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Asked of: Hon. George Hickes, MLA

Number: 64-5 (2)

Date: March 12, 2020

Subject: Government of Nunavut Budget Process

Question 1:

With respect to the Government of Nunavut's budget development process, how is the term "vacancy factor" defined by the Financial Management Board?

Response:

The Financial Management Board (FMB) approves Financial Administration Manual (FAM) directives. Many of these directives define terms they use to provide better guidance about how to implement the directive. Outside this FAM process, FMB has not itself, to our recollection, been asked to formally define specific terms, including "vacancy factor."

Generally, though, the term "vacancy factor" as it relates to the GN's budgeting process refers to adjustments budget managers may make when they internally forecast compensation and benefits costs to recognize that not all employee positions will be filled for the entire period and other matters that impact compensation and benefits costs.

Question 2:

With respect to the Government of Nunavut's budget development process, what methodology does the Financial Management Board use to determine the approved vacancy factors for departments, public agencies and territorial corporations?

Response:

FMB does not explicitly consider or approve vacancy factors that departments, public agencies, or territorial corporations may use.

Instead, FMB decides on the government's overall request for appropriation to be put forward for the Assembly's consideration by way of the Main Estimates and related appropriation bill.

In this way, FMB focuses on advancing the government's mandate by primarily considering proposed spending initiatives and new positions. The Board considers and endorses the "big picture" budget request to the Assembly, rather than approving each individual assumption, calculation, adjustment or other mechanism that make up the government's annual budget process.

Please note, the process described above only applies to departments seeking appropriations. Public agencies and territorial corporations that do not require appropriations do not submit their budgets for the Assembly's approval.

For added clarity, it is up to each department and responsible Minister to determine, request and justify the appropriations they seek from the Assembly, within the "big picture" direction the Board sets and agrees to.

In terms of incorporating vacancy rates into budget forecasts and appropriation requests, each department chooses (and should be prepared to explain and justify) their own approach.

As an example, when the Department of Finance prepares its annual budget request it estimates its compensation and benefits needs on a division-by-division basis. Specifically, officials:

- consider employment levels in each of the department's divisions;
- discuss staffing expectations and plans with each director (including at a position/employee level);
- consider likely timelines for both hiring and departures (e.g. if we expect a position to be vacant for a few months while we run a competition, or if we know someone plans to retire mid year);
- consider casual employment (simply because a position is "vacant" in terms of lacking a permanent employee does not mean the department does not require funds to pay for a casual staff); and
- incorporate other adjustments as seems reasonable or practical.

Based on these and other considerations (e.g. what "step" of pay would each employee receive at the approved levels), the Department of Finance adjusts its budget requests differently for each division each year – we do not apply a blanket "vacancy factor" across the department.

For the Committee's interest, Table 1 shows by division Finance's *budgeted* compensation and benefits costs (as we requested in the Main Estimates) relative to *potential* compensation and benefits costs (assuming we could fill all positions at maximum levels for the entire year). The difference between the two, when expressed as a percent and added up across our divisions, could be considered our departmental "vacancy factor."

At a high level, the Department of Finance's 2020-21 budget is about 94% of what it could cost if our positions were fully filled. It is important to reinforce that the resulting 6% "vacancy factor" is an after-thought based on detailed budgeting – it is not our starting point.

Question 3:

With respect to the 2018-19 main estimates, what was the approved vacancy factor for each department, Crown agency and territorial corporation?

Response:

FMB did not explicitly consider or approve vacancy factors for departments, Crown agencies, or territorial corporations in 2018-19.

Question 4:

With respect to the 2019-20 main estimates, what was the approved vacancy factor for each department, Crown agency and territorial corporation?

Response:

FMB did not explicitly consider or approve vacancy factors for departments, Crown agencies, or territorial corporations in 2019-20.

Question 5:

With respect to the 2020-21 main estimates, what was the approved vacancy factor for each department, Crown agency and territorial corporation?

Response:

FMB did not explicitly consider or approve vacancy factors for departments, Crown agencies, or territorial corporations in 2020-21.

**Table 1: Department of Finance's budgeting for employee compensation and benefits
Requested vs. Potential, by Division
2020-21 (\$ 000s)**

| Division | Budgeted / Requested A | Potential (note 1) B | Difference (%) =A/B |
|--|------------------------------|----------------------------|---------------------------|
| Corporate Management Branch | 3,656 | 3,839 | 95% |
| Office of the DM | 524 | 524 | 100% |
| Corporate Policy | 1,696 | 1,849 | 92% |
| Office of the ADM | 281 | 281 | 100% |
| NLCB | 37 | 37 | 100% |
| Office of the Comptroller General | 673 | 703 | 96% |
| Office of the Assistant Comptroller General | 445 | 445 | 100% |
| Fiscal Management Branch | 6,176 | 6,492 | 95% |
| Corporate Services | 2,434 | 2,536 | 96% |
| Fiscal Policy | 1,771 | 1,924 | 92% |
| Expenditure Management | 1,971 | 2,032 | 97% |
| Comptrollership Branch | 17,915 | 19,229 | 93% |
| Financial Management Training & Development | 430 | 547 | 79% |
| Financial Operations | 2,848 | 3,090 | 92% |
| Compensation & Benefits | 3,236 | 3,326 | 97% |
| Financial Systems Management | 2,135 | 2,313 | 92% |
| Financial Reporting & Controls | 1,677 | 1,843 | 91% |
| Internal Audit Services | 1,217 | 1,332 | 91% |
| Qikiqtani Regional Operations | 1,213 | 1,266 | 96% |
| Kitikmeot Regional Operations | 2,132 | 2,476 | 86% |
| Kivalliq Regional Operations | 3,027 | 3,036 | 100% |
| Core Department (note 2) | 27,747 | 29,560 | 94% |

Note 1: For the purposes of this response, "Potential" shows the estimated compensation and benefits costs of each division if all positions were filled for the full year at the top end of the established pay band. We assumed all other aspects of our current employee makeup remain as we initially forecast (e.g. no additional employee becomes eligible for housing allowance, no changes to our employee team in terms of continuous service bonuses, etc.), though these too impact actual costs.

Note 2: As part of its 2020-21 appropriations, FIN will also receive \$12.937 M for Employee Benefits, allocated to our Centrally Administered Funds Branch. While these count as part of the department's total \$40.684 M in C&B costs, they relate to GN-wide payments and so do not fall under consideration for matters like "vacancy factor."