

ADMINISTRATIVE REPORT

TO: Board of Directors

FROM: B. Newell, Chief Administrative Officer

DATE: 6 January 2022

RE: Administrative Overhead Policy

Administrative Recommendation:

1. **THAT the Administrative Overhead Policy as attached to the January 6, 2022 Administrative Overhead Policy Administrative Report be approved; and,**
2. **THAT the Administrative Overhead Policy be reviewed in its entirety every 4th year.**

Business Plan Objective:

To fairly allocate general administrative and corporate costs to the services that the Regional District of Okanagan Similkameen provides.

Background:

The purpose of this policy is to fairly allocate general administrative and corporate costs to the services that benefit from these functions. Under Sections 379(1) and 380(2) of the Local Government Act, all costs incurred by a regional district in relation to a service, including costs of administration attributable to the service, are part of the costs of that service and that those costs must be apportioned among all electoral areas, including both member municipalities and electoral areas.

ALLOCATION PRINCIPLES

The overhead allocation policy is based on the following set of guiding principles:

- Fairness - overhead cost allocation should reflect actual consumption patterns of the service;
- Reasonableness - the allocated charge should not exceed gross operational cost of the service, and be fair.
- Transparency and Simplicity - The method of allocation should be easy to apply and understand, and require a single iteration of calculation;
- Stability - Cost allocation flows should be relatively stable year over year;

- Ease of Administration - consumption based cost allocation flows are maintained as paramount, ease of administration and a simple formula are key to transparency and consistency;
- Objectivity - the method of allocation should rely on primarily independent data to calculate the allocated charge for each service, rather than an individual's judgement, where possible. Where professional judgement must be applied, the decision should be supported by reasoning and logic.

The administration charge has been amended annually over the past few years and there was a material change in the redistribution of the overhead charges. In 2021, at the request of the City of Penticton, the Board directed that staff review the overhead formula used to allocate the various services and bring back a policy that was fair.

The **functions** that determine the overhead charges have not changed, however, the method used to redistribute these costs have changed. Administrative Overhead includes:

- o Human Resources
- o Legislative Services
- o Finance
- o Information Services
- o Corporate Facilities

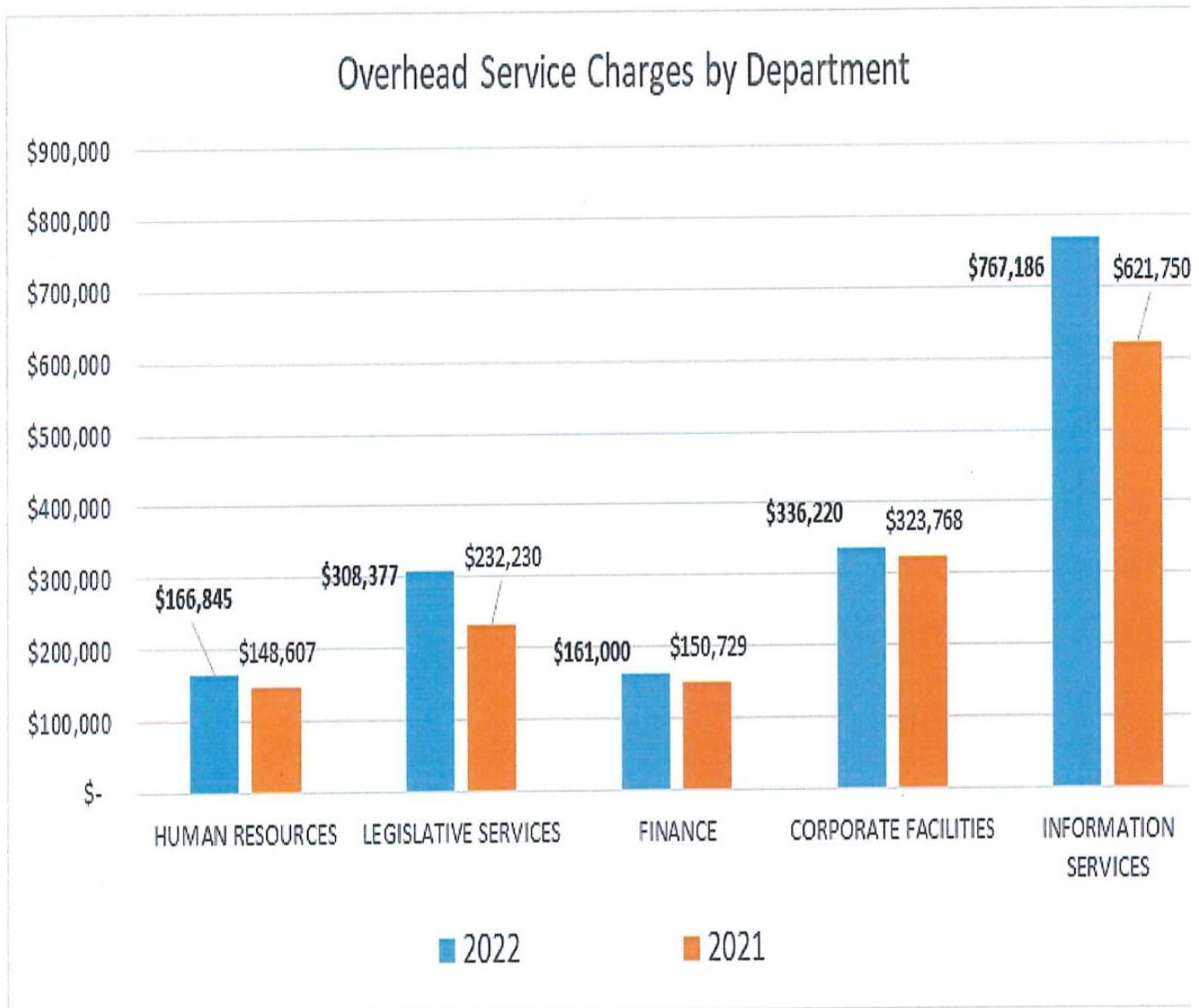
On November 13, 2020 the Board approved the functions listed above for inclusion in the Administrative Overhead Policy.

The functions previously approved from prior years are consistent for 2022, but the percentages used in 2022 are identified below:

- o Salaries and wages are included only for calculating the net expenses for operational Services.
- o No administrative overhead is charged on wages, transfer to reserves, debt servicing and carry forward capital projects.
- o 20% of the calculated overhead costs would be charged against capital projects using a tier based system.
- o The remaining overhead costs (80%) would be distributed amongst the various services based on a tier basis. There are 6 tiers with each tier charged at a different percentage.

Charging overhead to capital projects is new to the Regional District, however, it adheres to the principle of fairness. That is, capital projects take up staff time just as operational services do. While it can be said that the overhead charge reduces the amount available to fund the project, not charging overhead to capital and charging it to operations will reduce the amount of transfer to reserves that would be used to fund the capital project.

The following graph illustrates the overhead charged to operational and capital services for 2021 and 2022:



Alternatives:

THAT the overhead policy be rejected.

Respectfully submitted:

J. Zaffino, Finance Manager

Attachment: Overhead Policy