

# Alternative Economic Indicators

## Recommendation:

That the June 25, 2012, Financial Services and Utilities report 2012CA6216, be received for information.

## Report Summary

**The current approach to adjusting compensation based on changes in average weekly earnings has a number of limitations. Three alternative methods are presented in this report and compared with the historical pattern of changes in compensation.**

## Previous Council/Committee Action

At the June 11, 2012, Independent Council Compensation Committee meeting, the following motion was passed:

That Administration provide a report to the Independent Council Compensation Committee outlining alternative indicators to be used for Mayor and Councillor salary.

## Report

There are a number of limitations with respect to the current compensation method that employs the change in Alberta average weekly earnings as a guide to setting increases for City Council compensation. Hence the committee asked that consideration be given to what alternatives might be available. To address this request a wide range of price and earnings measures were examined and three

were selected on the basis that they best addressed one or more of the shortcomings associated with average weekly earnings as a basis for adjusting compensation. A fourth alternative based on the method employed by Ottawa is also presented.

Each of these alternatives are discussed in greater detail below and Table 1, as outlined in Attachment 1, provides a comparison of their grow rates to the historical change in compensation.

## Average Hourly Wages

Changes in average weekly earnings can reflect a number of factors including increases in the hours worked as well as overtime and bonus payments. Average hourly wages excludes overtime and other payments and does not change with the hours worked. As well, since the value used is for full time employees, it is not affected by shifts between part time and full time employment.

Of the three alternatives presented in Table 1, Alberta average hourly wage rate most closely matches the total increases that were actually awarded to City Council and the Mayor. Unfortunately it also shares some of the volatility of Alberta average earnings.

## Consumer Price Index

By using the annual growth in the Edmonton region's consumer price index to guide compensation adjustments, the real value of incomes is preserved. However as can be seen in table 1, consumer price index based increases are in general well below what has been the historical experience. Over time, because most works receive increases that cover inflation plus an

additional amount associated with improving productivity, compensation levels based only on consumer price index would gradually fall compared to what employees in the rest of the Alberta economy are earning.

### **Consumer Price Index Price Index plus Population Growth**

As noted above, providing compensation increases based on consumer price index does insure that the real value of an individual's income does not fall over time. However it does not provide for any growth in income to reflect increasing work loads and complexity of issues faced by council as the City expands. Adding the population growth of the City as measured by the municipal and federal census would provide for both real increases in income and a reflection the growth of the City. The value in table 1 provides the annual growth rate of the Cities population. For those years when a census was not taken the average growth rate over the period between the census years was used.

This alternative provides for the largest increases in compensation. As well, compared to average wages and consumer price index alone, the increase are much less variable from year to year making it easier to anticipate how compensation will change in any given period.

### **The Lesser of the Consumer Price Index and the Average Increase awarded to Municipal Employees**

This approach is used by the City of Ottawa. In the case of Edmonton there were only two years in which inflation was higher then the average pay increase for City employees. Hence the

results are not dramatically different from using the consumer price index alone. It should be noted that this formula would result in the real value of compensation slowly declining over time.

### **Attachment**

1. Table 1 – Alternative Indicators

Table 1 – Alternative Indicators

Year	Mayor and Councilors	Consumer Price Index, Edmonton CMA	Average Increase for City Staff	Lesser of CPI or Average Wage Increase	Average Annual Population Growth Rate	CPI plus Population Growth	Alberta Full time Average Hourly Wage
2001	3.6%	2.2%	2.9%	2.2%	1.3%	3.5%	3.0%
2002	3.2%	2.9%	2.9%	2.9%	1.8%	4.7%	4.8%
2003	1.8%	5.3%	3.0%	3.0%	1.8%	7.1%	5.1%
2004	2.2%	1.0%	3.5%	1.0%	1.8%	2.8%	1.1%
2005	2.6%	2.1%	3.5%	2.1%	1.8%	3.9%	2.1%
2006	5.8%	3.1%	3.0%	3.1%	2.5%	5.6%	6.2%
2007	4.4%	4.8%	4.0%	4.0%	1.5%	6.3%	6.7%
2008	4.4%	3.4%	5.1%	3.4%	1.5%	4.9%	5.5%
2009	5.5%	0.2%	4.9%	0.2%	4.0%	4.2%	5.6%
2010	0.6%	1.1%	4.9%	1.1%	1.9%	3.0%	5.2%
2011	4.6%	2.5%	2.2%	2.5%	1.9%	4.4%	1.1%
2012	5.4%	2.7%	3.0%	2.7%	1.9%	4.6%	1.5%
<b>TOTAL</b>	<b>44.1%</b>	<b>31.3%</b>	<b>42.9%</b>	<b>28.2%</b>	<b>23.7%</b>	<b>55.0%</b>	<b>47.8%</b>