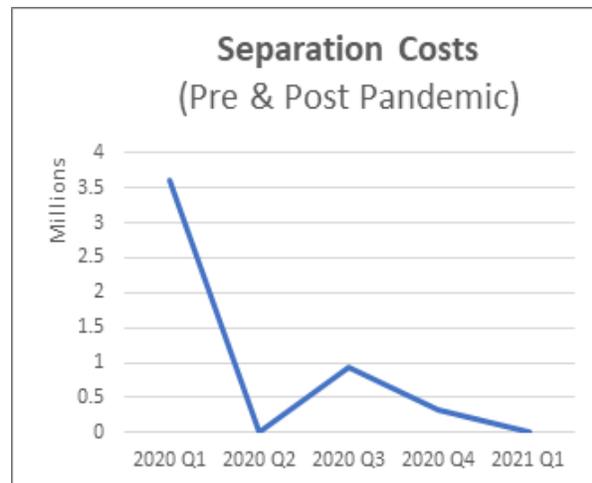
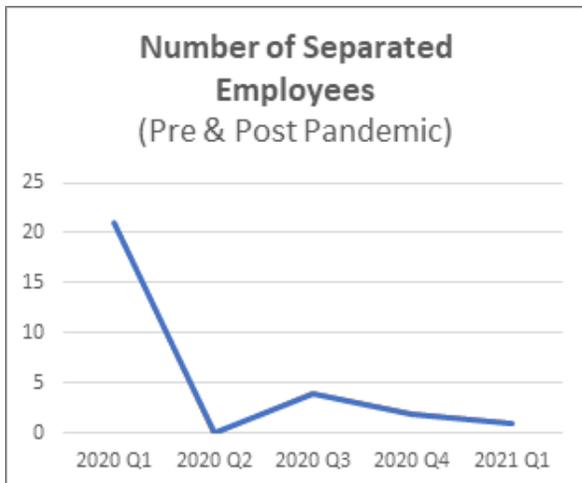
1. The organization experienced a downward trend in the first three years (2011-2013), followed by a gradual increase in the number of employees separated until a significant increase in terminations occurred in 2016, followed by a downward trend in the last five years.
2. With the exception of 2016 that involved a mass exit of 78 employees, costing the corporation almost \$12M, the remaining years demonstrated a relatively stable trend with separation costs averaging about \$2.9M per year.

3. In the last ten years, the highest amount of separation costs was experienced in Corporate Support Services (\$11.7M), followed by Community Services (\$7.5M). In contrast, the lowest amount of separation costs was incurred in the Mayor's office (\$0.24M), followed by the Members of Council (\$0.38M). These amounts were computed based on the divisions that currently comprise these operating departments.
4. The last ten years have included employee separations at all pay grade levels (Pay grade level 1 to Pay grade level 14).
5. The largest amount of separation costs was driven by salary continuance (\$28.5M), which includes the provision of fringe benefits, followed by lieu of notice (\$3.2M) and vacation payouts (\$2.7M).

Furthermore, it is important to note the significant decrease in the count of separated employees and the associated separation costs since the advent of COVID-19 pandemic.

Table 3 – Count of Cases and Financial Impact post COVID-19 Pandemic

Year	Count of Employees	Separation Costs
2020 Q1 (Pre-Pandemic, i.e., prior to March 13, 2020)	21	\$3,606,000
2020 Q2	0	\$0
2020 Q3	4	\$930,000
2020 Q4	2	\$313,000
2021 Q1	1	\$0
Total	28	\$4,850,000



Corporate Implications:

Financial Implications:

- The corporation of the City of Brampton has incurred over \$38M in separation costs over the last ten years but has a more stable average of about \$4.9M per year in separation costs for the last four years.
- The corporation will continue to balance the costs of turnover (e.g., costs of finding and training replacements) with the costs of avoiding turnover (e.g., expensive inducements to keep staff that either are not performing at expected levels or are not aligned with the organizational strategy and culture).
- The current administration has adopted conservative language in termination clauses in employee contracts that include smaller number of months noted in the formula for computing the notice period in cases of termination without cause, which should reduce the total separation costs in the coming years.

Other Implications:

- The corporation will continue to seriously evaluate termination decisions as a last resort in managing performance and maintaining a results-oriented high-performing culture.

Term of Council Priorities:

This report supports the Council's priority of being a well-run city.

Conclusion:

This report highlights the corporate trends for severance costs incurred at the City of Brampton for the last ten years. With eight Chief Administrative Officers (CAOs—in permanent and acting positions) in the last ten years, the Corporation has experienced significant variability resulting from the different leadership approaches and their subsequently variable handling of terms and conditions related to termination, which is reflected in the resulting separation costs.

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Attachments: