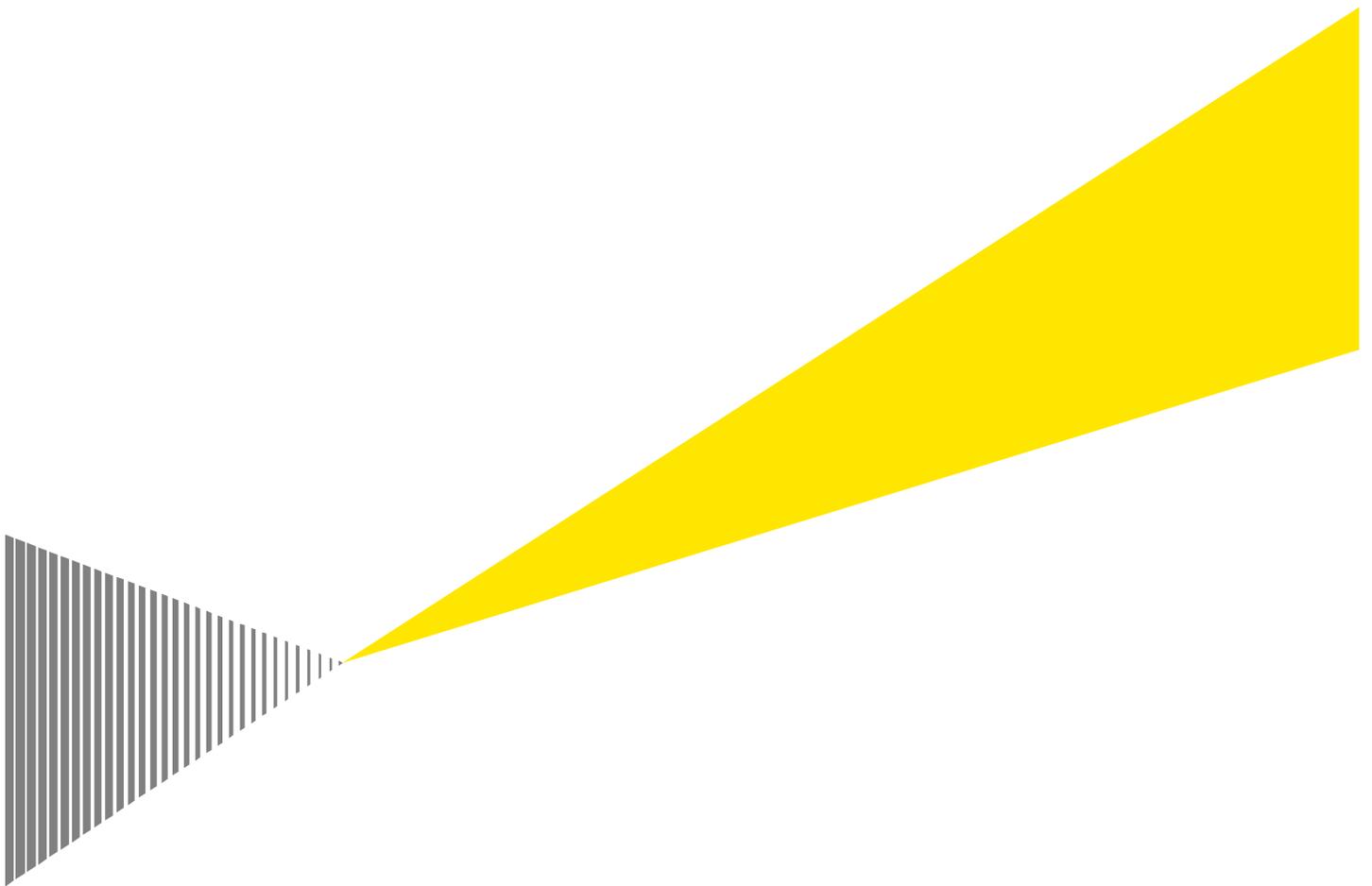


# BC Public Sector Compensation Review

October 2014



# Contents

## REPORT

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1	Executive summary	3
2	Objectives and scope	6
3	Variations in trends in compensation	8
4	Variation in philosophies and governance models	16
5	Talent management implications	25
6	Recommendations	30
7	Limitations	43

## APPENDICES

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A	Approach to building the evidence base	45
B	Total Public Sector wages	49
C	Supplementary evidence	51
D	Spectrum of strategies for Regional & Local Government	81

# 1. Executive summary

## The Mandate

In November 2013, the Province of British Columbia engaged Ernst & Young to conduct a review of recent trends in compensation across the BC Public Sector and to assess the current models for setting mandates and management and executive compensation<sup>A</sup>. The Province required that the review foremost consider the role of taxpayers, as well as recognize the need for leadership and talent in the BC Public Sector.

## Summary of findings

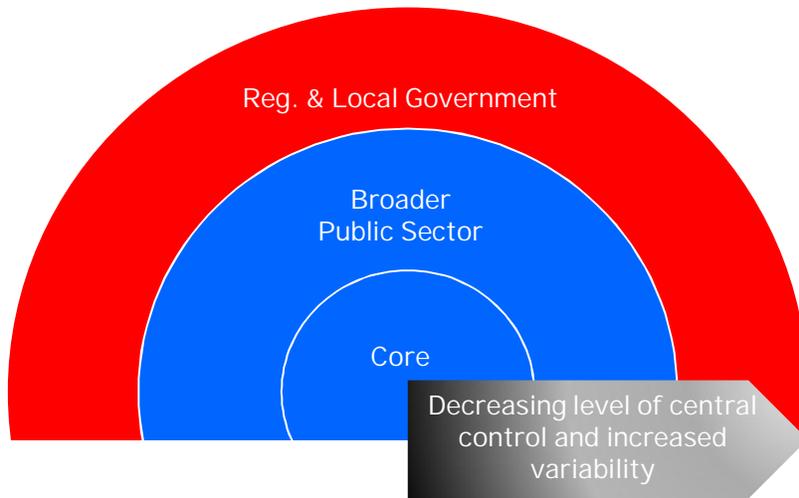
There is clear variation in models used for setting compensation across the BC Public Sector. Compared to the Provincial level of Government, Local Government compensation is not coordinated (or regulated); there are no limits other than what Local Governments determine the sector can bear; and there are less transparency requirements. This has resulted in a lack of alignment in compensation between levels and also across the Sector. While data was not available to support robust and comprehensive analysis, available data supported the following observations:

	Core Government (Public Service)	Broader Public Sector	Regional & Local Government
Executive	<ul style="list-style-type: none"> <li>The current governance structure has enabled Core Government to very effectively 'hold the line' on executive compensation, with average executive salary remaining flat from 2009 to 2014</li> </ul>	<ul style="list-style-type: none"> <li>The majority of Broader Public Sector organizations appear to have broadly 'held the line' on executive compensation from 2009 to 2011</li> <li>In 2011-12, compensation across the most senior leadership roles (e.g. CEO vs. Deputy Minister "DM") was higher in the Broader Public Sector than in the Core Government</li> </ul>	<ul style="list-style-type: none"> <li>In 2011, compensation across the most senior leadership roles (i.e. City Managers and Chief Administrative Officers of larger municipalities vs. DMs) was generally on parity with the Core Government, and compensation in Vancouver and Metro Vancouver was higher than the top of the DM salary range</li> </ul>
Management and Excluded	<ul style="list-style-type: none"> <li>At the management level, Core Government compensation has been essentially flat since 2009 and there have been virtually no increases in compensation</li> </ul>	<ul style="list-style-type: none"> <li>Analysis of a sample of salary bands indicated that managers in the Broader Public Sector are typically paid more than peers in the Core Government but less than those in Regional &amp; Local Government</li> </ul>	<ul style="list-style-type: none"> <li>At the management level there is no clear alignment between Provincial and Regional &amp; Local Government compensation, with Regional &amp; Local Government paying higher compensation in the majority of cases for comparable roles</li> </ul>
Bargaining unit	<ul style="list-style-type: none"> <li>Analysis of settlement data indicates that between 2001 and 2012, Core Government employees received 19% cumulative increase; those in the Broader Public Sector received 24%; and those in Regional &amp; Local Government received 38%. This in comparison to inflation of 23%</li> <li>At the bargaining unit level there is no clear alignment between Regional &amp; Local Government compensation and compensation in the Core Government and Broader Public Sector. Regional &amp; Local Government is paying higher compensation in the majority of cases for comparable roles</li> </ul>		

While the variation between compensation in the Core Government and other areas within the Province is of greatest concern, it is important to consider the talent management implications of freezes in compensation in the Core, which create compression and retention risk.

## Philosophies <sup>A</sup> and models for setting compensation

Significant variation was found in philosophies and governance models for setting compensation across the BC Public Sector. This is challenging to understand from the taxpayer's perspective- as there is only one "pocket" that pays for these services provided by the Broader Public Sector employees. The further 'conceptually' from the Core an entity sits, the more diminished the level of control Cabinet and the Minister have over the setting of compensation. In practice, for example, the Provincial Government has no direct oversight or say in compensation in Regional & Local Government. If compensation is to be aligned across the BC Public Sector, these philosophies and models must be standardized and aligned.



Note: Throughout the document, Core Government refers to the public service; the Broader Public Sector includes the K-12, social services, health, university, college and Crown corporation sectors; Regional & Local Government includes Municipal Government, Regional Government, Fire and Police, BC Ferries and TransLink <sup>B</sup>

## Summary of recommendations

- ▶ There is a need to drive greater alignment in compensation across the Core, Public Service, Broader Public Sector and Regional & Local Government in order to meet the expectations of the "single taxpayer" that tax dollars be spent consistently and effectively for comparable resources across all areas of Government
- ▶ Alignment of compensation needs to be created through a clearly defined philosophy and governance model and enablers driven from the centre and adopted across the breadth of Government
- ▶ The Core Government had a compensation philosophy previously approved by Cabinet. Due to financial restraints, however, this was partially implemented in 2008 and was not sustained over time. It should be reviewed and updated and could form the basis for the philosophy for the breadth of the BC Public Sector
- ▶ The Provincial Government's house must be "in order" before Regional & Local Government can be expected to follow; but the Provincial Government should do what is necessary to bring Regional & Local Government compensation into alignment over time, including using financial levers if necessary

<sup>A</sup> Philosophies refers to principles, mandates and rules for setting compensation including alignment with market comparators

<sup>B</sup> Note that BC Ferries and TransLink are not covered by the *Public Sector Employers Act*.

Three connected initiatives are recommended

1. Create common philosophy & enablers	2. Build governance model and processes to enable alignment across BC public sector	3. Deploy and sustain
Refresh Core Government philosophy for application to Broader Public Sector	Design future state governance model to enable alignment of compensation across BC Public Sector to Core Government	Design strategic approach to bringing Regional & Local Government under this governance model and design detailed transition plan to move to future state
<ol style="list-style-type: none"> <li>1. Revisit and update the previously approved compensation philosophy for the Core where necessary</li> <li>2. Further develop this philosophy to create a shared philosophy for the entire BC Public Sector, providing common principles, processes and guidelines</li> <li>3. Establish standardized benchmarking tools in the Core and roll out across the BC Public Sector</li> <li>4. Invest in more accessible and comprehensive data in the Core and roll out across the BC Public Sector</li> </ol>	<ol style="list-style-type: none"> <li>1. Communicate and set expectation that Cabinet will set philosophy and direction across entire BC Public Sector</li> <li>2. Revisit the role of Crown Corporation Boards in establishing Broader Public Sector Compensation and revisit the remuneration categorization for Crown corporations and adjust based on common principles</li> <li>3. Establish responsibilities, process and procedure for issuance of a single strategic directive from Cabinet to align compensation across all BC Public Sector, including removing need for Cabinet role in 'day-to-day' procedure, and setting consequences for non-compliance</li> <li>4. Finalize current review of Provincial model including need to align Employers' Associations in the Broader Public Sector</li> <li>5. Enable a common bargaining approach in Regional &amp; Local Government</li> <li>6. Conduct a review of current arbitration models</li> </ol>	<ol style="list-style-type: none"> <li>7. Select strategy to create adherence to philosophy and governance model. It is proposed that: <ul style="list-style-type: none"> <li>• As data and benchmarking capability improves, educate and set a framework of expectations in order to provide Regional &amp; Local Government with the opportunity to 'do the right thing' by complying</li> <li>• Where education and setting of expectations do not yield results, use financial levers to directly encourage Regional &amp; Local Government to set compensation caps and Provincial Government to stop providing funding once cap has been reached</li> </ul> <p>With strategy selected, design detailed transition plan to future state, including setting clear timelines as to expectations for Regional &amp; Local Government</p> </li> <li>1. Deploy and make sustainable including: <ul style="list-style-type: none"> <li>• Execute implementation plan</li> <li>• Conduct market reviews every two years to review compensation and adjust bands as required</li> <li>• Make ongoing adjustments to models through a standard approval process</li> <li>• Cabinet to approve philosophy as required</li> <li>• Put process in place to review and refresh compensation philosophy on a regular and ongoing basis.</li> </ul> </li> </ol>

A key conclusion that was drawn from this analysis is that Core Government established a solid philosophy to guide their approach to compensation, which was approved by Cabinet in 2008 and partially implemented. The reality is that this was not sustained because of the realities of fiscal restraint. It would be worth refreshing this philosophy, updating it as required, then use this to ground compensation across the BC Public Sector.

## 2. Objectives and scope

BC is undertaking a Core Review with clearly defined objectives

British Columbia is fortunate to not have been as significantly impacted by the economic downturn as other jurisdictions, due largely to its strong fiscal policy. However, continued financial restraint is required in the face of an economic outlook of slow recovery and prolonged economic risk.

In this context, in July 2013, the Province released the Terms of Reference for its 2013/14 Core Review. As part of its ongoing commitment to fiscal responsibility Government has initiated a core review process with a goal to ensure the best possible use of Government resources and respect for the interests of taxpayers. The Cabinet Working Group on Core Review is tasked with examining all Government programs including ministries, SUCH sector organizations (school districts, universities, colleges and health authorities/hospital societies) and all Crown Corporations, agencies, boards and commissions, with a view of positioning the province for sustained economic growth and prosperity.

The Core Review process has six objectives:

- ▶ Ensure that the programs and activities of ministries are focused on achieving Government's vision of a strong economy and secure tomorrow
- ▶ Ensure that Government is operating as efficiently and effectively as possible
- ▶ Confirm Government's core responsibilities and eliminate programs that could provide better service at less cost through alternative service delivery models
- ▶ Ensure budget targets are achieved consistent with Budget 2013 (June Update)
- ▶ Identify opportunities where further savings can be re-directed to high priority programs
- ▶ Ensure public sector management wage levels are appropriate while recognizing the need for leaders who can positively impact the effectiveness and productivity of public sector agencies.

The Core Review has created the mandate to review variations in compensation

In considering the stated objective of the Core Review of ensuring appropriate public sector wage levels, it has been observed by the Province that variation may exist in recent trends in compensation across the BC Public Sector. It is believed that while some areas of the Public Sector have achieved year on year compensation freezes, other have seen significant increases.

This variation gives rise to two principle questions concerning the appropriateness of public service wages:

- ▶ On the one hand, when viewed from a 'single taxpayer' perspective, the apparent lack of correlation between the province's economic position and compensation increases in certain areas of Government as well as the mere existence of inconsistency across Government, creates concern that tax dollars are not being spent consistently and effectively on comparable resources across all areas of the BC Public Sector
- ▶ On the other hand, the existence of sustained compensation freezes may lead to significant talent management challenges, given constraints in attracting and retaining skilled resources

As well as this issue being a priority for Government, numerous communities of interest external to the Government have recently drawn attention to the issue of variations in compensation between comparable parties, including the Business Council of British Columbia; the Independent Contractors and Business Association; the Fraser Institute; and the provincial press.

It is within this context that EY has been engaged to conduct an independent review

The Province of BC has engaged EY to conduct an objective and independent review of compensation across select areas of the Public Sector in order to:

- ▶ Review recent trends in compensation across the BC Public Sector
- ▶ Assess the current models for setting mandates and management and executive compensation

In conducting the Review, the Province directed EY to consider foremost the role of taxpayers as well as recognize the need for continued strong leadership and talent in the BC Public Sector.

### Scope and approach

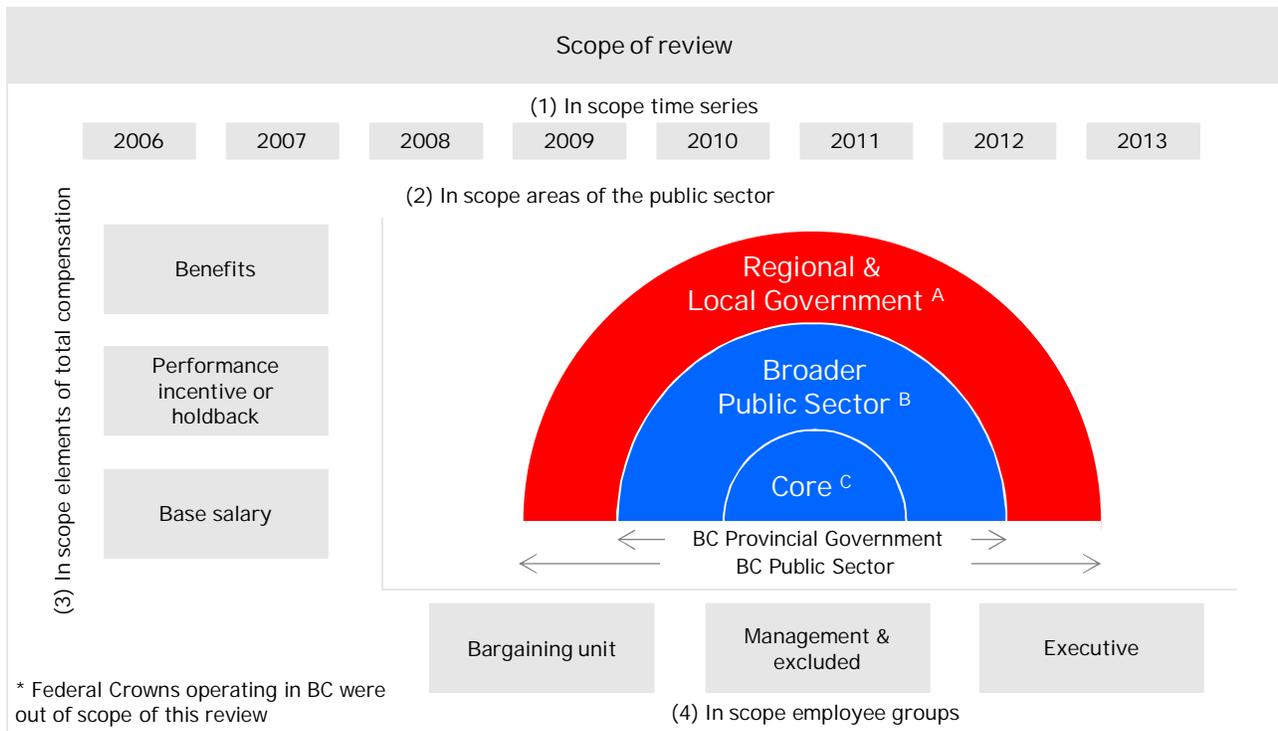
The Review focused on the scope outlined in the diagram below. The Review was conducted through analysis of available data, interviews with key stakeholders and through consideration of publicly available literature – which in some cases was assumed to directly or indirectly represent the opinions of taxpayers (See Appendix A).

It is important for the reader to be aware of limitations in scope and use of terminology

It is important to note that the objective of the Review was not to benchmark compensation to the private sector, Federal Government compensation, or to Regional & Local Government compensation in other jurisdictions.

It is important for the reader to understand a number of key terms used in this report:

- ▶ The “BC Public Sector” is used to refer to the Core Government, the Broader Public Sector and Regional & Local Government collectively
- ▶ The “Provincial Government” is used to refer to the Core Government and the Broader Public Sector collectively
- ▶ The “Public Service” may be used to refer to the Core Government
- ▶ Regional & Local Government includes Municipal Government, Regional Government Fire and Police, BC Ferries and Translink.



<sup>A</sup> Regional & Local Government includes Municipal Government, Regional Government, Fire and Police, BC Ferries and TransLink

<sup>B</sup> Broader Public Sector includes Crowns, Schools, Colleges, Universities, Health Authorities and social services

<sup>C</sup> Core Government includes Ministries and Agencies as well as some smaller Crowns

### 3. Variation in recent trends in compensation within the sector

It has been a challenge to access sufficient data to allow a detailed comparison of compensation

The following section presents findings as to variations in recent increases in compensation across the BC Public Sector and absolute levels of compensation. It should be noted that significant data limitations were encountered in constructing this analysis, including but not limited to: lack of data across all areas of the BC Public Sector, limited time series of data, lack of comparability in terms of the elements of total compensation included in data reported, and lack of means of identifying job types with comparable roles and responsibilities. In addition, it should be noted that a number of disparate sources of data were collected to construct this analysis. As a result, it has not been possible in all cases to present findings in the manner of a consistent and integrated story.

#### Analysis of trends in compensation

While comprehensive data was not available to support robust and detailed analysis, available data suggested a significant lack of alignment in compensation across the BC Public Sector. It should be noted that robust data has become of increasing importance in the move to open data and transparency, but a structure for consistent and detailed data is not yet available. Data to support statutory requirements and related policy is in place in the Provincial Government. Since local levels of Government are not subject to the statutory framework for the public sector, comparable data is not available for Regional & Local Government.

At the executive level, evidence was found that the Core Government and to a lesser extent the Broader Public Sector have effectively 'held the line' on compensation since 2009. Comparing the compensation of the most senior levels of leadership for example, indicates that a significant number of Broader Public Sector CEOs are paid more than the average Deputy Minister ("DM") and that total compensation across this sector shows considerable variability. In 2011, some Regional & Local Government leaders were compensated at a significantly higher level than leaders in the Core Government.

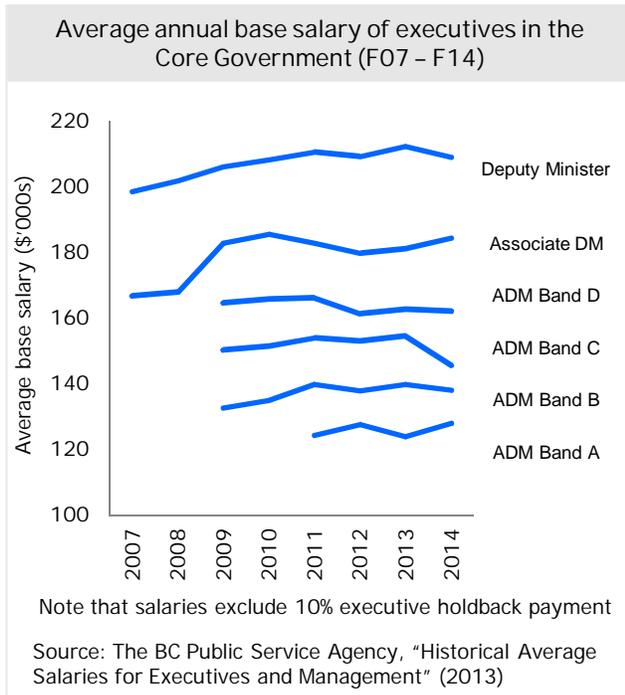
At the management and excluded level, the Core Public Sector has been essentially frozen on compensation since 2009. No comprehensive data was available to analyse how well the Broader Public Sector is 'holding the line' on management compensation; however, analysis of a sample of management level pay bands in use in Broader Public Sector entities indicates that these bands are materially higher than those used by the Core Government. In addition, comparing both the pay bands and actual compensation of Regional & Local Government managers to those of peers in the Provincial Government indicates that Regional & Local Government is paying more in the majority of cases for comparable management and excluded roles.

At the bargaining unit level, data indicates that Regional & Local Government employees covered under collective agreements have received significantly higher increases in compensation than those in the Core Government and Broader Public Sector between 2001 - 12. In addition, data indicates that Regional & Local Government is paying more than the Provincial Government in the majority of cases.

It is important to note that there is a fundamental difference between the compensation governance of Provincial entities and Regional & Local Government. The Province acts as both the legislator and the employer, thus having more control and power over employees' compensation. Regional & Local Government does not have this same direct control, and in addition the services they provide are closer to the citizenry (e.g. garbage collection, recreation centres, etc.) and thus decision-makers feel enormous pressure not to disrupt these services. This fundamental difference, exacerbated by a lack of common data and processes may explain the incremental increases we have observed in Regional & Local Government compensation, particularly in the Lower Mainland region.

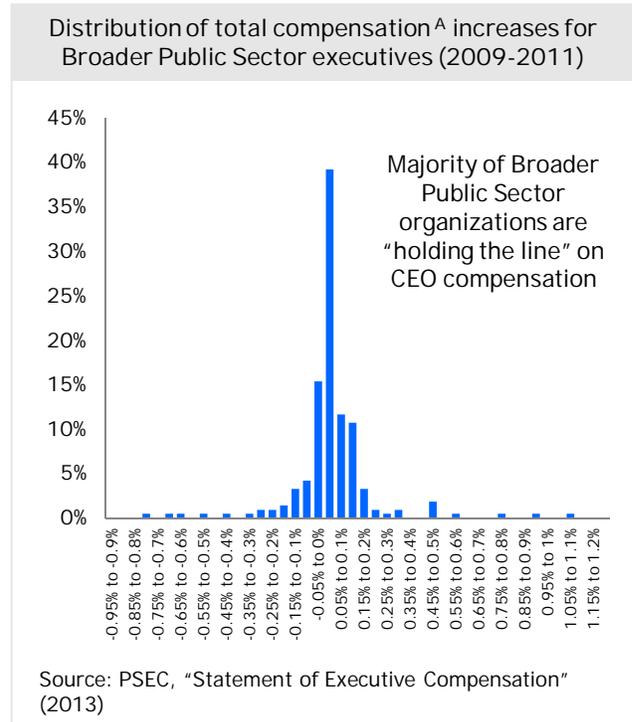
### Increases in executive compensation in the Core Public Service

Data suggests that the current governance structure has enabled Government to effectively ‘hold the line’ on executive compensation in the Core Government, with average base salaries having been generally flat from 2009.



### Increases in executive compensation in the Broader Public Sector

The compensation of Broader Public Sector CEOs has also “held the line”, with CEOs typically receiving 0% increase in compensation between 2009 – 2011.

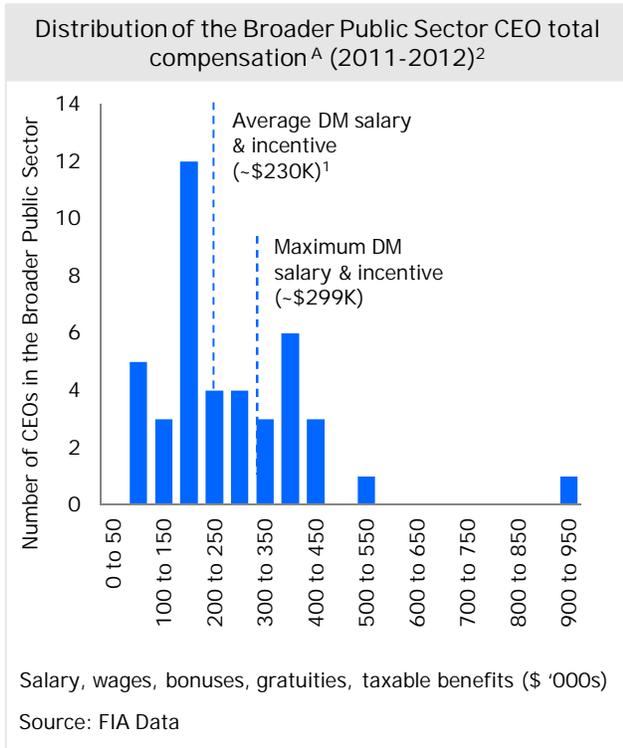


It should be noted, however, that some stakeholders commented in interviews that a number of Broader Public Sector entities have found creative ways to provide higher levels of compensation to their executives due to differing lines of business. There is a tremendous variability across the sector, with university presidents as notable outliers, where different compensation models apply, including treatment of tenure, housing, and research leaves, which can add substantial amounts to their total compensation packages. If there is a move to creating more consistency in compensation philosophies, a reduction in the variability should be seen.

<sup>A</sup> Compensation assumed to include base salary, performance incentive and other compensation

### Comparison of executive compensation in the Broader Public Sector to the Core Government

In 2011-12, the compensation of 45% of Broader Public Sector CEOs exceeded the average compensation received by Deputy Ministers in the Province. In the same period, 33% of CEOs were paid more than the maximum Deputy Minister compensation range.



In considering that all CEOs of Broader Public Sector entities are ultimately accountable to the Employer, taxpayers have indicated that they expect more alignment in compensation between these two groups. The Canadian Taxpayers Federation, for example, reports: "While core Provincial Government ministries - with the notable exception of health care - have done a reasonably good job at managing labour costs and generating savings for taxpayers, BC's Crown corporations have gone out of control. It is not uncommon for a CEO of a Crown corporation to make twice what a deputy minister earns."<sup>3</sup>

<sup>1</sup> The BC Public Service Agency, "Deputy Minister and Assistant Deputy Minister Review: Compensation Update" (April 2013) - Base of \$209k and assumed holdback paid in all cases of 10%

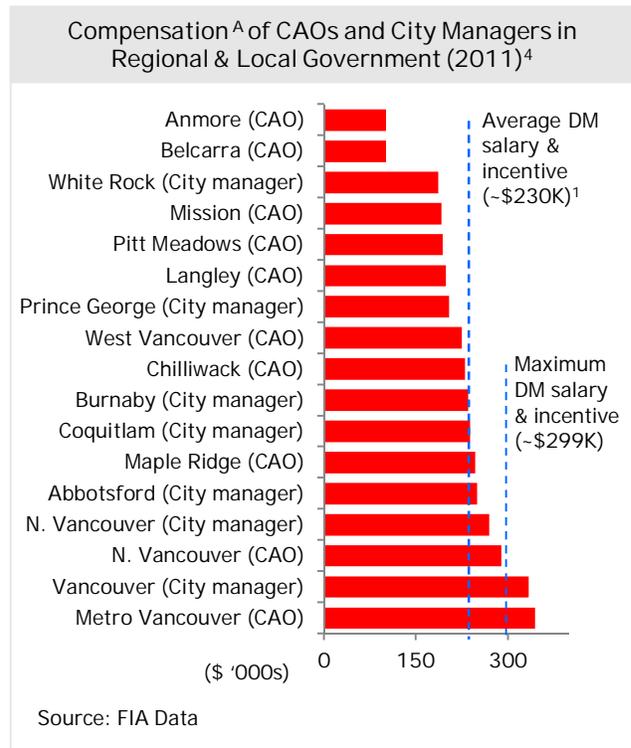
<sup>2</sup> FIA Data

<sup>3</sup> Canadian Taxpayers Federation, "Rein in the Crowns!" (2014)

<sup>A</sup> CEO Compensation includes Salary, wages, bonuses, gratuities, taxable benefits

### Comparison of executive compensation in Regional & Local Government to the Core

Data is not readily available to assess how well Regional & Local Government is managing compensation at the executive level. However, data was available on the salary and performance incentives of a sample of City Managers and Chief Administrative Officers in the Province.



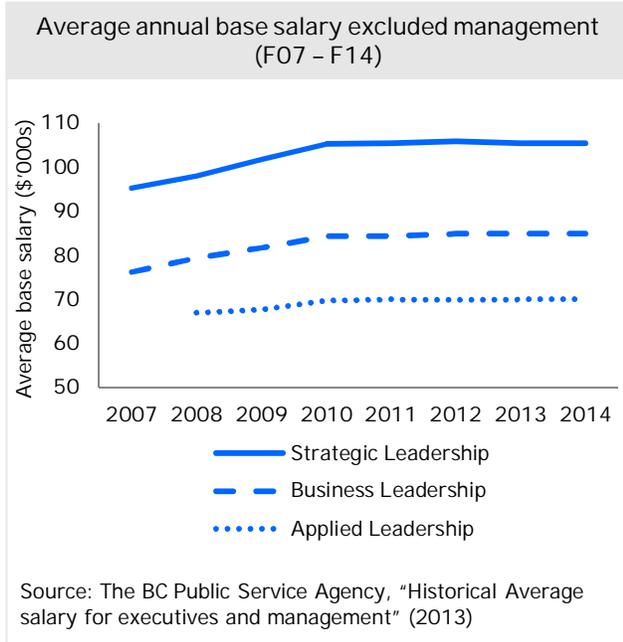
This data indicates that in 2011, compensation of City Managers and Chief Administrative Officers of larger jurisdictions was on parity with the average salary of Deputy Ministers. The compensation of those in Vancouver and Metro Vancouver was greater than the maximum DM compensation. While it has not been within the scope of this review to compare the spans of control and responsibilities of these two groups to determine the reasonableness of this alignment, it can be observed that some taxpayer groups have commented that they do not consider the alignment of the compensation of City Managers and Deputy Ministers to be equitable.<sup>5</sup> The rationale for these concerns should be investigated.

<sup>4</sup> EY analysis of FIA data

<sup>5</sup> Sources: Canadian Taxpayers Federation, quoted in Tri-city News, "Metro takes hard look at Management pay levels" (2013)

### Increases in management compensation in the Core Public Service

At the management level, data indicates that the Core Public Sector has been effectively 'holding the line' on compensation since 2009.



### Comparisons of management and excluded employees' compensation across the sector

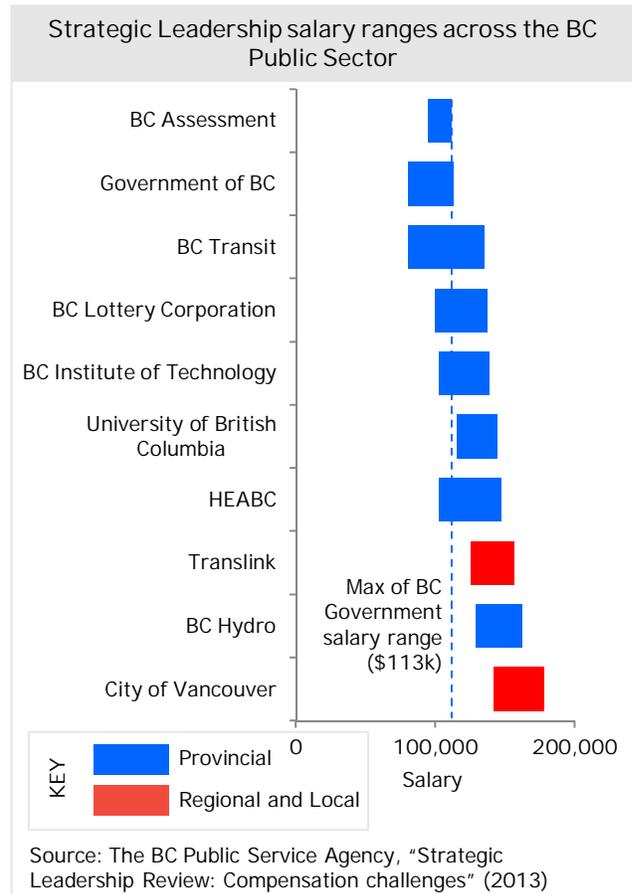
Data is not readily available to support analysis of increases in compensation of management and excluded employees across other areas of the BC Public Sector. Some data, however, is available to enable comparison of absolute levels of compensation, including information on salary bands collected by The BC Public Service Agency; Labour Force Survey data; data reported under the *Financial Information Act*; and compensation survey data from professional associations.

While the number of available data points and the limited ability to identify comparable positions may not support robust conclusions, data consistently indicates that Regional and Local Government typically pays higher compensation than the Provincial Government for comparable positions.

### Comparison of Strategic Leadership level salary bands across the BC Public Sector

Analysis of Strategic Leadership salary bands indicates that there is material variation in pay bands across the BC Public Sector:

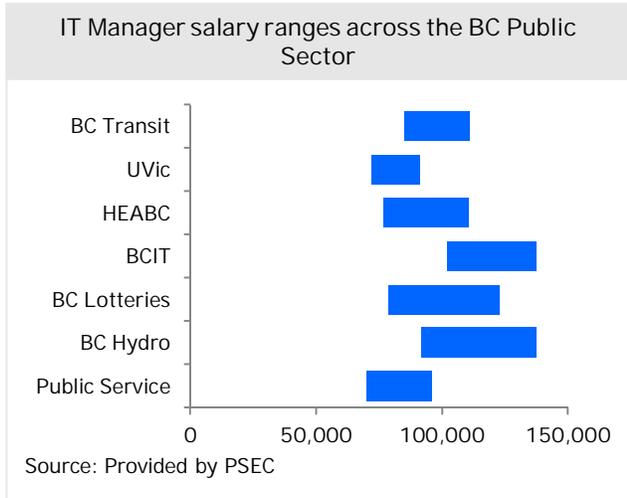
- Core Government pays at the lower end, with several entity's minimum compensation exceeding compensation caps in the Core
- Broader Public Sector entities such as BC Lottery Corporation and BCIT are in the middle of the range
- BC Hydro and UBC stand out among Broader Public Sector entities as paying towards the top end of the range
- The City of Vancouver is the highest paying organization of those for which data was available



In Appendix C-24, the salary ranges of four Strategic Leadership job categories are presented for a sample of BC Public Sector organizations. In all cases, the BC Public Service is the lowest paying.

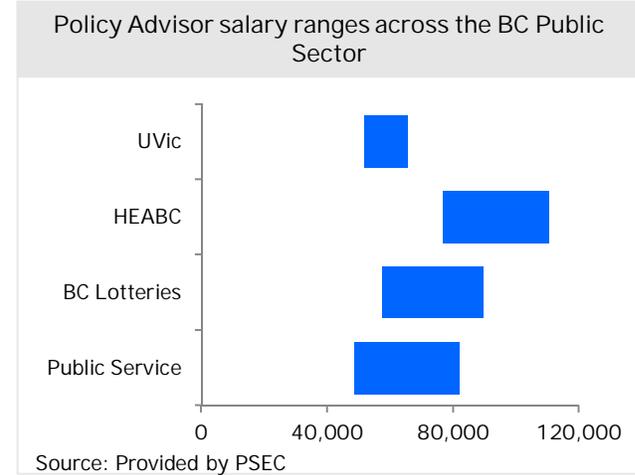
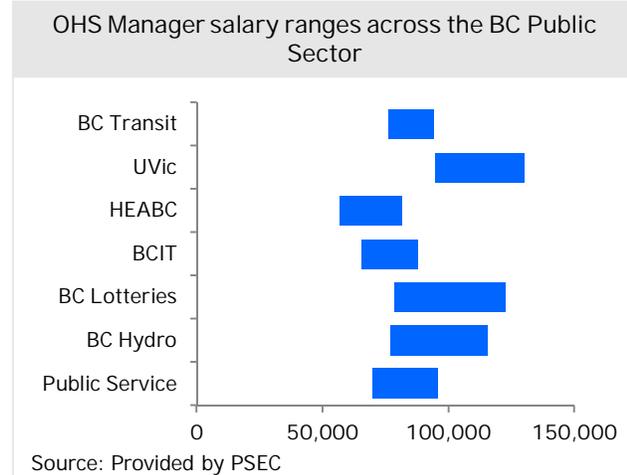
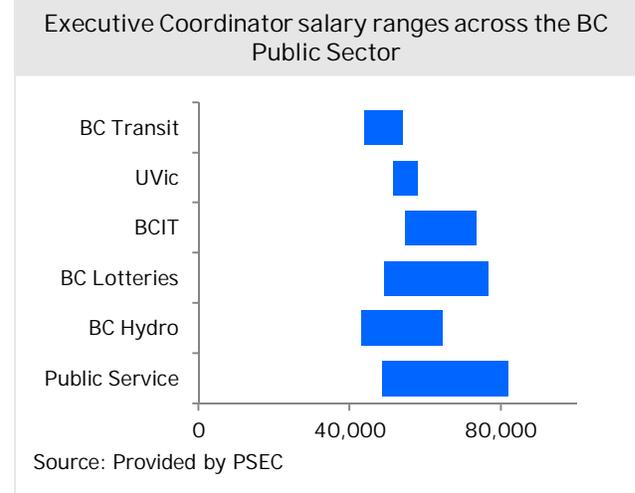
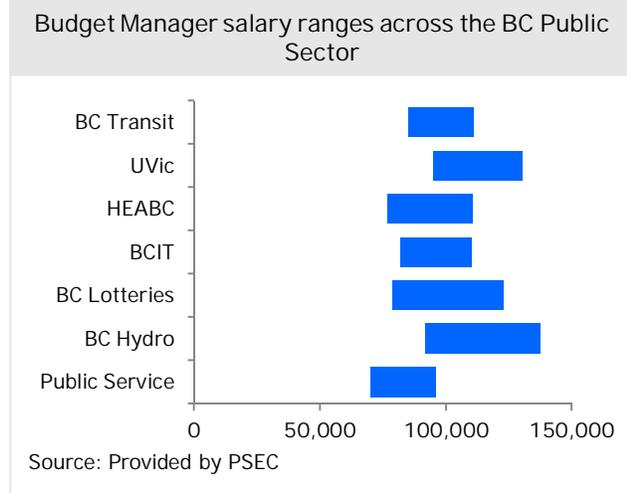
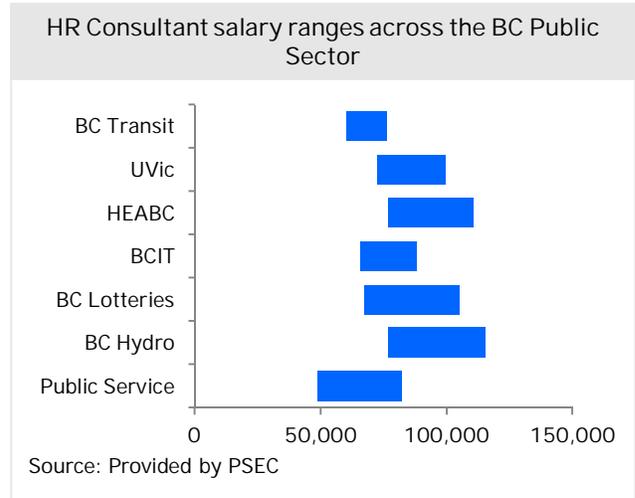
### Comparison of Business Leadership level salary bands across the BC Public Sector

Analysis of the salary bands of a sample of comparable roles in the Business Leadership level indicates that there is variation in pay bands across the BC Public Sector and in all cases the BC Public Service pays at or near the lower end.



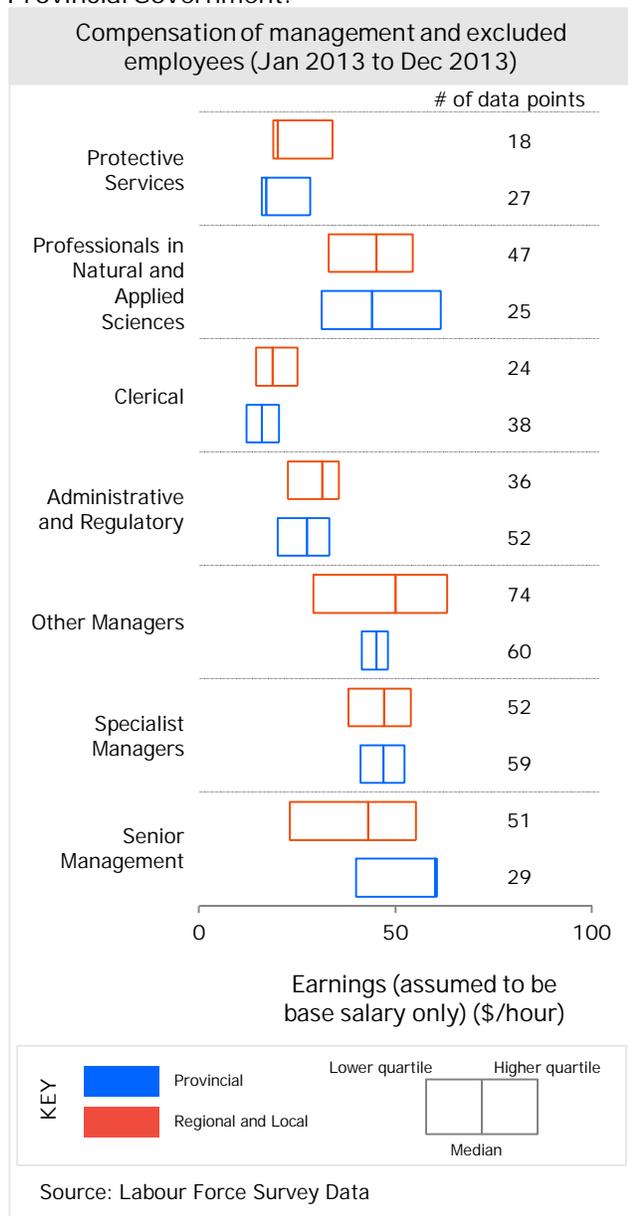
### Comparison of Applied Leadership level salary bands across the BC Public Sector

Analysis of the salary bands of a sample of comparable roles in the Applied Leadership level shows material variation in pay bands across the BC Public Sector. At this level, the Public Sector appears to be more competitive in some instances.



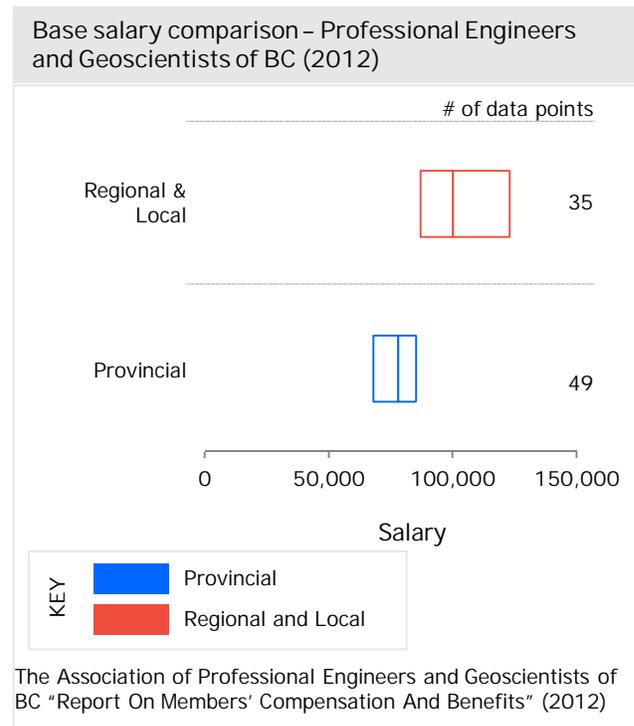
### Comparison of management and excluded compensation across the BC Public Sector

In order to compare compensation for similar positions across the BC Public Sector, one year's worth of Labour Force Survey data was collected from Statistics Canada. This dataset included approximately one million records. Analysis was performed on the subset of respondents who identified themselves as being employed by the Provincial Government and Regional & Local Government in BC. Hourly earnings were calculated for those within this subset who declared themselves to not be a member of a union or not covered by collective agreements. The results indicate that in most cases, Regional & Local Government pays higher compensation than Provincial Government.



### Comparison of compensation for specialized skills across the BC Public Sector

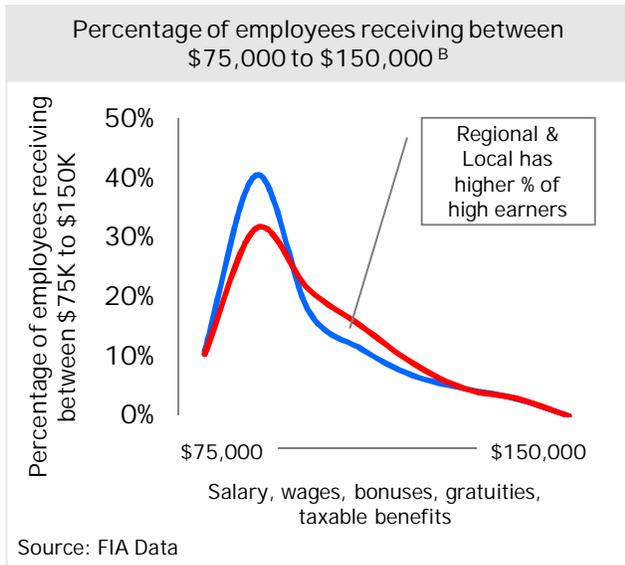
Stakeholders commented that the ability to recruit and retain employees with technical expertise such as lawyers, IT specialists, auditors or engineers is increasingly at risk in the Provincial Government due to uncompetitive compensation packages when compared to Regional & Local Government. The hypothesis that Regional & Local Government pays higher compensation for specialized skills was validated on data available for professional engineers.



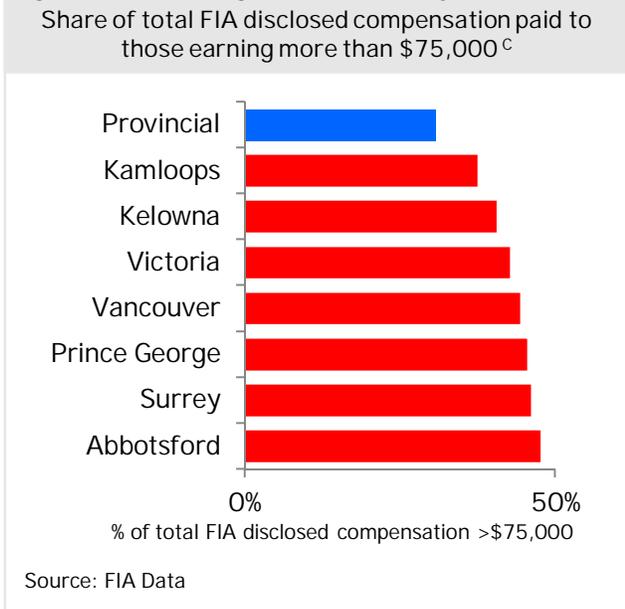
In addition, interviewees were able to provide multiple examples of specific individuals being attracted from Government to work in the natural resources private sector including mining and LNG. It was generally expressed by stakeholders that areas with transferable skills such as Finance, HR, IT and data administration were also vulnerable. No specific exit interview data was available to validate this assertion.

Comparison of distribution of salaries between Regional & Local and Provincial Governments

Analysis of FIA data <sup>A</sup> indicates that Regional & Local Government has a higher percentage of employees receiving higher levels of compensation than is the case for the Provincial Government.

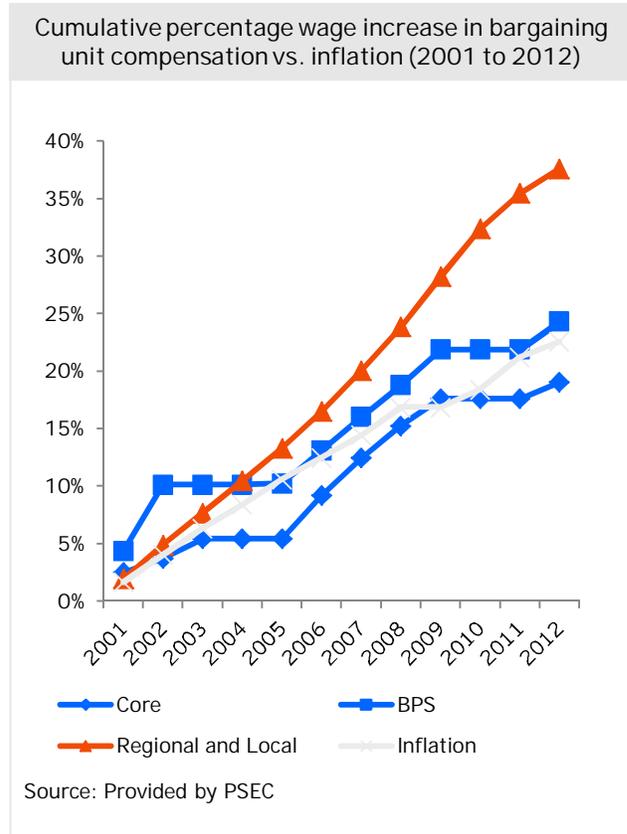


FIA data also indicates that Regional & Local Government allocates a higher percentage of total compensation expenditure to those earning over \$75,000 than is the case for the Provincial Government - this may be an issue of high compensation or it may be an issue of organizational design - or more likely both.



Increase in bargaining unit compensation in the Provincial and Regional & Local Government

Analysis prepared by PSEC of HRSDC settlement data for the Core Government, Broader Public Sector and Regional & Local Government indicates that Regional & Local Government employees covered under collective bargaining agreements (covering more than 500 employees) have had significantly higher increases in compensation in recent years than their peers in the Provincial Government from 2001 to 2012.



Between 2001 and 2012, Core Government employees received 19% cumulative increase; those in the Broader Public Sector received 24%; and those in Regional & Local Government received 38%. This in comparison to inflation of 23% over the same time period.

KEY

<span style="color: blue;">■</span>	Provincial
<span style="color: red;">■</span>	Regional and Local

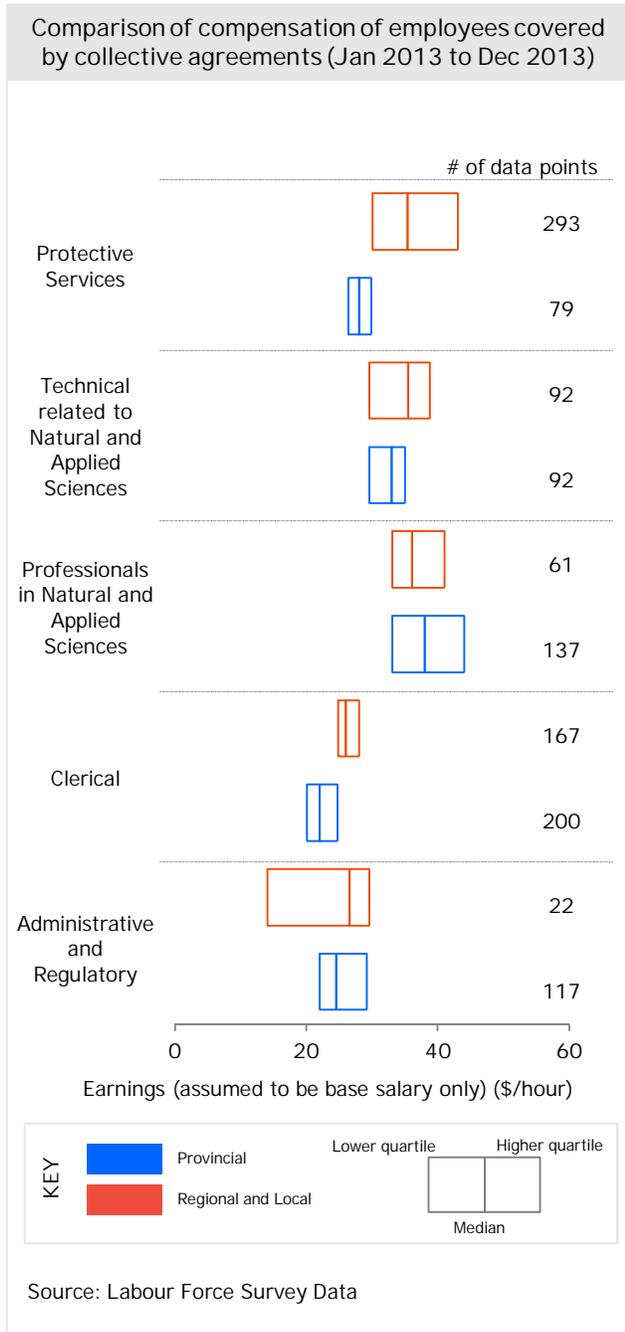
<sup>A</sup> EY analysis of Financial Information Act data

<sup>B</sup> Analysis provided by PSEC

<sup>C</sup> Data includes salary, wages, bonuses, gratuities, taxable benefits

### Compensation of union members in the Provincial Government and Regional & Local Government

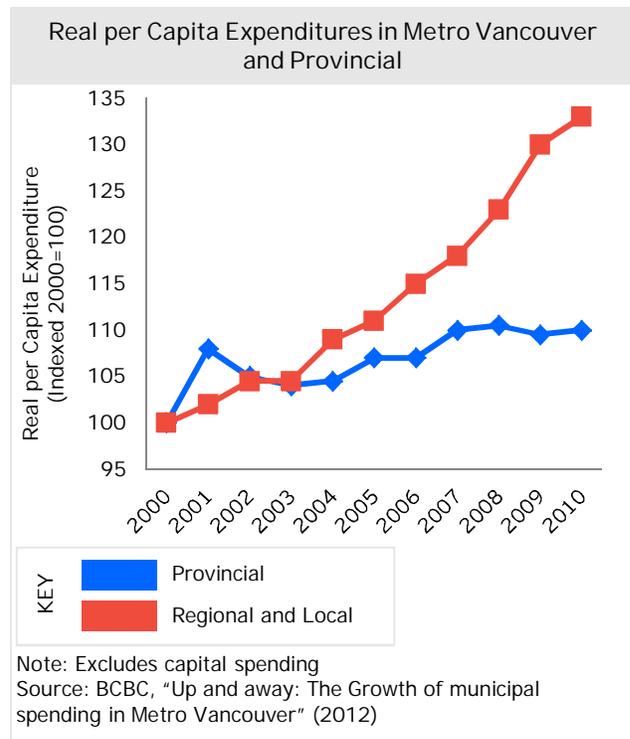
Examination of Labour Force survey data between January 2013 to December 2013 indicates that for those employees who identified as being union members or covered by collective agreements, in the majority of cases, Regional & Local Government pays higher compensation than the Provincial Government for comparable roles.



### Increase in compensation expenditure in Regional & Local Government

The majority of Regional & Local Government spending goes to employees' compensation. The Independent Contractors and Business Association of BC (ICBA) estimates that more than 50% of typical municipal budgets goes to wage and benefit costs<sup>1</sup>. A study also calculated that in Vancouver 67% of operating spending went to wages, salaries and benefits, on average, annually between 2000 and 2011<sup>2</sup>.

After adjusting for inflation, as well as population, real per capita spending across Metro Vancouver grew by 32% between 2000-10, compared with approximately 10% in the Provincial Government<sup>1</sup>.



Given that there has been a rapid escalation in Regional & Local Government per capita expenditure, it is reasonable to assume that there has been a correspondingly rapid increase in compensation expenditure within the municipal sector.

Note that additional analysis of 2006 Census data supports the finding that Regional & Local Government pays more for comparable positions. This analysis is provided in the appendix. (See Appendix C-1)

<sup>1</sup> ICBA of British Columbia, "Construction Monitor" (2012)

<sup>2</sup> CFIB, "Big City Spenders: An Analysis of municipal Spending Trends" (2013)

## 4. Variations in Philosophies and governance models

### Summary of findings – Philosophies

The Core Government articulated a clear philosophy for the setting of management and executive compensation in 2008 which was approved by cabinet, but only partially implemented due to the fiscal restraints imposed shortly thereafter. Underpinning this philosophy was a recognition that people are attracted to public service for the satisfaction and complexity of the work, not just for the compensation. The philosophy also recognized that it was not generally relevant to benchmark against the private sector. The philosophy contemplated ongoing alignment with Federal and Provincial roles in order to smooth the cycle and make it more predictable. It was intended to provide a dynamic rather than static framework, requiring minimal Cabinet involvement in daily one-off decision making.

Specifically, the philosophy mandated that DM compensation be set at 83% of equivalent executives in the Federal Government; that ADM compensation be set at 85% of the BC's DMs; and that Strategic Leadership compensation be set at 85% of BC's ADMs. While this philosophy was implemented at the DM and ADM level, it was not implemented for Strategic Leadership, hence we are seeing the current compression issues, etc.

In contrast, the Broader Public Sector and Regional & Local Government are understood to have varied philosophies. Crowns – often operating monopoly services – benchmark to private industry including multinationals to which they arguably do not have comparable scale and complexity. For example, two stakeholders expressed their concern that some Crowns consider multinational organizations such as Coca-Cola and McDonalds to be fair comparators. Instances are also apparent of Crowns avoiding benchmarking to organizations for which there is a strong case for direct comparability. One interviewee cited the example of BC Ferries not benchmarking to Washington State Ferries (See Appendix C-7). In addition, Regional & Local Government may cherry pick peers to benchmark against and calibrate to a high percentile which creates invariable 'ratcheting up'.

### Summary of findings – Governance models

Overview: In summary, the Provincial Government model for setting compensation is relatively centralized with Cabinet oversight and legislative authority, whereas the model in Regional & Local Government is decentralized with no central oversight (See Appendix C-6).

Compensation mandate: Cabinet and the Minister have clear powers to set rules around executive and management compensation and bargaining unit mandates across the Provincial Government. In the Regional and Local model, no one party sets the rules around executive compensation and collective bargaining mandates across the entire sector. This power is fragmented, with each mayor and council having responsibility for their own jurisdiction.

Employers' Associations: While Employers' Associations provide sector co-ordination in response to organized labour in the Provincial Government, there is currently duplication of mandate and a lack of coordination and knowledge transfer. Regional & Local Government's approach to collective bargaining is highly fragmented and inefficient.

Crown Corporation Boards: Many public sector boards may not be adequately considering the interests of their shareholders in setting compensation. There are many different philosophies in place depending on the organization.

Collective bargaining models: There is a mixed approach to collective bargaining across the Province, with some pockets of arbitration for Police and Fire which appears to be resulting in compensation escalation.

Benchmarking tools and enablers: There is a lack of consistent classification of job types within and across areas of the Public Sector which limits the ability to build alignment of compensation. There are no consistent benchmarking processes or standards.

Data: Legislated sources of data cannot feasibly provide the BC Government with the means to understand variation in total compensation across the breadth of the Provincial Government and Regional & Local Government, and the Provincial Government does not currently use all available sources of information to gain a picture of compensation across the breadth of Government.

In summary, we conclude that the identified variations in compensation are driven by variations in philosophies and governance models for setting compensation across the BC Public Sector.

## 4a. Philosophies

### Core Government – compensation philosophy

**Executive:** In 2008, Cabinet approved a philosophy for executive compensation in the Core Government. This philosophy mandated that Deputy Ministers' compensation be set at 83% of equivalent executives in the Federal Government that Assistant Deputy Minister compensation be set at 85% of the compensation of BC's DMs. It was also determined that BC's target position for executive compensation in the public sector was to rank 3rd to 5th highest amongst other Provincial Governments. A specific determination respecting the appropriate ranking was to be made based on consideration of demographic and labour market trends, and economic variables.

Under this philosophy, the critical comparators for Core Government executives are the Canadian provincial and federal jurisdictions. As a result, while the philosophy explicitly identifies the primary competitors for talent as including the private sector, the philosophy makes it inappropriate to set compensation based on private sector comparators.

Under this philosophy, ranges for executives were last set in August 2008. While Cabinet approved that executive salary ranges will be periodically reviewed subject to changes in executive compensation in the federal Government, there have been no adjustments to the salary ranges since implementation because of the restraint measures subsequently implemented.

**Management:** The Strategic Leadership compensation was mandated to be set at 85% of the compensation of BC's ADMs; however, while this philosophy was implemented at the DM and ADM level, it was not implemented for Strategic Leadership due to fiscal constraint.

**Bargaining unit:** Cabinet has the prerogative to set philosophy in the form of mandates for increases in unionized employee compensation. Since 1993, bargaining within the Core Government has been governed by mandates established by the Government. (See Appendix C-2).

### Broader Public Sector – compensation philosophy

The Government sets certain parameters for Broader Public Sector executive compensation. CEO compensation maximums are set by PSEC across the Broader Public Sector in accordance with a classification structure for entities that was last set in 2008 (See Appendix C-3). Many Crowns perceived the classification categories to be illogical and inconsistent. In addition to CEO caps, in 2012, the Government introduced a policy to cap executive compensation in Crowns at no more than 85% of CEO salary.

Each organization develops and applies its own philosophy to create an executive compensation within these parameters. Analysis indicates little consistency in the philosophies applied by Broader Public Sector entities to develop compensation plans (See Appendix C-5). CEO salaries tend to be set at the top of the available ranges.

At the bargaining unit level, Cabinet has the prerogative to set philosophy in the form of mandates for increases in compensation across the Broader Public Sector (See Appendix C-4). Since 1993, bargaining within the Broader Public Sector has been governed by the same mandates that have applied to the Core Government. (See Appendix C-2).

### Regional & Local Government – compensation philosophy

A sample of 10 local Governments was investigated. Only one Government reported publicly on its compensation philosophy. The compensation philosophy for the one reported instance – that of the City of Richmond – is to ensure that employees receive a base salary within the 75<sup>th</sup> percentile of the defined external marketplace. It is assumed that material variation may exist in the compensation philosophies applied across Regional & Local Government (See Recommendation 2.1).

## 4b. Compensation Mandate

Under the Provincial Government model, the Cabinet and Minister have powers to set the compensation mandate across the Provincial Government

The Cabinet may set mandates and rules for the Core Government. The *Public Sector Employers Act* also provides the Minister with the authority to: (1) direct public sector employers to prepare compensation plans consistent with the Minister's direction; (2) requires that employee compensation plans and contracts be approved by the Minister responsible for the Act prior to implementation; (3) empowers the Minister to direct parties to provide specific information including information on the methodology used in devising plans, and (4) comparisons of actual compensation provided to persons employed in the same or similar sector, position or occupation. The Minister also has the power to issue mandates covering public sector bargaining.<sup>1</sup>

There are a number of exceptions in the Provincial model

A number of Government entities are excluded from the provisions of the *Public Sector Employers Act* and the *Public Service Act* that are not directly controlled by the centre, e.g.: BC Investment Management Corporation, British Columbia Ferry Services and TransLink.

While not explicitly covered by Government rules and mandates, these entities are ultimately accountable to the Government, and generally claim to follow Government's guidelines in setting employee compensation. For example, a recent TransLink spokesperson commented: "while we are not a Crown corporation, we operate prudently within Government guidelines." With a 14% increase in the number of employees making over \$100,000 dollars in TransLink in 2012, a number of communities of interest have expressed doubts about the validity of such claims.<sup>2</sup> In summary, the additional levels of compensation autonomy have led to some embarrassment for Government over one-off or overly rich compensation for executives.

In Regional & Local Government, no one party sets mandates and rules across the entire sector. This power is fragmented

In Regional & Local Government, there is no entity, policy or procedure across the sector that is intended to support the establishment of sector wide rules on executive compensation and mandates for bargaining unit compensation.

Authority for setting compensation is held by individual decision-makers, which have the prerogative to set direction for their region only. While there are indications that Regional & Local Government expenditure constraints exist, (e.g. Metro Vancouver regional Government scrapped plans to raise taxes and fees by 12%, and set a new target that limits the increase for each household to a maximum of 2.5% in 2013), stakeholders generally pointed out concerns around the lack of governance to enable setting of consistent Regional & Local Government mandates to constrain compensation growth. Without such governance, unions can focus efforts on Regional & Local Government where outcomes are more likely to be favourable and use the resulting agreements to ratchet up increases in other Regional & Local Government. No evidence was found, however, of other jurisdictions in Canada setting consistent regional mandates and rules apart from in the face of extreme fiscal pressure (See Appendix C-9).

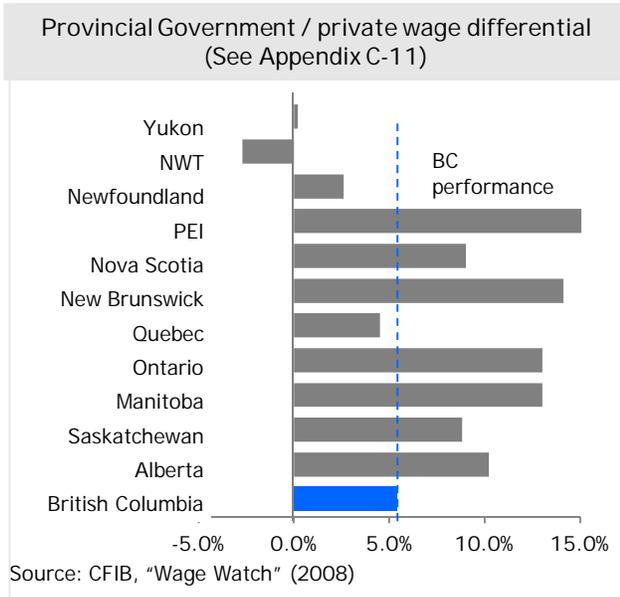
In conclusion, the variation in models for setting mandates and rules across the three groups results in a lack of alignment in compensation across the Public Sector. (See Recommendation 2.1) .

<sup>1</sup> BCPSEA, "Public Sector Management & Executive Compensation Freeze Policy" (2012)

<sup>2</sup> Newsleader, "TransLink staff earning 6-figure salaries" (2013)

## 4c. Strategic advice, coordination and enforcement

Strategic coordination is provided to the Core Government by the BC Public Service Agency and to the Broader Public Sector by the Public Sector Employers Council (See Appendix C-10). BC's Provincial model is one of the most coordinated across Canada – indeed a number of other jurisdictions are looking to move to the 'PSEC model' – and this is reflected in a relatively low Provincial Government / private wage differential.



There has been controversy and confusion around the mandate to set executive compensation within the Broader Public Sector, with variation on what is contained and reported as part of total compensation. While greater consistency has been driven, there have still been examples of 'exceptions to the rule'. In some cases the breach had been approved by PSEC. In addition, in some cases, there may be legitimate reasons for this variation – including, for example, severance pay or additional compensation for unused vacation. PSEC reports that action has been taken more recently to bring CEO compensation back into line. (See Appendix C-12).

Regional & Local Government do not have a comparable PSEC or the BC Public Service Agency to provide strategic advice, co-ordination and enforcement. No evidence was found that other Canadian jurisdictions have in place a governance model that supports strategic advice, coordination and enforcement across the Regional & Local Government sector (See Appendix C-13).



BC is, however, the only Canadian jurisdiction to have an Auditor General for Local Government ("AGLG") (See Appendix C-10). While the AGLG plans to conduct a performance audit of "Managing the Inherent Risks of Limited Human Resources within Small Local Governments", it does not currently have a publicly stated plan to review compensation as a specific issue.

The initiative to create the AGLG has been widely applauded, but some parties suggest that the AGLG could be mandated to focus on compensation, and to go beyond validating if policy has been applied, to investigating whether outcomes are fair and equitable. (See Recommendation 2.3).

## 4d. Employers' Association

The BC Public Service Agency provides employers' association services to the Core Government

Under the *Public Service Labour Relations Act*, the BC Public Service Agency has the responsibility to act as the bargaining agent on behalf of the Government, with those unions which represent employees directly employed by the Government.

Six Employers' Associations provide services to the Public Sector

The purposes of an Employers' Association are to coordinate the following with respect to the sector for which they are responsible:<sup>1</sup>

- Compensation for employees who are not subject to collective agreements
- Benefit administration
- Human resource practices
- Collective bargaining objectives . Note that an Employers' Association may bargain collectively on behalf of its members if authorized to do so

In addition, it is the purpose of an EA to:

- Foster consultation between the association and representatives of employees in that sector
- Assist the council in carrying out any objectives and strategic directions established by the council for the employers' association

While Employers' Associations provide sector co-ordination in response to organized labour in the Provincial Government, stakeholders commented that there is currently duplication of mandate and a lack of coordination and knowledge transfer. (See Recommendation 2.4) .

At Regional & Local Government level, there is disparity in the power of those at the table

At the smaller local Government level, elected officials are often unwilling to delegate bargaining to professionals, despite the lack of skills of their negotiating teams compared to their union counterparts.<sup>2</sup> No evidence was found of coordination in smaller municipalities in BC.

Vancouver and Victoria have built more co-ordinated responses to organized labour in the form of the Labour Relations department of Metro Vancouver and the Greater Victoria Labour Relations Association. However, the co-ordination of labour relations in the Lower Mainland, is increasingly fragmented with members leaving the association. (See Appendix C-14)

The implications of the lack of co-ordination are clear. The vast majority of Regional and Local Government workers are part of large and sophisticated unions. Even local Government unions, for example, are local chapters of the Canadian Union of Public Employees, which is a member of the Canadian Labour Congress. CUPE provides even small local unions with sophisticated assistance for bargaining and contract negotiations. (See Appendix C-15).

As Langley Township Councillor, Bob Long commented: "It would be nice if we were all members [of the Bureau]. We don't have the resources in my township [to bargain on our own] ... but the reality is the big players want to leave. We wish them the best, but we're all going to be paying for it." Without a co-ordinated response to organized labour, there is a real risk, that unions can divide and conquer'. As one stakeholder observed in interview, unions can target a given Regional and Local Government which exhibits a more favourable attitude towards union interests and use that factor to secure a favourable outcome at the bargaining table. This then sets the precedent for negotiations with other municipalities. As Port Moody Mayor Joe Trasolini commented: "Nobody can tell me any contract negotiating in one city is not going to be part and parcel of the negotiations in another municipality".<sup>3</sup>

In conclusion, Regional & Local Government approach to collective bargaining is highly fragmented and inefficient (See Recommendation 2.5).

<sup>1</sup> Government of BC, "Public Sector Employers Act" (2013)

<sup>2</sup> R.L. Bish, "Local Government in British Columbia" (2008)

<sup>3</sup> Vancouver Sun, "Labour Relation's broken" (2011)

## 4e. Crown Corporation Boards

Most entities in the Broader Public Sector have their own boards

The Boards have responsibility for setting compensation philosophy, approving compensation plans, and ensuring that executive compensation paid is within approved plans. In the case of Crowns and school districts, there are boards of directors, and in the case of universities, there are boards of governors.

One of PSEC's intended roles is to provide a control on the risk for excessive executive compensation, at the same time, there is an expectation that Boards of Directors act in the interests of their shareholders (i.e. the Government and population) and act to keep executive compensation costs at reasonable levels and follow Government guidelines.

Crown compensation categories were established in 2006, amid significant controversy. Each organization was placed in a specific category, and these were not subsequently updated. Crown compensation categories have subsequently been replaced by CEO compensation maximums – the maximum sets the highest level for the rest of the organization. Boards spend significant time and energy in determining compensation for their executive and employees, but are given little in the way of standard tools, benchmarking guidelines, comparable data and processes to support their decision making.

While Boards can be replaced, there are few other mechanisms to hold Boards accountable for decisions that they make with respect to compensation. There is a wide variation in skill sets and compensation expertise on Crown boards, as well as confusion as to their role in establishing compensation. There is concern that Boards do not always consider the interests of their shareholders in proposing and setting compensation; one senior interviewee commented that they may even be “being held captive by their executives” on the matter of compensation. A number of communities of interest have also highlighted this concern.

A number of stakeholders commented that Boards in both the Provincial and Regional & Local Government might benefit from retraining as to their fundamental roles and responsibilities including ethics, operating values and codes of conduct. It was suggested that such efforts are already underway on the Provincial Government side.

There are examples of the use of compensation committees in the Broader Public Sector. UBC's board of directors, for example, delegates responsibilities for executive compensation to its Management Resources Compensation Committee. It appears some municipalities may have such committees. However, other smaller municipalities do not have compensation committees.

In conclusion, while Boards have internal guidelines and standards for determining compensation, those guidelines are not necessarily consistent across the public sector. Furthermore, they may not be adequately considering the interests of their shareholders in setting compensation, nor be aware of their fundamental responsibilities. (See Recommendation 2.2).

## 4f. Benchmarking tools

No evidence was found of a comprehensive mapping table across the BC Public Sector

In order to enable meaningful comparisons between organizations, a mapping of job types across organizations of some sort is required. While a full mapping table is the 'holy grail' across all jurisdictions, no evidence was found that BC has a standard approach to comparators, that would enable meaningful analysis of a 'single source of truth' dataset. The lack of a standardized mapping tool restricts the ability to implement philosophies effectively.

Broader Public Sector entities conduct their own benchmarking

Typically Broader Public Sector entities conduct their own benchmarking generally through the hiring of third party consultants. There is no consistent use of comparators - some Crowns use private sector multinationals, for instance. There are, however some exceptions to this. For example, VIHA, PHSA and Interior Health rely on HEABC to develop salary ranges based on 50<sup>th</sup> percentile of the blended healthcare and external market pay policy guidelines.

The approach to benchmarking is also highly fragmented in Regional & Local Government

In addition, evidence from individual municipalities outside of the Lower Mainland suggests that they initiate their own benchmarking studies to support compensation setting. It is not apparent that centralized benchmarking sources are available to municipalities in BC. This is in contrast to Ontario, where every year Mercer and the Ontario municipal Human Resources Association (OMHRA) – an organization created to enable the sharing of information and ideas between municipalities in the Province – issues the Ontario municipal Compensation Survey:

- ▶ The survey consists of 222 benchmark jobs for municipalities across Ontario
- ▶ In addition to compensation data, participants are also be able to access information on pay policies and practices such as job rate adjustments, performance pay, attraction and retention, hours of work, overtime, vacation entitlement, automobile benefits and more
- ▶ Mercer also offers a small municipalities report, which includes data for 32 of the 222 survey positions<sup>1</sup>

It can be considered that the approach in Ontario would potentially:

- ▶ Optimize the efficiency of benchmarking
- ▶ Increase the population considered for comparison
- ▶ Increase the reliability of analysis

In conclusion, there are no standardized tools and support for benchmarking across either the Broader Public Sector or Regional & Local Government (See recommendation 1.3).

<sup>1</sup> Mercer, "Ontario municipal Compensation Survey" (2012)

## 4g. Collective bargaining models and processes

Unions may have undue influence in the collective bargaining process at Regional & Local Government level

The model of collective bargaining was originally adopted by the Public Sector from the private sector. It is now held as a basic principle in most areas of the Public Sector that employees and employers should voluntarily agree the conditions of employment, with either side having the right to withhold agreement through strikes or lockouts. However, as much academic and community of interest literature on the topic argues, this model has two key potential implications for most public-sector activities that are fundamentally different to the implications in the private sector:

- ▶ Influence of strikes on political players: When work ceases in the public sector, services cease to be available which causes significant inconvenience for citizens. The inconvenience may potentially cause the electorate to withhold support or deliberately vote against elected officials in power at the time of the work-stoppage at future elections
- ▶ Political influence of unions: Union members may contribute to campaigns or work on behalf of elected officials who promise to provide them with more generous settlements or to increase services and may work against those who promise to cut taxes or reduce services. (See appendix C-16)

Some stakeholders interviewed speculated that this pressure may be more acutely felt at the municipal level, where municipal employees may have a strong influence on election results, if they decide to organize. Stakeholders commented that turnout at municipal elections is much lower than at the Provincial level which gives such political action a greater impact on outcomes. Unions may therefore be able to influence compensation policy in advance.<sup>3</sup> In addition, unlike the Provincial Government, Regional & Local Government cannot legislate employees “back to work”, and faces higher pressure due to the immediacy of the services at risk, such as refuse collection. A number of stakeholders summarized this as municipalities being more prone to “union capture”<sup>4</sup>.

See recommendation 2.5).

There is a mix of arbitration and collective bargaining models in Regional & Local Government

In BC, legislation requires employers and unions to maintain certain essential services to the public when they take job action in a labour dispute. Essential services are those related to the health, safety or the welfare of BC residents, or to the provision of primary or secondary education programs and specifically include Fire and Police Services.<sup>1</sup>

Under the *Fire and Police Services Collective Bargaining Act*, strike action is not permissible for Fire and Police services and in the event of a failure to reach a collective bargaining agreement the dispute must be referred to an arbitrator.

There is a belief amongst some parties that arbitrators match outcomes to those of recent settlements already established in the larger cities. For example, the Deputy Chief Officer of Abbotsford Police Department argues that police compensation in BC is largely set by aligning compensation to the ‘Big 12’ police services boards in Ontario. When one of the ‘Big 12’ boards will reach negotiated settlements and this becomes the benchmark or standard for everyone else.<sup>2</sup> As a result, a number of parties are attempting to change the current arbitration system in BC. (See appendix C-17).

It is interesting to note, however, that under current legislation, the BC Government already has the right to specify specific terms of reference for arbitration. This could be used to limit the range of outcomes. Indeed, academic studies suggest that if arbitration is set up to consider a range of factors, it will have comparable outcomes to mediation. (See appendix C-17).

In conclusion, there is a mixed approach to collective bargaining across the Province, with some pockets of arbitration for Police and Fire which stakeholders believe may be resulting in compensation escalation. (See recommendation 2.6).

<sup>1</sup> Labour Relations Board BC, “Guide to the Labour Relations Code Province of BC (2014)

<sup>2</sup> JIBC, “Police Compensation/ Negotiation of Contracts video” (2013)

<sup>3</sup> R.L. Bish, “Local Government in British Columbia” (2008)

<sup>4</sup> The Fraser Institute, “Wage board: The solution to reining in public sector compensation” (2012)

## 4h. Data

The BC Government does not currently use all available sources of information to gain a picture of compensation across the breadth of Government

There are legislated requirements for the public reporting of public sector compensation in British Columbia. There are also a number of aggregate data sources available from Statistics Canada and other sources (See Appendix C-18).

The BC Government has made initial efforts to use these sources to begin to understand variation in compensation across the breadth of the Public Sector. Not all sources are currently used, however. For example, data reported under the *Financial Information Act* is not currently collected, aggregated or analysed by the Government. While the data may be available on organizations' respective websites, to collect this data would take considerable time and effort. This is compounded by the fact that many organizations report their data in scanned 'hard copy', limiting the ability to extract and manipulate data. It is worth noting that the Vancouver Sun has collected and aggregated this data in electronic format over the last six years, through Freedom of Information requests submitted to individual organizations across both the Provincial Government and Regional & Local Government. This dataset is, in turn, made available in searchable form to the public.

In addition, available sources of data cannot feasibly provide the BC Government with the means to understand variation in total compensation across the arms of the Provincial Government and Regional & Local Government

One of the major constraints identified in conducting this Review was the availability and comparability of compensation data of employees across the BC Public Sector. In order to demonstrate this, in the appendix three primary sources are reconciled against a number of key fundamentals required to provide meaningful comparisons across organizations within the BC Public Sector including: data being available for all areas of Government; reported for employees; including all elements of total compensation; including information on FTEs; including job descriptions and provided with regular frequency in electronic format. (See Appendix C-19).

The lack of standardized data creates significant limitations

The lack of means to build a single compensation dataset means that entities within the BC Public Sector lack a key foundational dataset to enable comparison and setting of compensation. In addition the BC Government does not have at its disposal the 'evidence base' to identify and analyse (and thereby potentially oversee and control if so desired) compensation across the different arms of Government, including considering comparability across the Public Sector and understanding and making trade-offs as required.

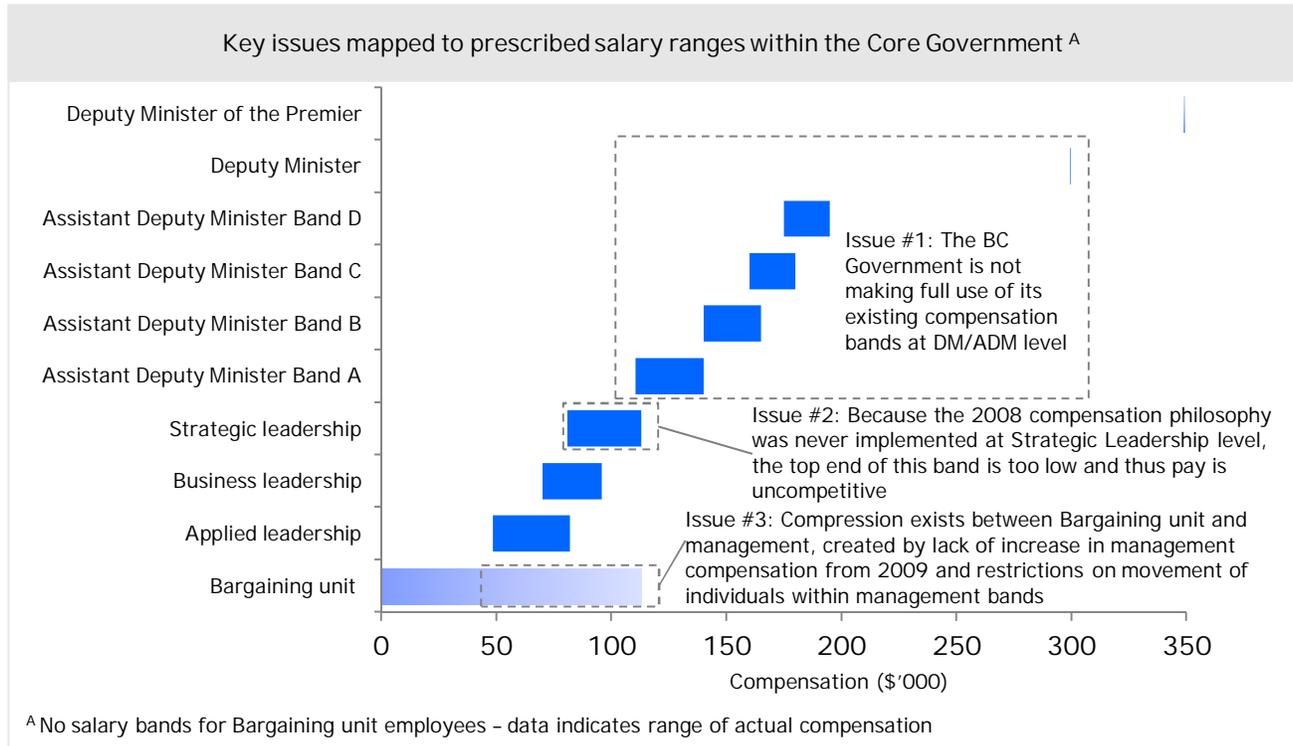
In the absence of a single dataset collected through legislated requirements, stakeholders are required to supplement data through creative and more time intensive means most notably through the use of surveys.

The absence of an aggregated dataset means that it is not possible to meaningfully investigate, validate or refute the analysis by communities of interest or academics of public sector compensation built on other aggregate data sources such as Census data or the Labour Force Survey. (See recommendation 1.4).

## 5. Talent management implications of recent trends in compensation

The years of compensation freezes within the Core Government have led to a number of talent management issues

Interviews with stakeholders suggested three “hot spots” with respect to talent issues in the Core Government and to a lesser extent the Provincial Government. These issues are outlined and explored in more detail below.



### Summary of findings

While the variation between Core Government and other areas within the Province is of greatest concern, it is important to consider the talent management implications of freezes in compensation in the Core.

Data indicates that at the Strategic Leadership level, BC is not achieving its target philosophy of paying the 50<sup>th</sup> percentile of the BC public sector. Analysis of compensation ranges of a sample of 10 other BC Public Sector entities suggests that the Core Government’s Strategic Leadership pay band is 25% lower than the 50<sup>th</sup> percentile and as a result BC is the second lowest paying jurisdiction in Canada. The top of the band was never adjusted to 85% of the ADM range, and thus is too low to be competitive. While data indicates that this issue has not yet led to high levels of attrition, there is a risk that the Strategic Leadership group could be drawn to seek employment in the Broader Public Sector and Regional & Local Government as a direct result of compensation. The private sector, especially in the natural resource industries, is also considered to be an increasing draw for talent.

Data shows that compression between employees covered under the collective agreements and managers in the Provincial Government is real. Stakeholders commented many unionized employees are reluctant to be promoted on the grounds that they will receive less compensation while being given additional responsibilities.

Executive holdbacks are poorly understood by the public, considered punitive by internal employees, and there is increasing concern amongst stakeholders that they are not an effective means of driving desired performance outcomes.

**Issue 1 – Use of ADM/ DM bands**

Comparisons of maximum achievable executive salary ranges to those in other jurisdictions indicate that the Core is close to meeting its philosophy of maximum achievable compensation being ranked 3rd to 5th highest. BC is currently ranked 2<sup>nd</sup> for maximum achievable DM compensation. However, it is important to note while the ranges exist they are not being fully used. BC is also currently ranked 3<sup>rd</sup> for maximum ADM compensation bands.

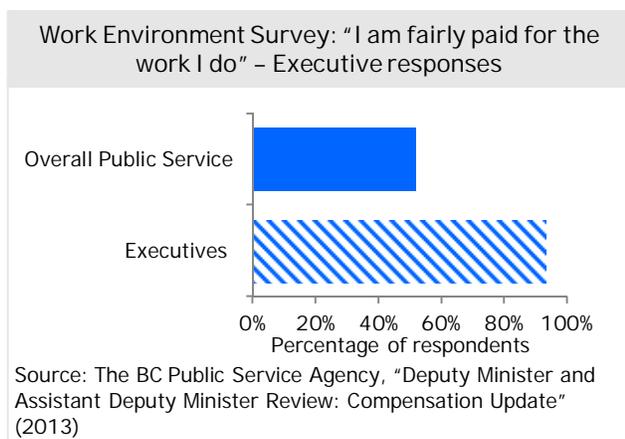


Indeed, the philosophy on executive compensation appears to be being successfully applied in the Core Government at the ADM level where good use is made of available salary ranges (See Appendix C-20). At the DM level, however, while the philosophy is being applied for maximum ranges, the lack of use of the ranges puts BC in 6<sup>th</sup> place in terms of actual average base salary paid – well short of the philosophy objective. Based on public accounts available, other jurisdictions compensate at or near the maximum of the range while BC compensates around 75% of the range maximum.

Stakeholders provided many examples of individual executives within the Core Government being attracted to positions in the Broader Public Sector and Regional & Local Government. In considering the findings outlined in the previous section of comparable or greater levels of executive compensation in other areas of the BC Public Sector when compared to the Core Government, the incidence of individuals moving is not surprising.

As the The BC Public Service Agency's *Deputy Minister and Assistant Deputy Minister Review: Compensation Update (April 2013)* concluded, "Based upon the data available, there is no immediate need to adjust salary ranges for executives within the BC public service." It may, however, be appropriate to examine how the ranges could be better utilized, as the flexibility exists to do so.

Survey results indicate high levels of satisfaction with compensation amongst the executive group as a whole when compared to levels of satisfaction across the overall public service.



Data indicates, therefore, that Core Government executives in BC have the potential to be relatively well compensated.

## Issue 2 - Competitiveness of Strategic Leadership pay

The Core Government previously developed a philosophy of paying excluded managers at the 50th percentile of other managers in the BC Public Sector.

As a result of the economic crisis, however, this compensation philosophy was not fully implemented nor sustained. Indeed, analysis of compensation ranges of a sample of 10 other BC Public Sector entities suggests that the Core Government's Strategic Leadership band is ~25% lower than the 50th percentile.

Data analysis indicates that this group is not aligned to Canadian peers in a manner comparable to the approach taken for Core Government executives. While DMs and ADMs salary band maximums rank 2<sup>nd</sup> and 3<sup>rd</sup> highest in Canada respectively, Strategic Leadership, for example, is receiving the second lowest maximum achievable compensation in Canada.



It is important to note that while most Public Sector workers indicate they are motivated by factors other than compensation, there is clear evidence that uncompetitive compensation can cause Public Service workers to leave their employer.

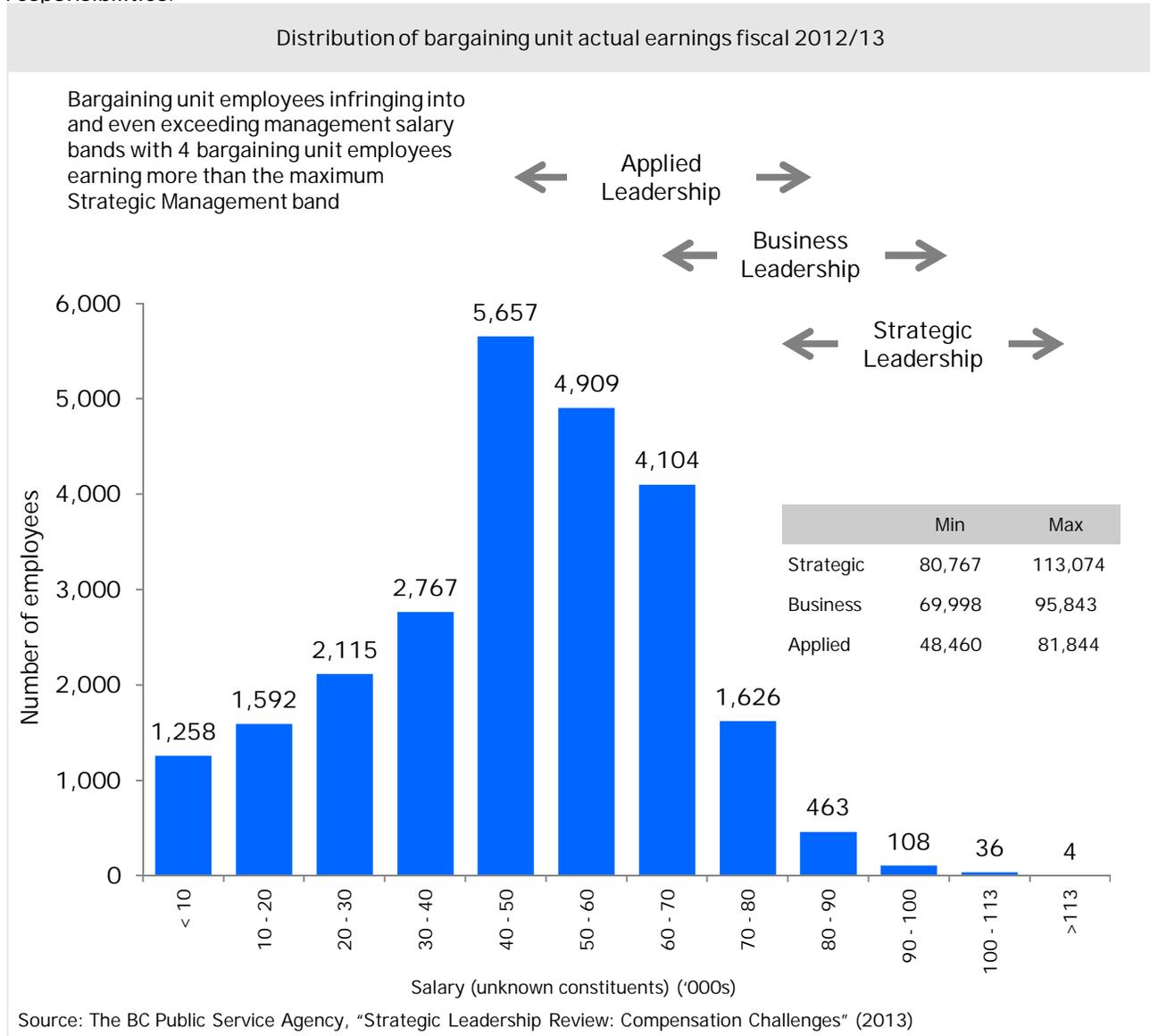
In a recent exit survey of BC Public Service employees who resigned, 51% of those who resigned said that they were leaving the BC Public Service for another employment opportunity: 50% of those went to another public sector organization and 66% of those who left for other employment indicated that compensation was one of the factors that attracted them to new employment.

In addition, uncompetitive compensation has clear implications for recruitment. It is interesting to note that, out of 288 employees who were hired in Strategic Leadership positions over the last five years, 232 were internal redeployments. The stakeholders stressed concerns that the Public Service has not been successful in recruiting external candidates in part due to compensation freezes.

In summary, there is a growing concern amongst key stakeholders that the Province is at risk of losing highly talented strategic leaders to opportunities outside of the Core Government.

Issue 3 - Compression between Bargaining unit and management

Data shows that compression between employees covered under the collective agreements and managers in the Provincial Government is real. Stakeholders commented many employees are reluctant to be promoted to manager on the grounds that they will receive less compensation while being given additional responsibilities.



A number of stakeholders speculated that this may be due in part to legitimate reasons, including, for example, employees covered under collective agreements working significant amounts of overtime. In other instances, however, the rationale may be less justifiable. Some stakeholders speculated that at the lower levels, Core Government employees may be over compensated when considering comparable roles for the work they perform. It has not been within the scope of this review to validate this hypothesis. However, previous studies conducted across Canada of public/ private wage differentials support this hypothesis. (See Appendix C-23) It must also be considered that compression results from constraints and freezes in management level pay bands, with the last increase to the top of the salary range for excluded managers occurring in March 2009.

While no data was available to investigate talent management implications in the Broader Public Sector, given compensation freezes in Crowns, it may be reasonable to assume that these organizations are also experiencing comparable issues of compression.

## Adopting the salary holdback model for executives

In the direct Core Government, the Executive Holdback plan was developed with the intent to reward achievements of goals and targets relating to specific performance objectives. In 2008/2009, the maximum salary holdback subject to performance was increased from 5% to 10% of salary. For the broader public sector, employers have offered a variety of performance pay models. Amongst Crowns, incentive pay has been common, while in K-12 and the post-secondary sector, performance pay is uncommon. In 2012, the Minister responsible for the *Public Sector Employers Act*, Kevin Falcon directed Crown Corporations to replace incentive pay and bonuses with non-pensionable holdbacks of up to 20% tied to financial and business results. The implementation of this directive is currently underway, with the majority of Crowns now in compliance with this approach.

Under the executive compensation disclosure guidelines, employers are expected to report on how payment of salary holdbacks for the top five executives relates to the organization's performance targets.

Stakeholders have commented that the holdback model is seen to be a punitive system of compensation and that it doesn't drive different behavior nor affect performance results.

Issues associated with holdbacks include that:

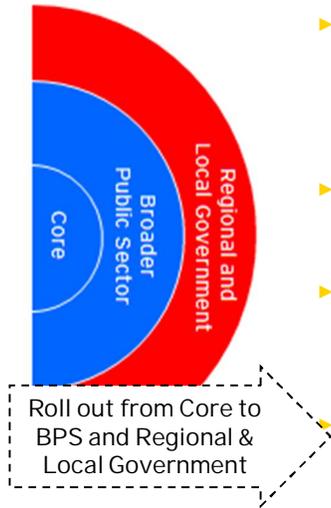
- The holdback system becomes problematic and meaningless if the performance goals and targets are too easy to achieve. According to BC Ferries<sup>A</sup> disclosure statements, the President and CEO's bonus performance measurements include: "implementing the recommendations of the independent safety review report," "fostering effective relationships with key organizations" and "collaborating with the Provincial Government on a long-term vision for coastal ferry services." These 'performance targets' are perceived to be mandatory requirements for a president's position that should be met as a minimum expectation regardless of the holdback plan:
- Since many executives in the Broader Public Sector have performance targets that are difficult to quantify, most end up receiving the full payout
- The public views holdbacks as being the same as bonuses. Indeed, the holdback model simply raised the base salary of Crown corporations executives by the four year average of their recent bonuses.
- Holdbacks are not deemed pensionable for employees in the Core Government, but are deemed pensionable for those in the Broader Public Sector

In considering the above, as Government updates its compensation philosophy, it may wish to consider whether the executive holdback model is an effective means of driving performance.

See Recommendation 1.1 for a discussion of the potential resolution to the talent management issues outlined in this section

<sup>A</sup> Note that BC Ferries is not a Crown Corporation

## 6. Recommendations



- ▶ There is a need to drive greater alignment in compensation across the Core, Public Service, Broader Public Sector and Regional & Local Government in order to meet the expectations of the “single taxpayer” that tax dollars be spent consistently and effectively for comparable resources across all areas of Government
  - ▶ Alignment of compensation needs to be created through a clearly defined philosophy and governance model and enablers driven from the centre and adopted across the breadth of Government
  - ▶ The Core Government had a compensation philosophy previously approved by Cabinet. Due to financial restraints, however, this was partially implemented in 2008 and was not sustained over time. It should be reviewed and updated and could form the basis for the philosophy for the breadth of the BC Public Sector
- The Provincial Government’s house must be “in order” before Regional & Local Government can be expected to follow; but the Provincial Government should do what is necessary to bring Regional & Local Government compensation into alignment over time, including using financial levers if necessary

Three connected initiatives are recommended

1. Create common philosophy & enablers	2. Build governance model and processes to enable alignment across Broader Public Sector		3. Deploy and sustain
Refresh Core Government philosophy for application to Broader Public Sector	Design future state governance model to enable alignment of compensation across BC Public Sector to Core Government	Design strategic approach to bringing Regional & Local Government under this governance model and design detailed transition plan to move to future state	Make model more sustainable and market sensitive
<ol style="list-style-type: none"> <li>1. Revisit and update the previously approved compensation philosophy for the Core where necessary</li> <li>2. Further develop this philosophy to create a shared philosophy for the entire BC Public Sector, providing common principles, processes and guidelines</li> <li>3. Establish standardized benchmarking tools in the Core and roll out across the BC Public Sector</li> <li>4. Invest in more accessible and comprehensive data in the Core and roll out across the BC Public Sector</li> </ol>	<ol style="list-style-type: none"> <li>1. Communicate and set expectation that Cabinet will set philosophy and direction across entire BC Public Sector</li> <li>2. Revisit the role of Crown Corporation Boards in establishing Broader Public Sector Compensation and revisit the remuneration categorization for Crown corporations and adjust based on common principles</li> <li>3. Establish responsibilities, process and procedure for issuance of a single strategic directive from Cabinet to align compensation across all BC Public Sector, including removing need for Cabinet role in ‘day-to-day’ procedure, and setting consequences for non-compliance</li> <li>4. Finalize current review of Provincial model including need to align Employers’ Associations in the Broader Public Sector</li> <li>5. Enable a common bargaining approach in Regional &amp; Local Government</li> <li>6. Conduct a review of current arbitration models</li> </ol>	<ol style="list-style-type: none"> <li>7. Select strategy to create adherence to philosophy and governance model. It is proposed that:                             <ul style="list-style-type: none"> <li>• As data and benchmarking capability improves, educate and set a framework of expectations in order to provide Regional &amp; Local Government with the opportunity to ‘do the right thing’ by complying</li> <li>• Where education and setting of expectations do not yield results, use financial levers to directly encourage Regional &amp; Local Government to set compensation caps and Provincial Government to stop providing funding once cap has been reached</li> <li>• With strategy selected, design detailed transition plan to future state, including setting clear timelines as to expectations for Regional &amp; Local Government</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>1. Deploy and make sustainable including:                             <ul style="list-style-type: none"> <li>• Execute implementation plan</li> <li>• Conduct market reviews every two years to review compensation and adjust bands as required</li> <li>• Make ongoing adjustments to models through a standard approval process</li> <li>• Cabinet to approve philosophy as required</li> <li>• Put process in place to review and refresh compensation philosophy on a regular and ongoing basis.</li> </ul> </li> </ol>

*Initiatives 1.1 to 2.7 are explored in more detail on the following pages*

## Recommendations > Principles used to select options

### Principles underpinning recommendations

There are a number of recommendations that are offered to support the closer alignment of compensation across the BC Public Sector and to put in place a sustainable model going forward. The following principles underpinned the recommendations:

- Recommendations must respect the objectives of the Core Review that Government operate as consistently and effectively as possible – i.e. there should be alignment in compensation across the BC Public Sector
- Recommendations must respect the Core Review objective of ensuring public sector management wage levels are appropriate while recognizing the need for leaders who can positively impact the effectiveness of and productivity of public sector agencies - i.e. compensation costs should be kept to reasonable levels while enabling the Public Sector to be adequately resourced
- Organizations should be given the opportunity to do “the right thing” and Government should consider that “sunlight is the best disinfectant”, but where historical actions suggest such an approach won’t work, more centralized directives should be applied
- Existing reviews should be finalized
- Make use of existing entities and practices to the greatest extent possible
- Where adequate information is not currently available, collect additional information before making a decision

## Recommendations > 1. Create common philosophy & enablers

### 1.1. Refresh the compensation philosophy for the Core where necessary and make it applicable to share with Broader Public Sector

While the variation between Core Government and other areas within the Province is of greater concern, it is important to consider how to first resolve any issues within the Core in order to enable sustainable alignment to other areas going forward.

#### Recommended actions:

- Review and update as necessary the Core philosophy, which was approved by the Cabinet in 2008
- Develop communication approach for key stakeholders highlighting issues and challenges of current compensation framework
- Conduct market based review of current total compensation within the Core Government against other Canadian provincial and federal jurisdictions by level using revisited philosophy
- Based on review results, revise as necessary management compensation within the Core Government: including re-evaluation of pay bands and adjust where current pay is above/below market (e.g. consider increasing \$113k cap for Strategic Leadership band) (See Appendix C-20)
- Consider whether holdbacks should be the preferred model for the Core Government, considering in particular that holdbacks are punitive and removal would provide greater flexibility without needing to increase ranges
- Allow employees to move through bands based on performance rather than tenure
- Consider using the flexibility that the Province currently has in terms of utilizing the breadth of existing executive pay bands
- Define process for regular adjustments based on market data

#### Implications

- Based on the market reviews, it is possible that some of the lower levels (e.g. administrative positions) may be above market and could require “adjustment down” over time. This is an assumption not based on analysis of BC data but on a literature review of typical public/ private benchmarking in Canada, and comments from stakeholders in BC. For example, a study by Watson Wyatt and Hay associates, found higher pay for lower classifications but lower pay at the executive level of the federal public service, compared to the private sector (See Appendix C-23)
- It is believed that the Strategic Leadership group and other key management roles are compensated at a lower level than Canadian and Federal peers, and it is therefore anticipated that bands would need to be adjusted up
- The issue of executive holdbacks as a performance management tool is generally poorly understood, but needs to be handled with sensitivity nonetheless
- The role of Cabinet in compensation decisions needs to be carefully considered. If BC moved towards a standard market based process, with no exceptions, it would enable Cabinet to largely remove itself from day to day decision making. Cabinet would retain authority over approving the philosophy, framework and processes

## Recommendations > 1. Create common philosophy & enablers

### 1.2. Further develop the Core philosophy to create a shared philosophy for the entire BC Public Sector

Good work was done several years ago on defining a common compensation philosophy for the Core Government. We would recommend revisiting this and refreshing it as necessary. This philosophy would then be expanded and built out to create a common compensation philosophy across the BC Public Sector, including the Broader Public Sector and Regional & Local Government.

During this exercise, Government may wish to consider some of the following questions:

- How is alignment reached across BPS through the use of caps?
- Is the current categorization of remuneration categories for Crown Corporations appropriate?
- If leadership compensation is tied to the Federal Government, how is 'ability to pay' factored in?
- Can bargaining unit employees make more than management level?
- Caps in benefits as a percentage of base salary?
- How to ensure a 'no exceptions' culture?
- How to balance / align compensation against varying local market conditions (e.g. labour rates in Vancouver vs. Smithers)?
- Should Broader Public Sector/ local leaders be paid more than most senior Core Government leaders (e.g. CEO vs. DM compensation)?
- Consider linkages to GDP forecast?

## Recommendations > 1. Create common philosophy & enablers

### 1.3. Establish benchmarking guidelines in the Core, and roll out across Broader Public Sector and Regional & Local Government

There is no clear and consistent framework or guidance for benchmarking methodology and approach across either the Provincial Government or Regional & Local Government

Recommendation: Create standardized benchmarking processes and guidelines on how comparators should be selected and design “rule of thumb” tool to enable comparison of similar occupations (considering, for example, span of control, responsibilities, etc.). Communicate clear expectations for compliance.

- Implication: This would create greater alignment in compensation but would require training and implementation support

## Recommendations > 1. Create common philosophy & enablers

### 1.4. Invest in more accessible and comprehensive data in the Core, and roll out across the Broader Public Sector and Regional & Local Government

The BC Government does not currently use all available sources of information to gain a picture of compensation across the breadth of Government. It should also be noted that the current legislated sources of data cannot feasibly provide the BC Government with the means to understand variation in total compensation across the arms of the Provincial and Regional & Local Government. It will also ensure the various Government entities have access to comparable data to support their decision making. The following actions are recommended:

1. Build, analyze and use a single compensation dataset that covers the BC Public Sector based on total compensation (e.g. use at the bargaining table; in designing trade-offs; improve transparency to the public). Core Government would be the stewards of this data.

2. Require the regular electronic reporting of compensation of all BC Public Sector employees, including information on all elements of total compensation, full time equivalency and job descriptions by individual employee.

3. Develop processes and expectations to support sharing data and best practices across the BC Public Sector, including the Broader Public Sector and Regional & Local Government.

4. Consistently collect and analyse exit interview data to enable identification of talent management risks.

- This would require an investment in processes and systems to develop this capability for the Province. Communications will be important to ensure consistent inputting and utilization

## Recommendations > 2. Build governance model to enable alignment

### 2.1. Establish a model for establishing a harmonized compensation philosophy for Regional & Local Government

In the Regional and Local model, no one party sets the rules around executive compensation and collective bargaining mandates across the entire sector. This power is fragmented, with each Government having responsibility for their own jurisdiction. The following options were considered:

Option 1: Provincial Government to issue general compensation guidelines and share expectations around a common philosophy that Regional & Local Government are expected to adhere to.

- Provide standard benchmarking guidelines, associated tools and processes and access to data to support a consistent approach
- There is no enforcement mechanism for non compliance

Option 2: Empower and create a Regional & Local Government compensation 'Cabinet' including representatives from Regional and Local Government and representation from the Provincial Government to establish a consistent compensation philosophy.

- This Regional & Local Government Compensation 'Cabinet' may believe and end up acting on the belief that it has greater powers and prerogative beyond the scope of setting compensation directives that would ultimately create conflict with the Provincial Government
- It would be challenging to determine equitable means for selection of this 'Cabinet'
- No certainty that philosophy would reflect and align with that in the Core Government and Broader Public Sector

Option 3: Establish responsibilities for development and issuance of single philosophy by Provincial Cabinet to align compensation to the greatest extent possible across the entire BC Public Sector at all levels with associated consequences for non-compliance.

- Provide standard benchmarking guidelines, associated tools and processes and access to data to support a consistent approach
- The mandated framework would require enforcement mechanisms as well as oversight through a body such as the Auditor General for Local Government
- This would require significant levels of change and would face material resistance from Regional & Local Government and unions – to the extent that it might not be feasible to implement such an option without strong political will
- Enforcement could be implemented through the use of budget caps or other financial levers if education wasn't effective

#### Recommendation:

Option 1 is recommended followed by Option 3 if Regional & Local Government doesn't adopt the provincial approach. We believe that providing information, data, tools and setting expectations for a common approach will motivate most municipalities to comply, without requiring a heavy handed approach. It allows those leaders a chance to do the right thing.

## Recommendations > 2. Build governance model to enable alignment

### 2.2. Revisit the role of Crown Corporation boards in establishing Broader Public Sector compensation

The boards of Crown Corporations lack a consistent approach and discipline in establishing compensation, particularly for the executive ranks. There may be a lack of understanding in terms of their mandate and direction on behalf of the shareholder.

The compensation classification categories that were established in 2007 need to be revisited and updated.

Option 1: Establish good governance practices for boards in setting compensation and provide mandatory onboarding for all new board members and retraining of existing boards in terms of their responsibility to the shareholder and compensation framework (See Appendix C-21)

- Given the mix of current director experience, this approach lacks enforceability

Option 2: In addition to onboarding and expectation setting process, deploy clear directives around a shared compensation framework and philosophy and provide tools and access to data to support the boards in their duties. This includes independent review and enforcement processes

- Boards will still be seen as involved in compensation decisions. There are consequences for non-conformance

Option 3: Give Crown Corporation compensation responsibilities to an independent wage board (e.g. PSEC), removing it from board responsibilities

- This will remove issue of challenges faced by boards in knowing how to set compensation and reduce risk of 'board capture' from executives
- This reduces power of boards and independence of organizations and would require more significant change management
- This relies on the assumption of being able to establish an independent and effective wage board

#### Recommendation:

The Government may wish to start with Option 2 with the clear potential to move to Option 3 if there is a lack of compliance / co-operation from the system

## Recommendations > 2. Build governance model to enable alignment

### 2.3. Establish a consistent framework to support the implementation and enforcement of compensation philosophy in Regional and Local Government

The Regional and Local model does not have a comparable PSEC or the BC Public Service Agency to provide strategic advice, co-ordination and enforcement. BC is the only Canadian jurisdiction to have an AGLG. This initiative has been widely applauded, but some parties suggest that the AGLG could be mandated to focus on compensation, and to go beyond validating if policy has been applied, to investigating whether outcomes are fair and equitable. The following options were considered:

Option 1: Encourage the AGLG to review compensation and provide it with 'greater teeth' in terms of enforcement

- This could encourage greater conservatism in compensation but would not necessarily create alignment
- It is still 'early days' for the AGLG and may be premature to make significant changes to its mandate
- This would face significant opposition from Local Government and unions

Option 2: Empower and create a PSEC equivalent body covering Regional & Local Government to provide strategic advice, coordination and enforcement of a common compensation framework

- Provide access to data, tools and common process frameworks
- This might encourage greater alignment of compensation
- However, without central Government oversight, there is no certainty that this entity would enforce alignment and without robust governance could be pressured by Regional and Local Government

Option 3: Establish centralized responsibilities, process and procedures for implementation and enforcement of a coordinated directive by Provincial Cabinet to align compensation to the greatest extent possible across Regional & Local Government (e.g. through extending PSEC to cover Regional & Local Government and considering use of Pay Czar) (See Appendix C-22)

- This would create alignment and consistency in approach to compensation
- This would require significant levels of change and would face resistance from Regional & Local Government and unions

#### Recommendation:

Option 2 is recommended. It is preferable to provide Regional & Local Government with the chance to do the right thing. If there isn't the expected cooperation, a more directive choice could be considered.

## Recommendations > 2. Build governance model to enable alignment

### 2.4. Simplify governance by aligning Employers' Associations in the Broader Public Sector

While Employers' Associations provide sector coordination in response to organized labour in the Provincial Government, there is currently duplication of mandate and a lack of coordination and knowledge transfer

Option 1: Encourage closer coordination and knowledge sharing between all Employers' Associations and other entities

Option 2: Collapse the current Employers' Associations into a single body if possible, or at least a smaller number

- We recognize that there are other initiatives examining the overall governance models affecting compensation. We would encourage this review to look for ways to simplify and streamline the structure, ideally reducing the number of discrete organizations involved

**Recommendation:**

Before taking any action, finalize current review of Provincial governance model. We believe there is an opportunity to streamline and simplify the current structure.

## Recommendations > 2. Build governance model to enable alignment

### 2.5. Enable a common bargaining approach in Regional & Local Government

Regional & Local Government's approach to collective bargaining is highly fragmented and inefficient. There is an opportunity to better streamline and coordinate these processes. The following options were considered:

Option 1: Expand existing entities (Labour Relations Department of Metro Vancouver and Greater Victoria Labour Relations Association) to cover all Regional & Local Government

- Current trend is one of fragmentation rather than consolidation and growth – this would need to be turned around. This would maintain municipal autonomy and thereby increase municipal buy in. If the Provincial EAs are to be consolidated, however, this results in a fragmented system

Option 2: Provincial Government to provide optional Employers' Association services to Regional & Local Government

- Unlikely to be taken up among Regional & Local Government given sense of autonomy

Option 3: Provincial Government to mandate use of either Regional and Local EA services or use of Provincial provider

- Greater coordination in response to organized labour
- Risk of creating a divided system

Option 4: Provincial Government to mandate use of Provincial Employers' Associations / consolidated function

- Creates coordination in response to organized labour. If the Provincial EAs are to be consolidated, this option would result in one single organization which could ensure coordination across the entire BC Public Sector
- Loss of control over compensation by Regional & Local Government will be strongly resisted, even though it means removing duplicated costs and inefficiencies from the system. Strong communications with both internal and external will be required

#### Recommendation:

Complete current review of governance model and look for opportunities to simplify and align across jurisdictions.

## Recommendations > 2. Build governance model to enable alignment

### 2.6. Evaluate collective bargaining models for Regional & Local Government

There is a mixed approach to collective bargaining across the Province, with some pockets of arbitration for Police and Fire which stakeholders believe may be resulting in compensation escalation

Option 1: Allow arbitration exceptions to continue but make greater use of ability of Core Government to provide specific terms of reference for an arbitration in order to align outcomes to Provincial mandates

- This would create greater compensation alignment to Provincial mandates
- Subject to legal opinion, it is believed that this would require no change in existing legislation

Option 2: Eliminate the arbitration process and bring Police and Fire under the same framework as the Broader Public Sector or potentially an 'adjudication' model

- This would create greater compensation alignment to Provincial mandates
- This would require significant changes in legislation and would create greater resistance from the Police and Fire services and their unions

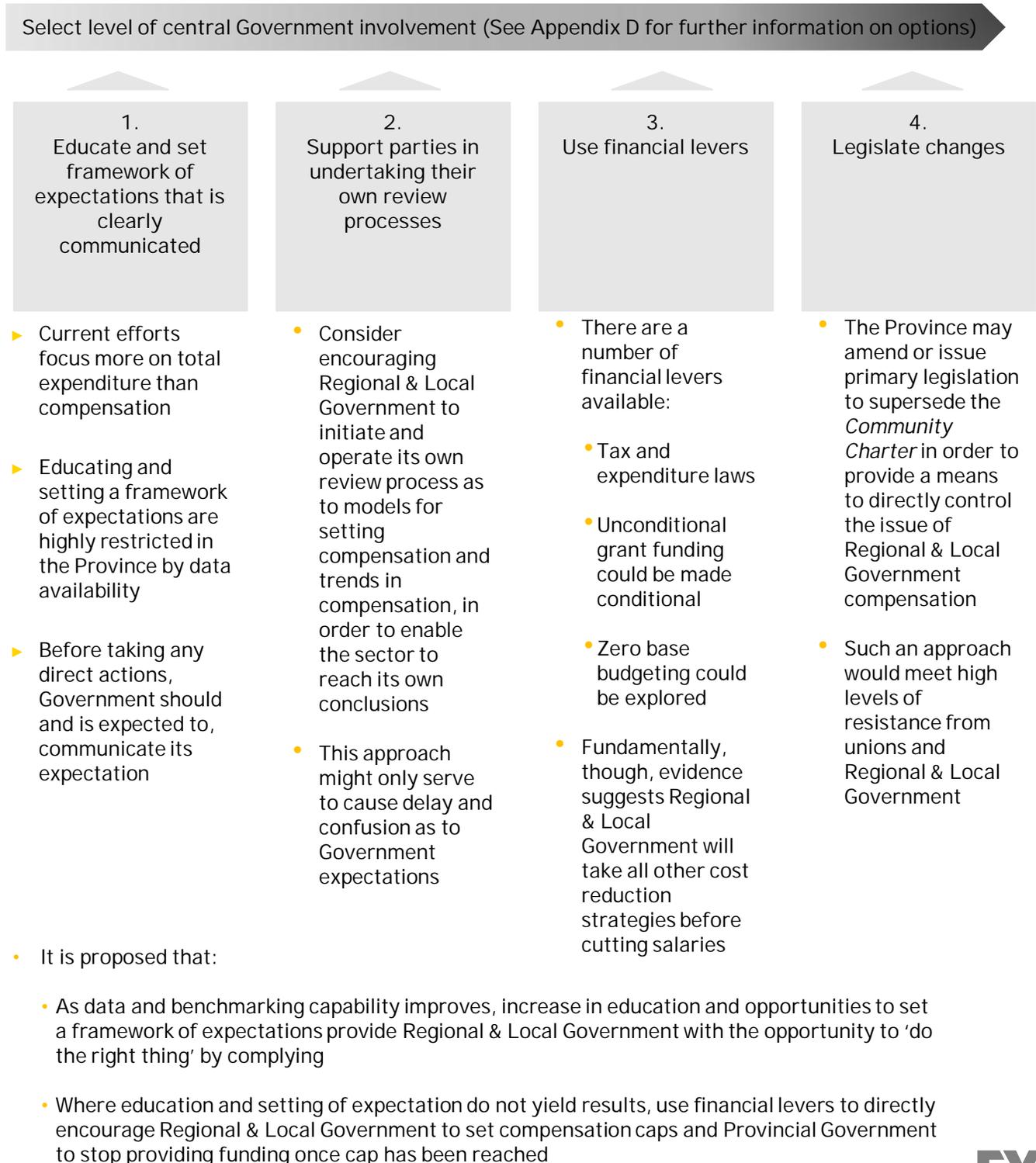
#### Recommendation:

Before taking any action, conduct a more detailed review of the current arbitration models. Option 1 is then recommended with the potential to move to a more drastic change if there isn't cooperation.

## Recommendations > 2. Build governance model to enable alignment

### 2.7. Select strategy to create adherence to philosophy and governance mode

In detailed design, the strategy pertaining to Regional and Local Government, will need to be selected from the spectrum outlined below.



## 7. Limitations

This report is confidential. It has been prepared by Ernst & Young LLP, Canada ("EY") solely for the Government of British Columbia for the purpose stated and should not be used for any other purpose. This Report is subject to the terms and conditions outlined in the engagement letter between EY and the Government of British Columbia.

This report should not be provided to any other third party without the prior written consent of EY.

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All the information and data we have received from the Government of British Columbia or its representatives is the responsibility of the Government of British Columbia. We have not sought to establish the reliability of information given to us except as specifically stated in this report.

We wish to place on record the assistance we have received from stakeholders within the BC Public Sector in preparing this report.

# Appendices

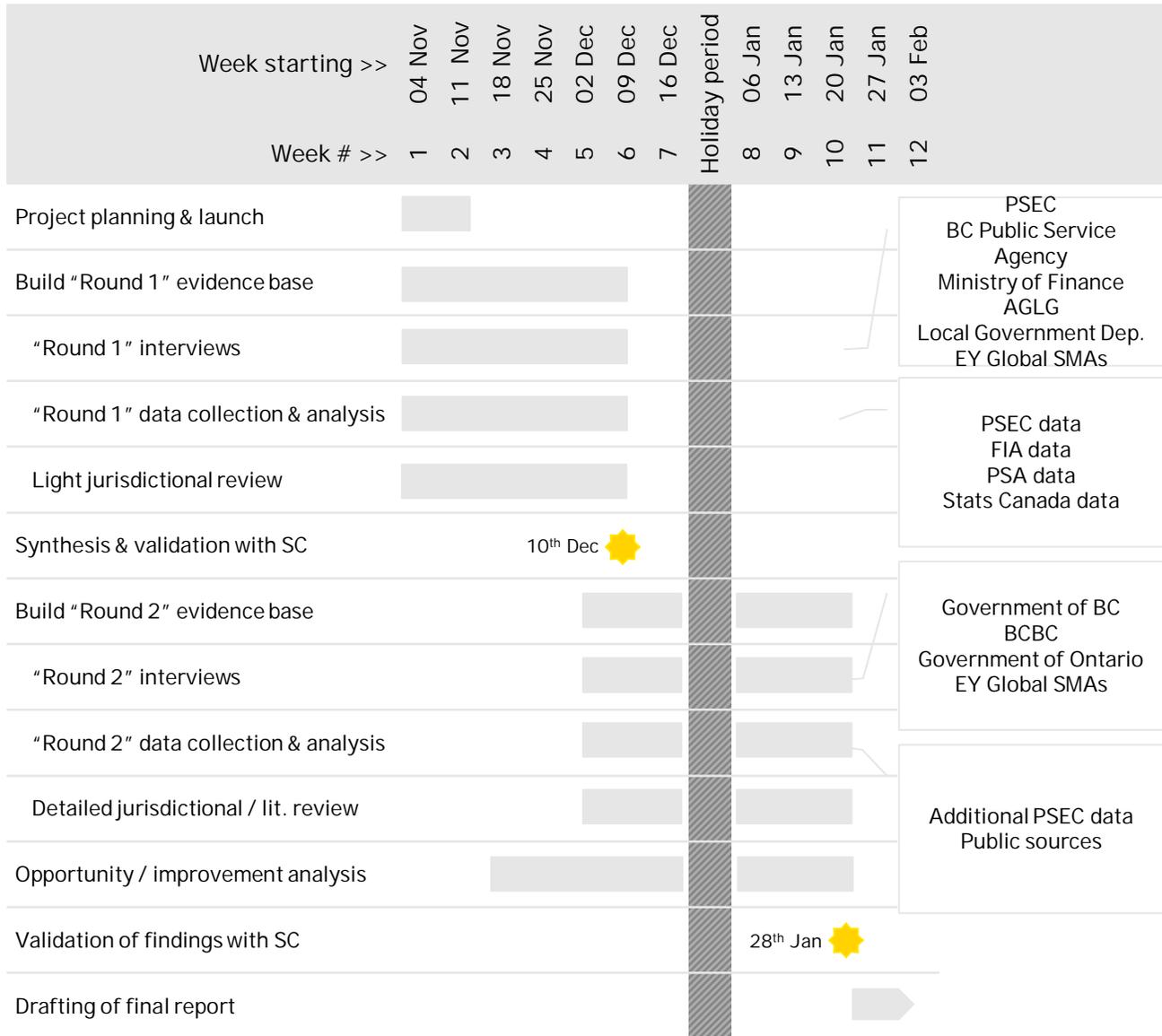
## APPENDICES

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<b>A</b>	Approach to building the evidence base	45
<b>B</b>	Total Public Sector wages	49
<b>C</b>	Supplementary evidence	51
<b>D</b>	Spectrum of strategies for Regional & Local Government	81

## Appendix A. Approach to building the evidence base

The evidence base presented in this Review was built through data collection and analysis, research, benchmarking and a series of interviews. The Review was conducted between November 2013 and February 2014. The work-plan below indicates at a high level how the project was executed.



**KEY**

- █ EY
- █ SC
- ★ SC Meeting

(1) SC = Steering Committee; PSEC = Public Sector Employers' Council; AGLG = Auditor General for Local Government; SMAs = Subject Matter Advisors; CFIB = Confederation of Independent Business; PSA = BC Public Sector Agency; FIA = Financial Information Act

## Appendix A. Approach to building the evidence base

Key stakeholders were interviewed in order to gain insights into current state and opportunities for improvement. Interviews were conducted with the following key stakeholders in order to understand: current models for setting compensation in BC and other jurisdictions, recent trends in compensation, and to identify potential areas of opportunity in BC for further research and consideration.

Organization	Name	Role
Ministry of Finance	Cheryl Wenezenki-Yolland	Associate Deputy Minister, Ministry of Finance
	Doug Foster	ADM, Strategic Initiatives
BC Public Service Agency	Lynda Tarras	Deputy Minister of the BC Public Service Agency
Auditor General for Local Government	Basia Ruta	Auditor General
	Mark Tatchell	Deputy Auditor General
Public Sector Employers' Council Secretariat	Lee Doney	CEO
	Christina Zacharuk	Executive Director
	Tim Jah	Director, Compensation Data and Research
	Jonathan Foweraker	Manager, Compensation Data & Research
	Tom Vincent	Vice President
Ministry of Community, Sport and Cultural Development	Julian Paine	ADM for Local Government
Global Subject Matter Advisors	James Lahey	Author of: "Controlling Federal Compensation Costs"
	Mark Phillips	Head of EY's Asia Pacific Human Capital Practice
	Charles-Antoine St-Jean	Former comptroller general of Canada
Government of British Columbia	John Dyble	Deputy Minister to the Premier and Cabinet Secretary and Head of the Public Service, Office of the Premier
British Columbia Business Council	Greg D'Avignon	President and CEO
	Jock Finlayson	Executive Vice President and Chief Policy Officer
Government of Ontario	Laurel Broten	Former Minister of Education in Ontario

## Appendix A. Approach to building the evidence base

In addition, a review was conducted of Community of Interest literature – which in some cases was taken to directly or indirectly represent the opinions of taxpayers.

BC Ministry of Community Services, “Primer of Regional Districts in British Columbia” (2006)

BC Public Service Agency, “Deputy Minister and Assistant Deputy Minister Review: Compensation Update” (2013 b)

BC Public Service Agency, “Strategic Leadership Review: Compensation Challenges” (2013 a)

Bennion (2010), “A Comparison of Operational Performance: Washington State Ferries to Ferry Operators Worldwide (2010)

Business Council of British Columbia, “Policy Perspectives, Up and Away: The Growth of municipal Spending in Metro Vancouver” (2012)

Canadian Coalition for Good Governance, “Best Practices in Executive Compensation Related Information” (2009)

Canadian Federation of Independent Businesses, “Big City Spenders: An Analysis of municipal Spending Trends with a Focus on Vancouver, Toronto and Montreal” (2013)

Canadian Federation of Independent Businesses, “British Columbia municipal Spending Watch” (2008)

Canadian Federation of Independent Businesses, BC municipal Spending Watch 2013: Trends in Operating Spending, 2000-2011” (2013)

Canadian Taxpayers Federation, “Rein in the Crowns! 2014-15 Pre Budget Submission, British Columbia Select Standing Committee on Finance and Government Services,” (2013)

Canadian Union of Public Employees, “Battle of the Wages: Who gets paid more, public or private sector workers?” (2011)

Cullwick (2005), “Compensation Governance: what municipalities need to change” (2005)

D.Lewin, “The New Great Debate about Unionism and Collective Bargaining in U.S. State and Local Governments” (2012)

Dave Mitchell & Associates, “Columbia Shuswap Regional District Fire Services Review: Governance, Structure and Administrative Systems” (2009)

Federation of Canadian municipalities International Centre for municipal Development, “Your Guide to municipal Institutions in Canada” (2006)

Federation of Canadian municipalities, “Towards Equity and Efficiency in Policing: A Report on Policing Roles, Responsibilities and Resources in Canada” (2010)

I.Cullwick (2005), “Compensation Governance: What municipalities Need to Change” (2005)

ICPS, “municipal Organization in Canada, Tradition and Transformation – Varying from Province to Province” (2003)

## Appendix A. Approach to building the evidence base

Independent Contractors and Businesses Association of British Columbia, "Construction Monitor" (2012)

J.Lahey, "Controlling Federal Compensation Costs: Towards a Fairer and More Sustainable System" (2010)

L.Troy, "Are municipal Collective Bargaining and municipal Governance Compatible" (2003)

Ministry of Community, Sport and Cultural Development, "Statistics Relating to Regional and Municipal Government in BC" (2011)

Public Sector Employers' Council Secretariat, "A Guide to Excluded and Executive Compensation In the British Columbia Public Sector" (2009)

BCPSEA, "Public Sector Management and Executive Compensation Freeze" (2012)

R.L. Bish, "Local Government in British Columbia" (2008)

R.L.Bish, "The Cost of municipal Elected Officials in the Capital Region of British Columbia" (1999)

R.Young, "Multilevel Governance and Public Policy in Canadian municipalities: Reflections on Research Results" (2013)

T.Reilly, "Public Sector Compensation in Local Governments – An Analysis" (2005)

The Association of Professional Engineers and Geoscientists of British Columbia, "Report on Members' Compensation and Benefits" (2012)

The Fraser Institute, "Comparing Public and Private Sector Compensation in British Columbia" (2013)

The Fraser Institute, "Wage board: The solution to reining in public sector compensation" (2012)

The School of Public Policy, University of Calgary, "Government-owned Enterprises in Canada" (2013)

Treasury Board of Canada Secretariat, "Review of the Governance Framework for Canada's Crown Corporations" (2005)

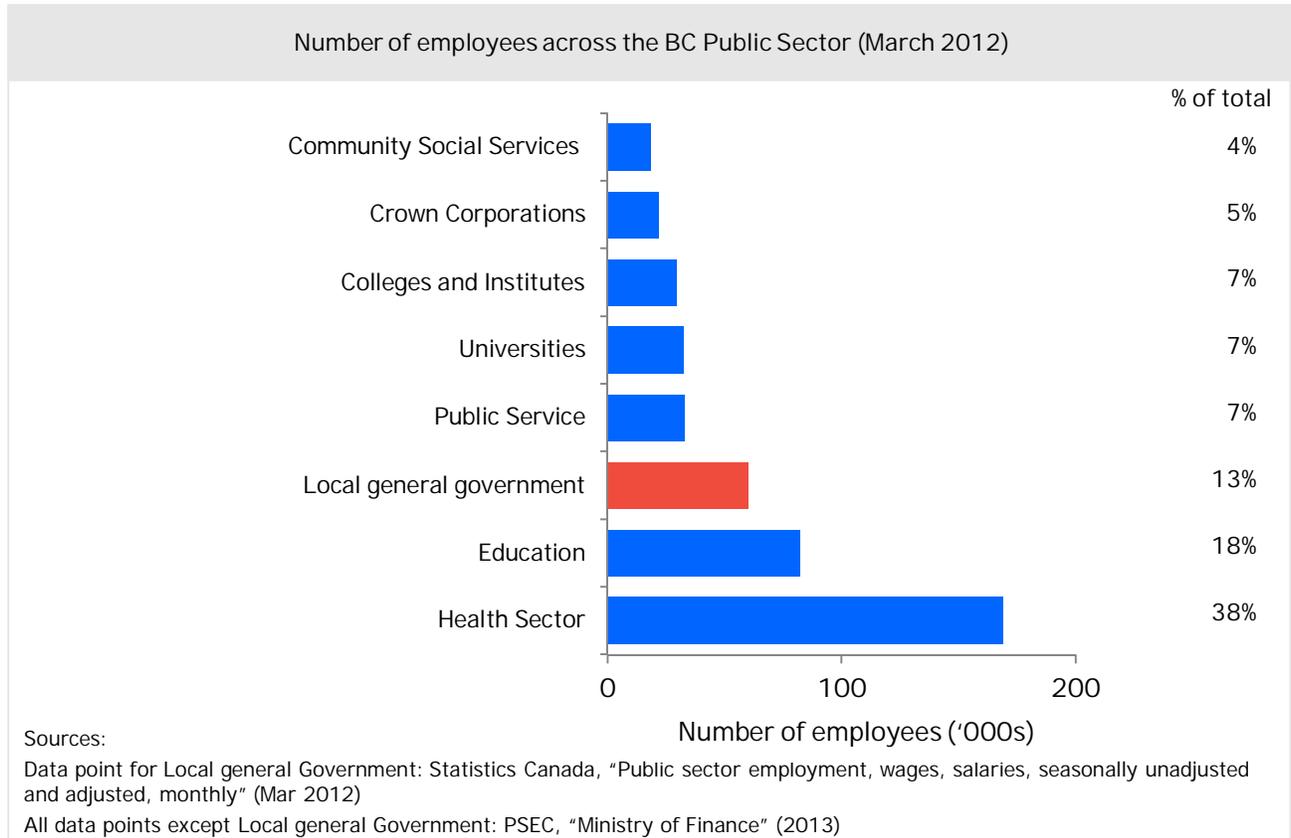
Treasury Board of Canada, "Report of the Review of the Public Service Modernization Act, 2003" (2011)

Union of BC municipalities, "Local Government in British Columbia – a community effort" (2006)

Western Compensation and Benefits Consultants, "Report on Compensation Paid to Excluded Employees, prepared for the Post-Secondary Employers' Association" (2009)

## Appendix B. Total Public Sector wages

There are ~446,000 individuals employed in the BC Public Sector as of 2013. Regional & Local Government accounts for 13% of all employees.

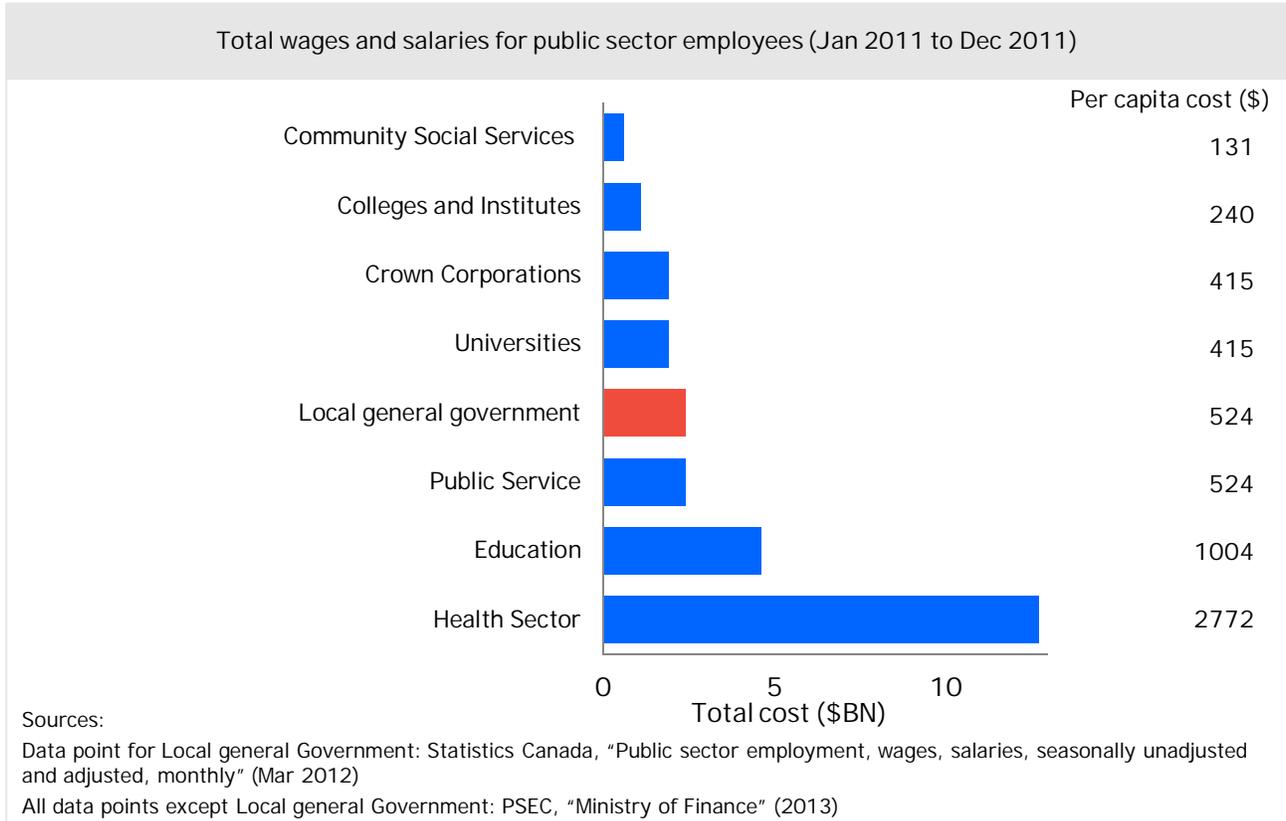


- Data commentary
- ▶ Employment numbers represent number of employees, and not full-time equivalents
  - ▶ Employment numbers include both full-time and part-time employees
  - ▶ Data derived from mandatory questionnaires sent to all institutional units controlled and mainly financed by Government
  - ▶ Crown Corporation and a Government business enterprise are both controlled by Government but the latter derives more than 50% of its revenue through its commercial activities; Business enterprises are reported as a unique line item; Crown Corporations are believed to be included in the category of general Government
  - ▶ This survey was discontinued as of March 2012

KEY		Provincial
		Regional and Local

## Appendix B. Total Public Sector wages

Total wages and salaries for all BC Public Sector employees is \$27.6BN, collectively representing a per capita cost of ~\$6,024.

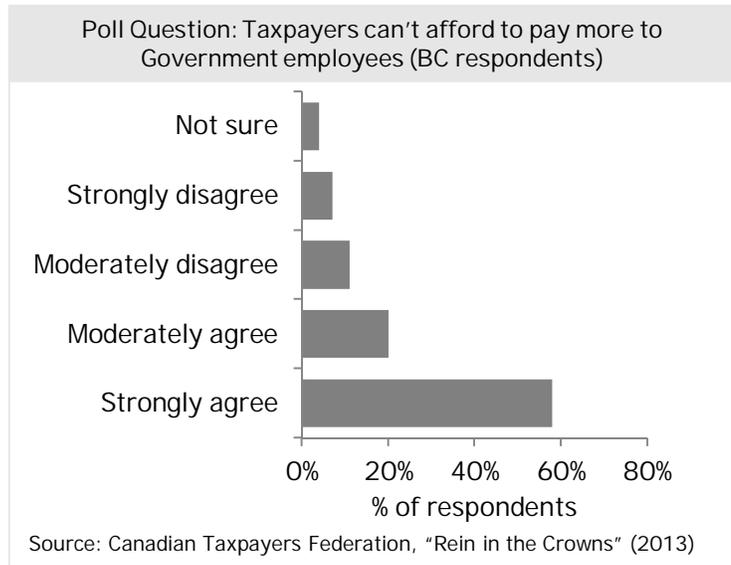


Given the per capita cost of Public Sector wages and salaries, there is increasing evidence that stakeholders are uneasy about issues in Public Sector compensation and are taking matters into their own hands.

**Case study: Petitions in BC**

In 2013, The Canadian Taxpayers Federation launched a petition to encourage the BC Government to make BC Ferries more accountable to taxpayers and to cut back executive pay. The petition called for changes to BC Ferries' enabling legislation to make the corporation subject to Government rules around executive compensation, bonuses and collective bargaining mandates - and to make BC Ferries directly accountable to the Minister of Transportation

Source: Canadian Taxpayers Federation, "Time to sink BC Ferries Gravy Boat" (2013)

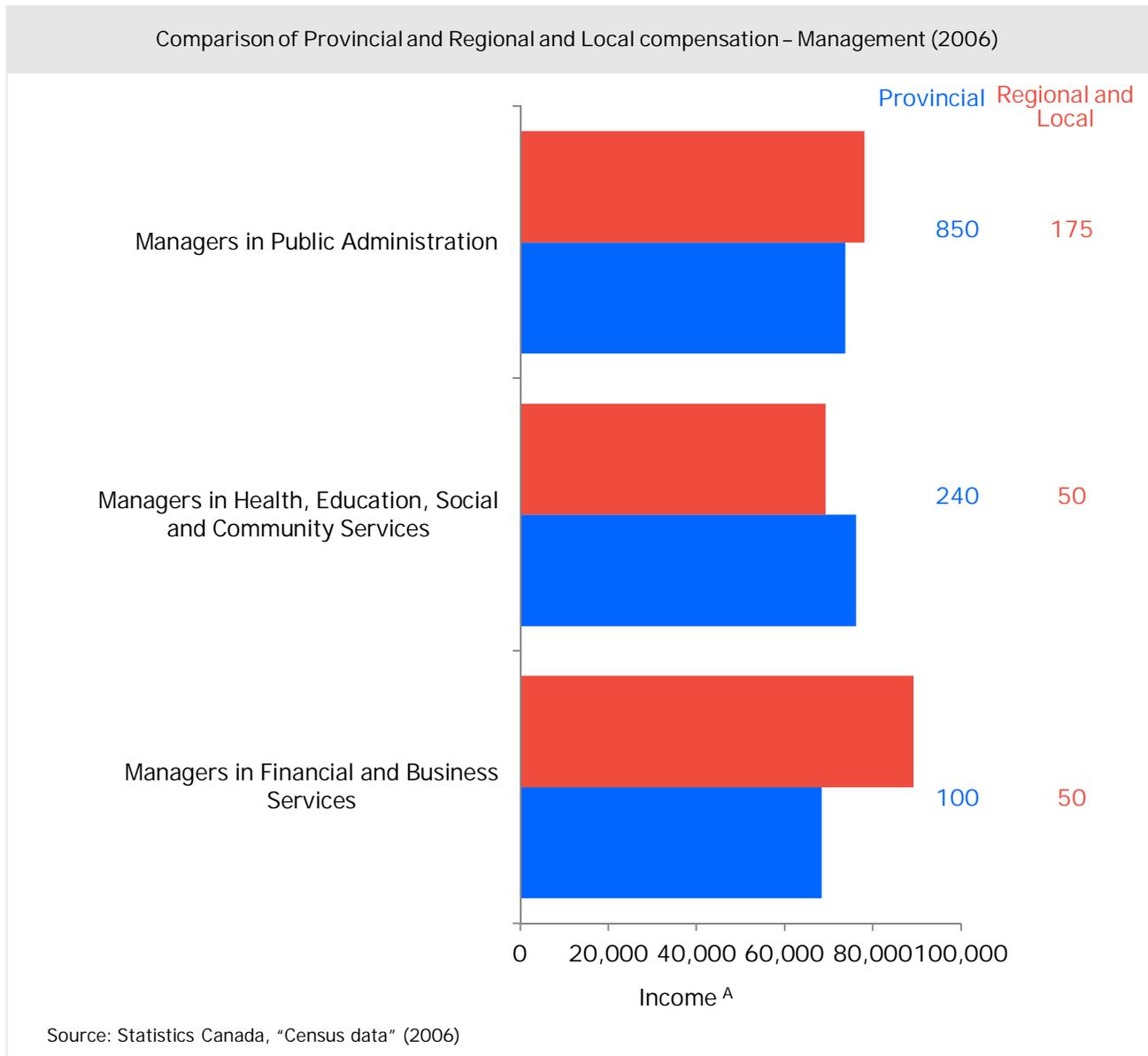


**KEY**

- Provincial
- Regional and Local

## Appendix C-1. Analysis of Census data

Analysis of the 2006 Census data indicates that a majority of managers in Regional & Local Government received higher compensation than peers in the Provincial Government. For managers in public administration and managers in Financial and Business Services, Regional & Local Government typically pays higher compensation than Provincial Government.



KEY	<span style="color: blue;">■</span> Provincial
	<span style="color: red;">■</span> Regional and Local

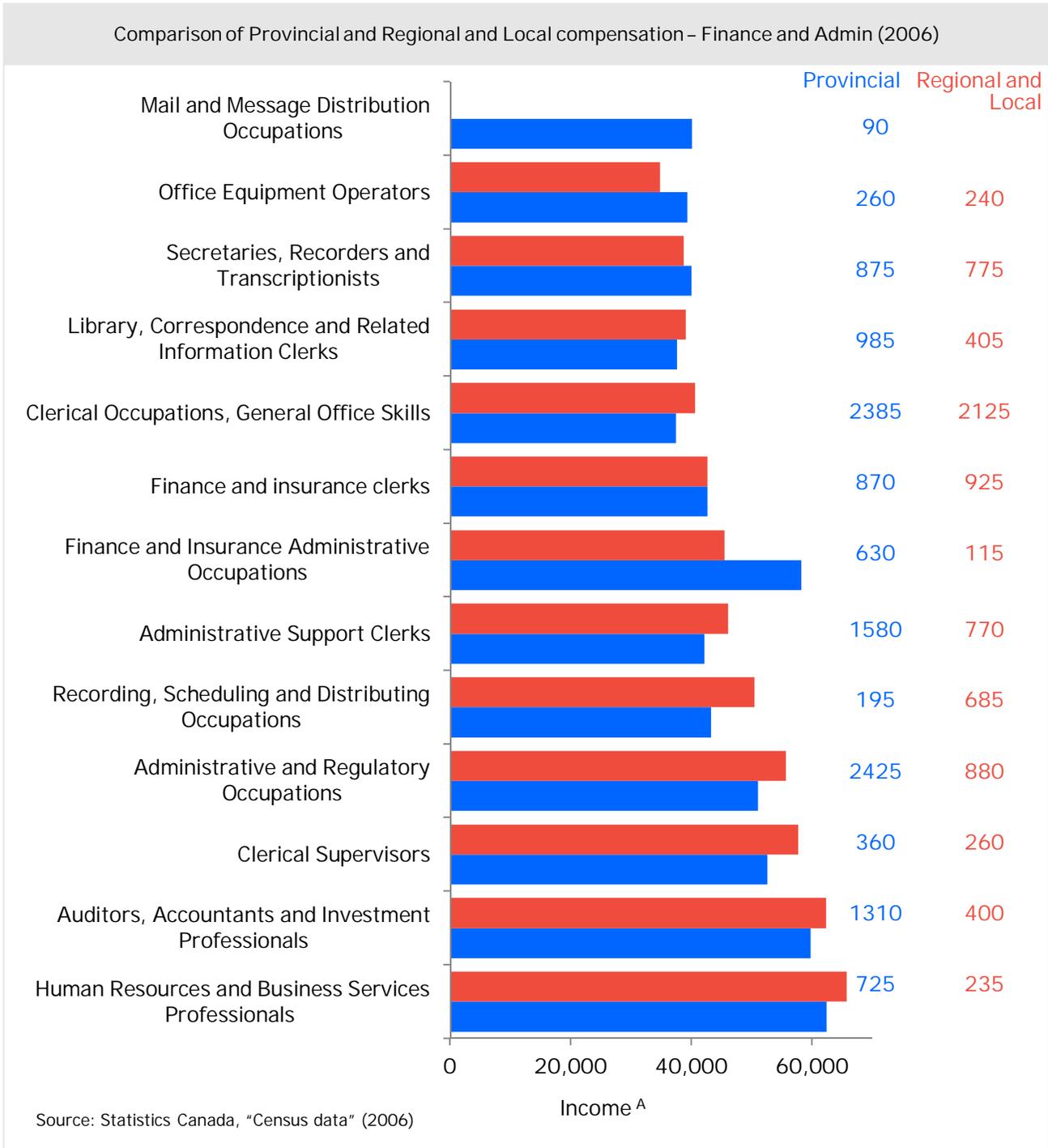
Number of provincial respondents

Number of Regional and Local respondents

<sup>A</sup> Data assumed to include base salary only

## Appendix C-1. Analysis of Census data

In all but three of the thirteen job categories reported in Census 2006 data under Business, Finance and Admin occupations, Regional & Local Government respondents reported receiving higher compensation from their employer than Provincial Government respondents. It may be of note that comparison between Finance and Insurance occupations may be skewed by respondents working for ICBC.



KEY	<span style="color: blue;">■</span> Provincial
	<span style="color: red;">■</span> Regional and Local

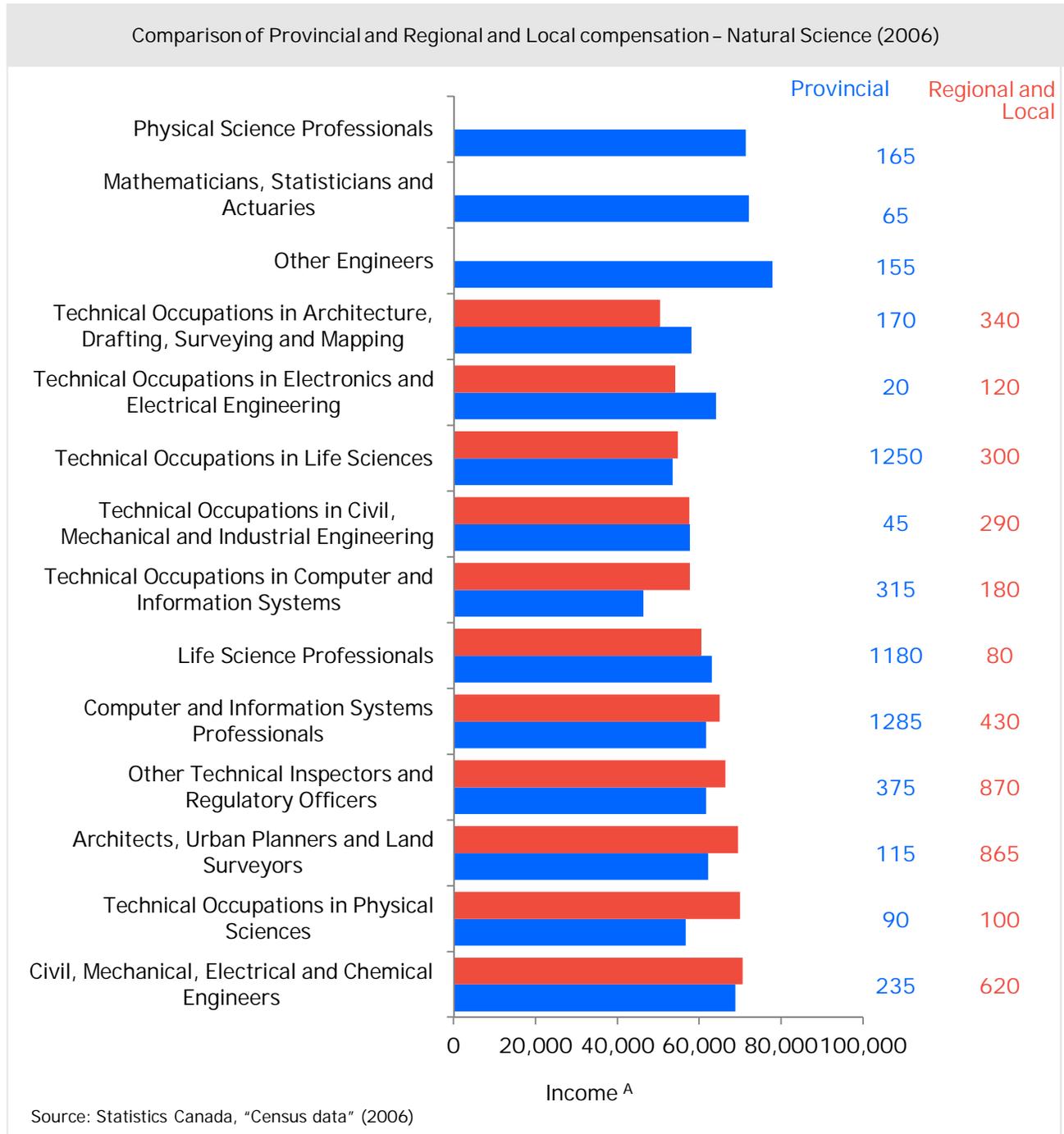
Number of provincial respondents

Number of Regional and Local respondents

<sup>A</sup> Data assumed to include base salary only

## Appendix C-1. Analysis of Census data

For seven of the job categories reported in Census 2006 data under Natural sciences occupations, Regional & Local Government respondents reported receiving higher compensation from their employer than Provincial Government respondents. Provincial compensation is higher for only four of the job categories reported.



KEY	<span style="color: blue;">■</span> Provincial
	<span style="color: red;">■</span> Regional and Local

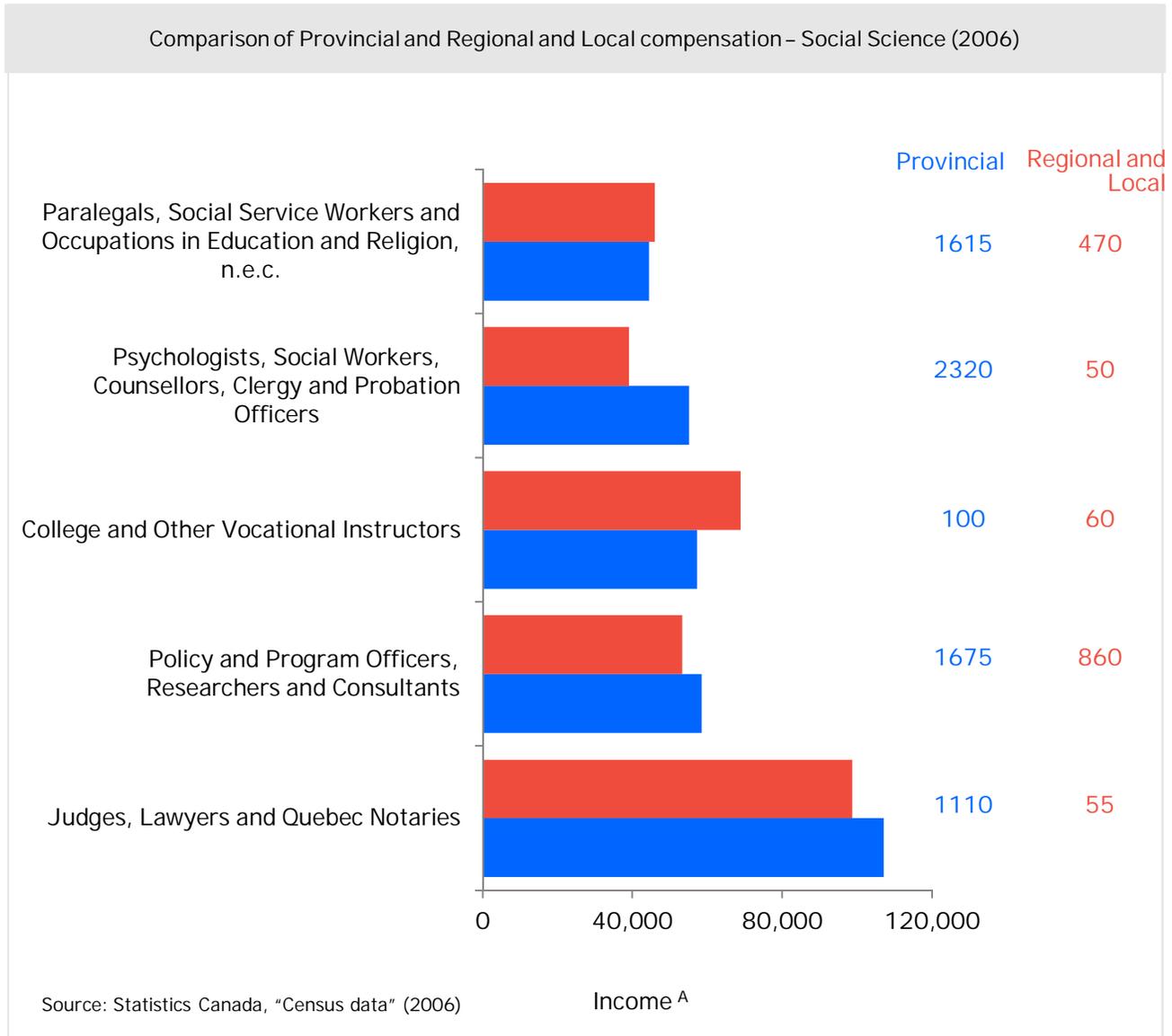
Number of provincial respondents

Number of Regional and Local respondents

<sup>A</sup> Data assumed to include base salary only

## Appendix C-1. Analysis of Census data

The trend of higher compensation for Regional & Local Government, however, is reversed for social science and education with all job categories having similar or greater compensation for Provincial Government respondents.



KEY		Provincial
		Regional and Local

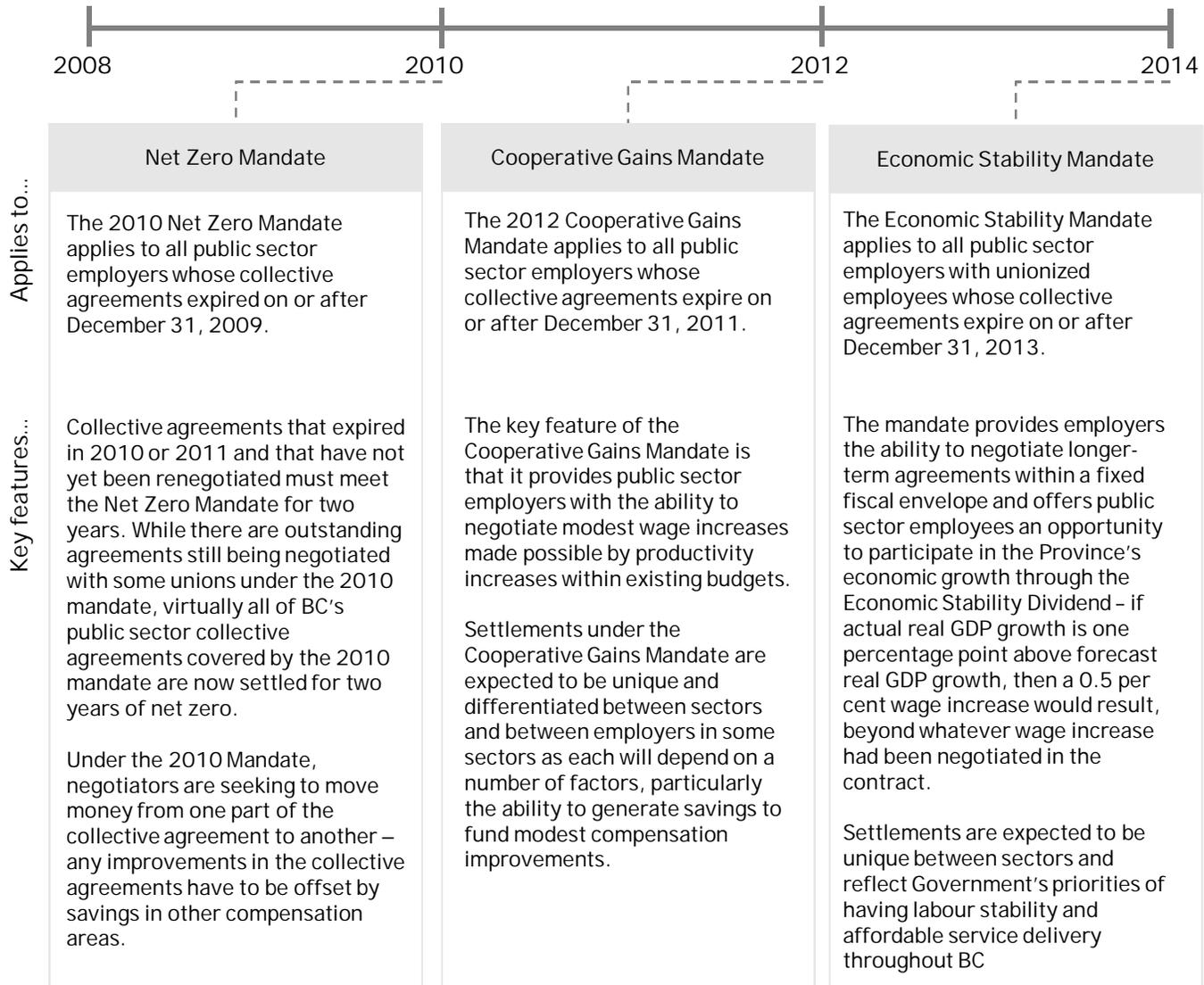
Number of provincial respondents

Number of Regional and Local respondents

<sup>A</sup> Data assumed to include base salary only

## Appendix C-2. Since 1993, bargaining within the Provincial Government has been governed by mandates established by the Government

In recent years, three mandates have been issued covering unionized employees.<sup>1</sup>



On economic stability: "There is a dimension to this that is new and novel, and one that I'd be kidding if I didn't say I'm intensely interested and excited about. Under this mechanism, public sector workers will share in the benefits that flow from that additional growth. We think that's appropriate."

*Michael De Jong, Minister of Finance & Government House Leader, BC Provincial Government*

<sup>1</sup> Government of BC, 'Public Sector Employers 'Council Secretariat' (2013)

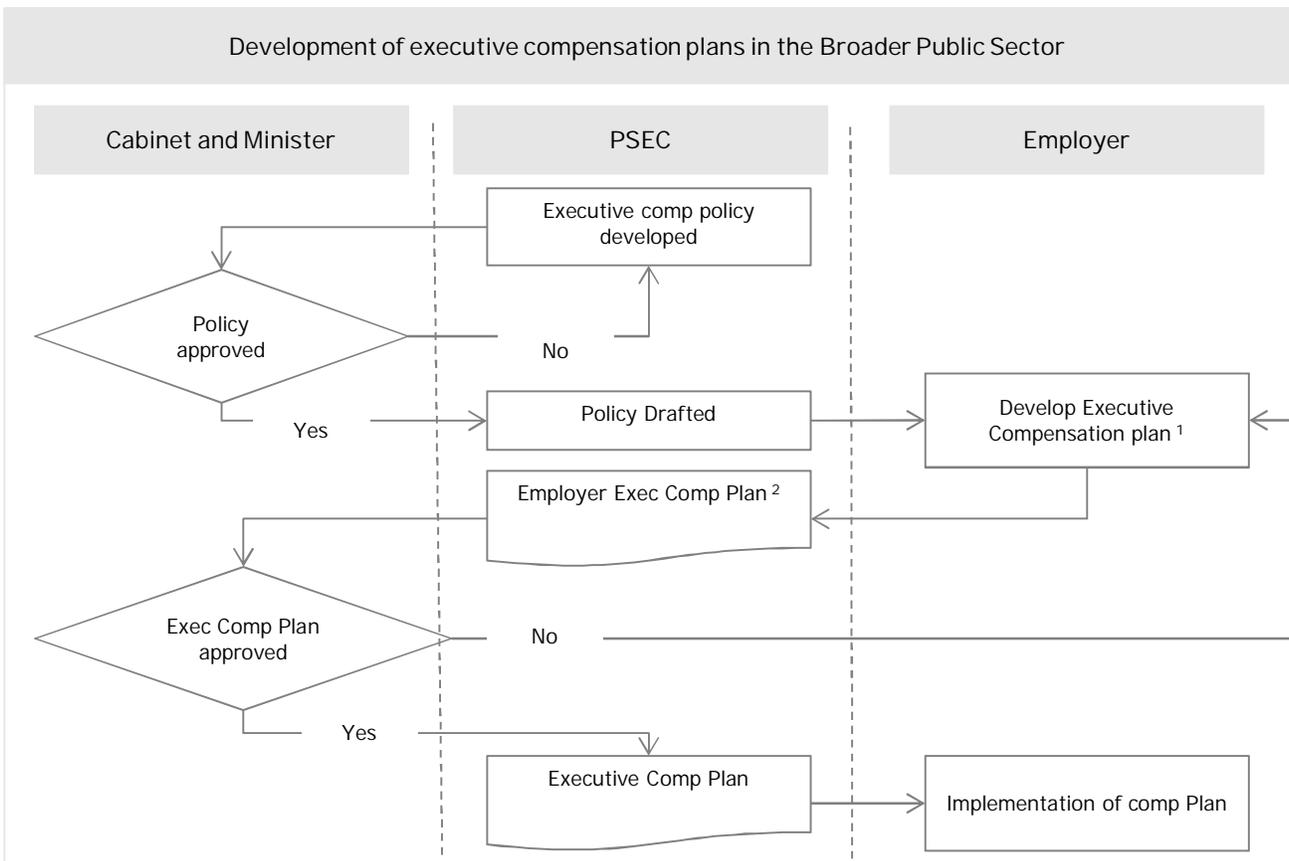
## Appendix C-3. Process for setting executive and management compensation in the Broader Public Sector

PSEC firstly creates a classification structure for Broader Public Sector entities, including, for example, Crowns, Health Authorities, Colleges and Universities, but excluding those entities within the Broader Public Sector which have elected boards (such as school boards).

The way these Broader Public Sector entities are classified was last set in 2008. Stakeholders commented that since 2008 there have been some minor adjustments but the categorization system for the Broader Public Sector has not been re-opened or reviewed.

Feedback from some stakeholders indicated that the current classification categories are perceived to be illogical and inconsistent. Representatives from PSEC observed, however, that the levels are 'ageing well' in the current labour market and economic environment, but speculated that this would not be the case were BC to experience strong economic growth.

PSEC has established caps for CEO total compensation for each of these classifications. In addition, policy requires that executive compensation in Crowns not exceed 85% of CEO salary. Each entity develops its own executive compensation philosophy and applies this to develop an executive compensation plan - theoretically within these two parameters.



1 Compensation plans submitted to PSEC include:

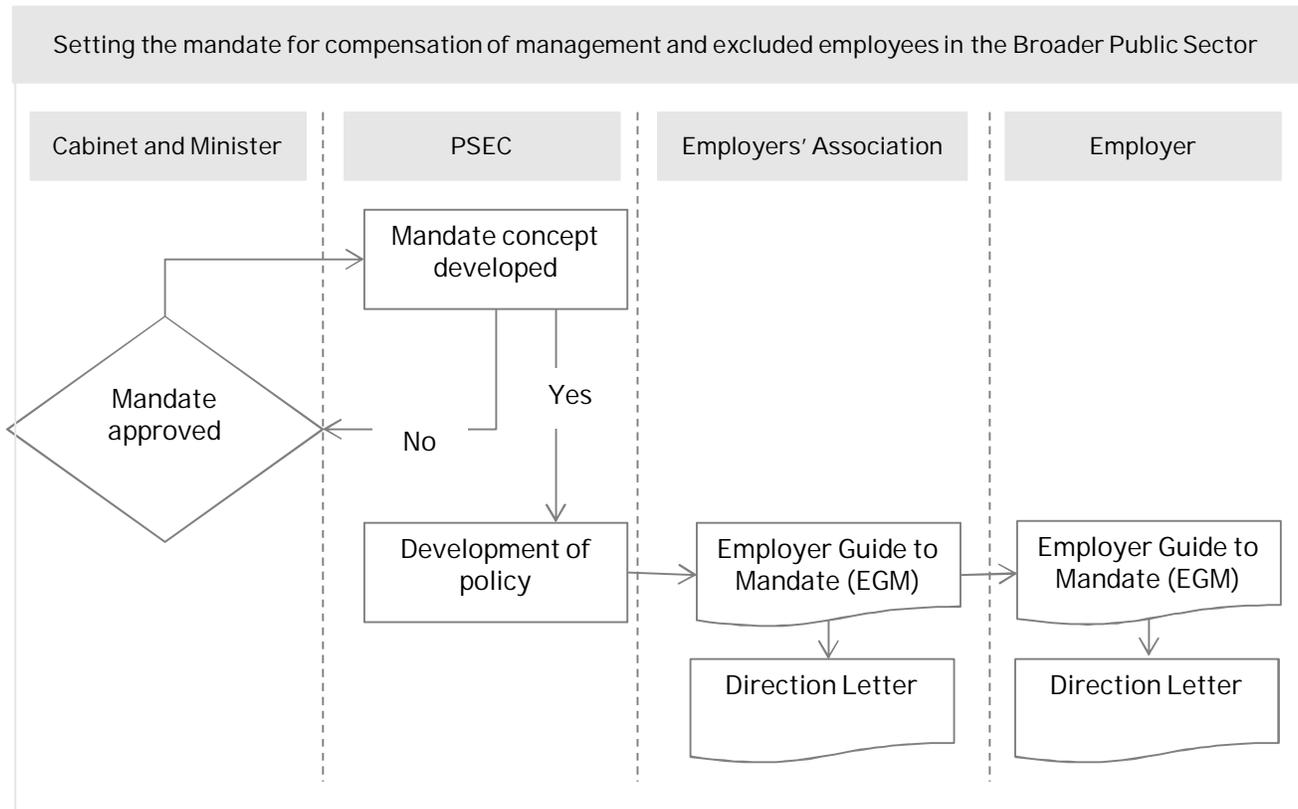
- Labour market analysis
- Demonstrated rationale for changes
- Linkage to corporate strategic plan
- Compensation costing (salary, benefits, perquisites)

2 PSEC conducts due diligence and drafts decision note:

- Assessment of proposal against policy/ mandate
- Consultation with employers' association
- Comparative check across public sector
- Consultation with responsible ministry
- Consultation with employer as necessary

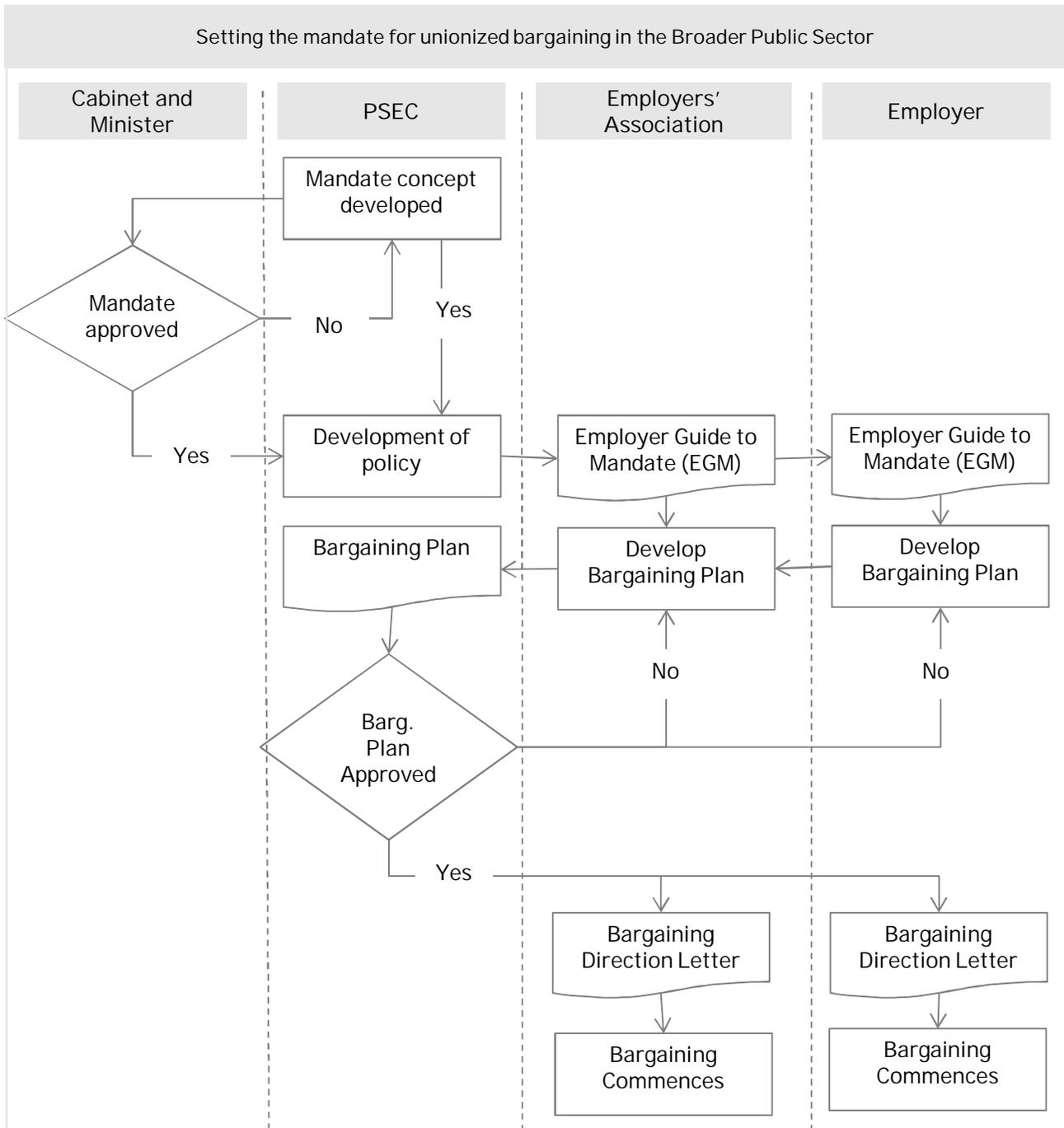
## Appendix C-3. Process for setting executive and management compensation in the Broader Public Sector

With executive compensation plans agreed, each organization will build, with PSEC's advice, a senior management compensation grid. For example, each school district has its own wage grid. PSEC works to ensure general comparability across grids between similar organizations in the same sectors. Individual employees are then placed within salary grids. General increases in compensation are applied to the grids in aggregate.



Exceptions to the salary plans may be allowed, but must be approved.

### Appendix C-4. Process for setting compensation for employees covered under collective agreements in the Broader Public Sector

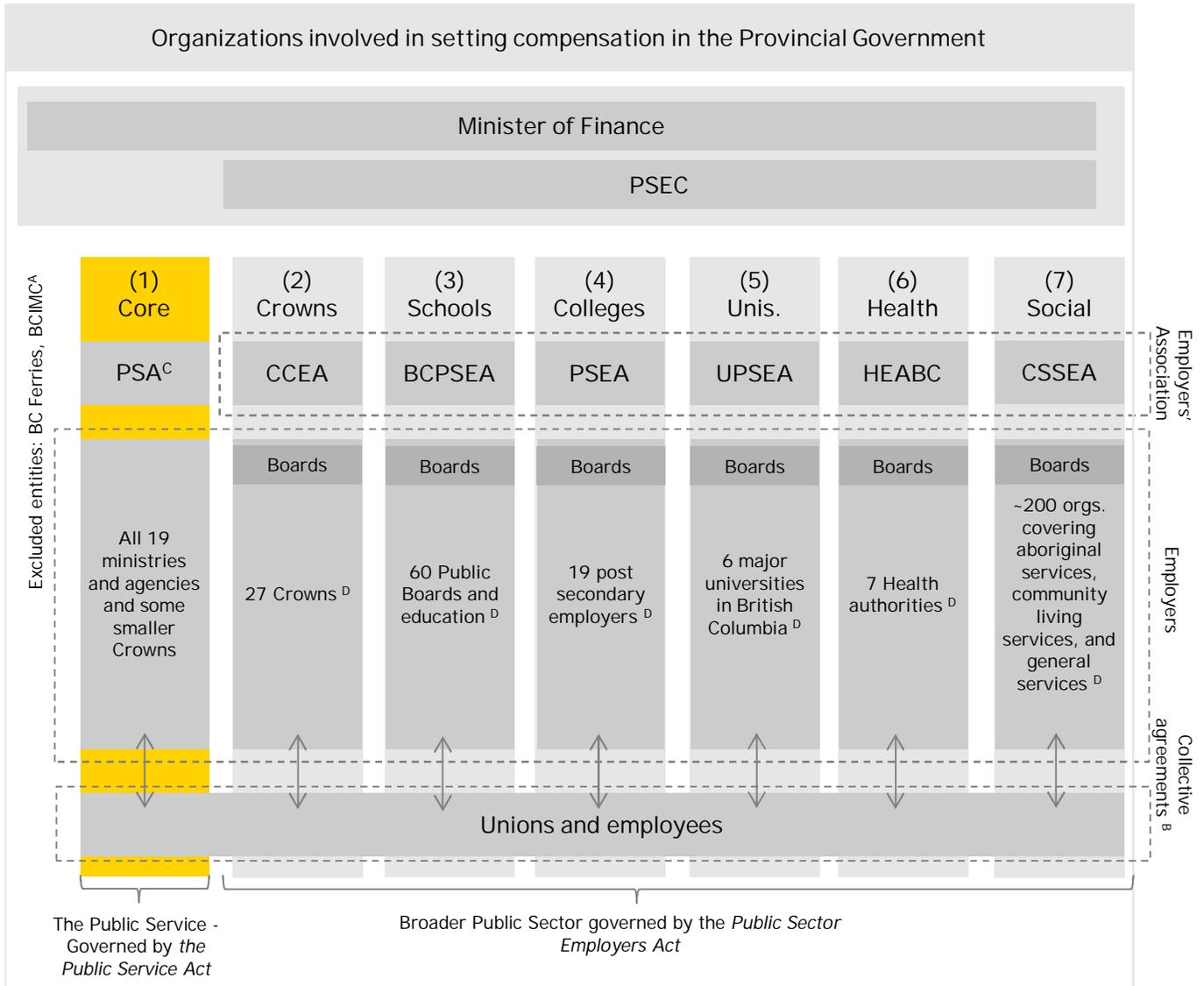


## Appendix C-5. Compensation philosophies applied by the Broader Public Sector entities

Organization	Comparators	Percentile
Vancouver School District	Labour market includes other BC school districts, other Canadian school districts, other public sector organizations, selected private sector organizations	50th
Greater Victoria School District	The salary of the Superintendent of Schools is based on the current mean rate for BC School Superintendents as published by the BCPSEA. The salary of the Secretary- Treasurer is based on the average of total cash compensation for the position of Secretary-Treasurer in the 14 largest BC School Districts as published by BCPSEA.	N/A
Kamloops School District	BC School districts with 10,001 to 20,000 FTE students	75th
Simon Fraser University	<i>Undefined</i>	N/A
University of British Columbia	Compensation values for senior administrative roles reflect a weighting of public and private sector values, with a clear weighting in favour of the public sector, and more particularly UBC's university competitors in Canada and internationally	N/A
Douglas College	Other post secondary and public sector employers	N/A
Northern Lights College	Post secondary industry	50th
Vancouver Island Health Authority, Provincial Health Services Authority, Interior Health Authority	HEABC develops salary ranges based on 50th percentile of the blended healthcare and external market pay policy guidelines. Employers are responsible for conforming to the salary ranges by ensuring the organization's overall comparison ratio is within 90% and 110% of the appropriate market reference rates	50th
Northern Health Authority	Undefined targeted market	50th
BC Hydro	BC Hydro target market includes other Canadian electric utilities and general industry companies of a similar size which includes public and private sector organizations	50th
BC Assessment Authority	The external marketplace includes an appropriate mix of public and private sector organizations and is also sensitive to the property assessment sector in which BC assessment competes for employees	50th
BC Pavilion Corporation	Undefined market	75th
Insurance Corporation of British Columbia	In 2012, ICBC's comparator market included Canadian public and casualty insurance companies (including SGI and MPI), Canadian public sector and general industry companies	50th

## Appendix C-6. Models in the Core and the Broader Public Sector

The Provincial model “seeks to balance the strengths of decentralized service delivery with enhanced central authority”<sup>1</sup>. The diagram below indicates the principal parties involved in the Provincial Government model.



PSA	BC Public Service Agency	UPSEA	University Public Sector Employers' Association
CCEA	Crown Corporations Employers Association	HEABC	Health Employers Association of BC
BCPSEA	BC Public School Employers' Association	CSSEA	Community & Social Services Employers Association
PSEA	Post Secondary Employers' Association		

<sup>A</sup> BC Ferries, BCIMCA do not fall under the *Public Sector Employers Act*

<sup>B</sup> Each employer will have its own collective agreement with unions - each agreement may include different provisions for benefits, salary and other benefits

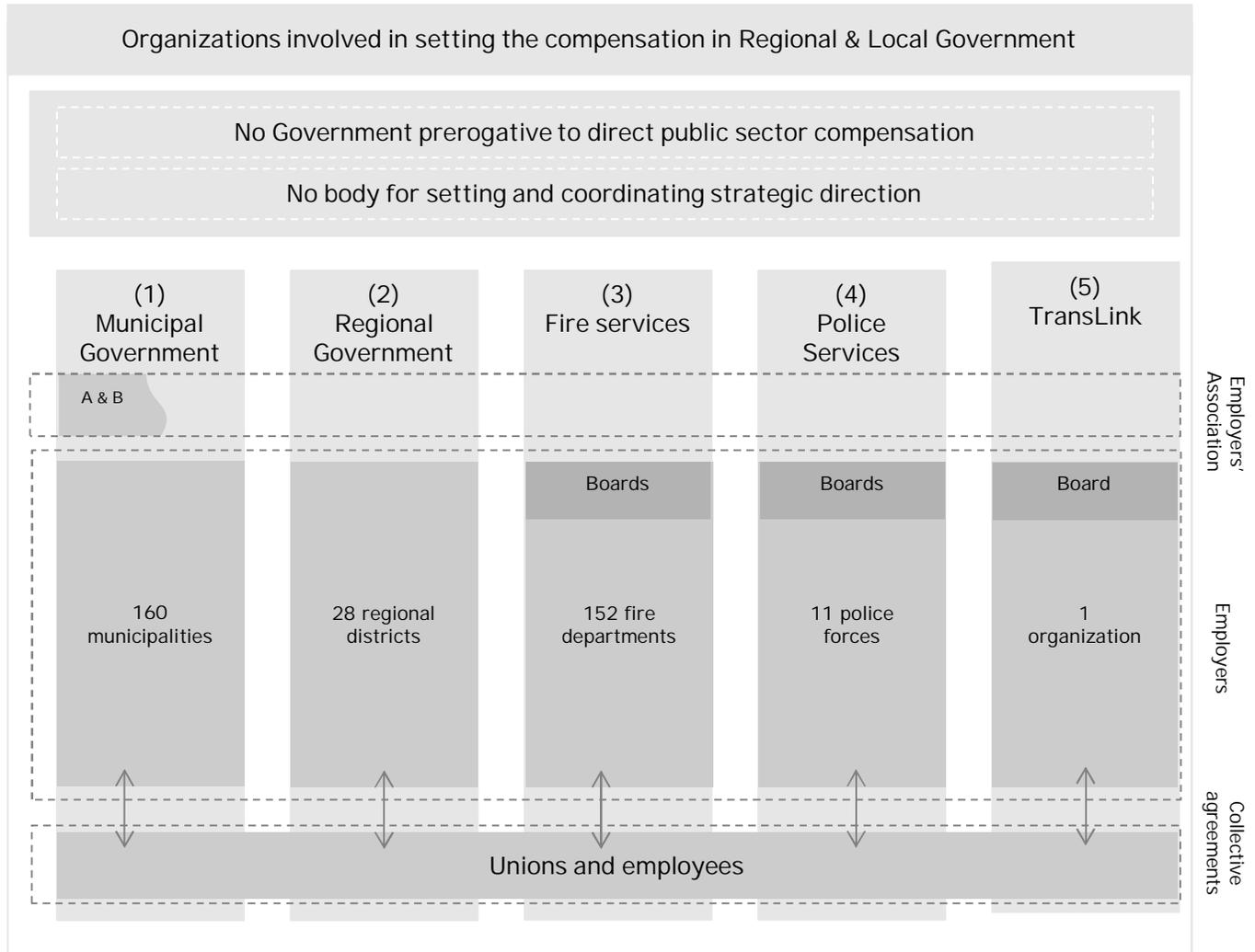
<sup>C</sup> BC Public Service Agency is responsible for some smaller Crowns such as the British Columbia Pension Corporation and Destination BC

<sup>D</sup> Numbers in the diagram above indicate number of organizations for which EA is responsible - additional entities exist

<sup>1</sup> Source: Korbin J, "The Report of the Commission of Inquiry into the Public Service and Public Sector" (1993)

## Appendix C-6. Models in Regional & Local Government

The diagram below indicates the principal parties involved in the setting of compensation in Regional & Local Government. In summary, the model is decentralized and fragmented.



Some academic literature considers that decentralized models may enable operational managers to align compensation with work design<sup>1</sup>. Senior stakeholders in BC, however, commented that in their experience highly decentralized models result in sub-optimal outcomes with significant and unfair variation.

<sup>A</sup> Labour Relations Department of Metro Vancouver;

<sup>B</sup> Greater Victoria Labour Relations Association

<sup>1</sup> J. Lahey, "Controlling Federal Compensation Costs: Towards a Fairer and More Sustainable System" (2010)

## Appendix C-7. Comparison of BC Ferries to Washington State Ferries

In 2012, the CEO of BC Ferries earned a total remuneration of \$563,000 (including base salary, incentive pay, pension, executive retirement plan, benefits, and vehicle expense). In the same year, the CEO of Washington State Ferries received ~\$166,000. On the face of it, there is a clear argument for considering Washington State Ferries executive compensation when setting compensation for BC Ferries.

BC Ferries, however, goes to some lengths to justify why it does not benchmark to Washington State Ferries.

Comparison between BC Ferries and Washington State Ferries<sup>1</sup>

	Year	BC Ferries	Washington State Ferries
Ownership		Public/ Private	Publically Owned
No. of employees	2009	3480	1768
No. of terminals	2009	47	20
No. of vessels	2009	36	20
No. of total routes	2009	25	9
No. of annual passengers	2009	20.7 million	22.4 million
No. of annual vehicles	2009	8.1 million	9.9 million
% On time departures (<10 mins)	2009	88.5%	92.9%
Total operating expenditures	2009	\$502.5MM	\$225.8MM
CEO total comp (CAN \$)	2012	\$563,000	\$165,943

<sup>1</sup> BC Ferry Services Inc., "Coastal Ferry Act- Executive Compensation Disclosure", (2013)

## Appendix C-8. Governance structure of BC Ferries

**The Governance structure of BC Ferries mandates alignment with the Provincial Public Sector**

Under its enabling legislation, British Columbia Ferry Services, is not subject to Government rules around executive compensation, incentive pay and collective bargaining mandates. Both the Authority and BC Ferries operate independently of the Provincial Government.

The Authority must not approve an executive compensation plan for BCFS unless the plan<sup>1</sup>:

(a) establishes the methodology by which remuneration for the executives is to be determined, which methodology must result in remuneration for each executive of BCFS that is,

(i) subject to subparagraph (ii), consistent with the remuneration provided to individuals who, in organizations in Canada that are of a similar size and scope to BCFS, perform similar services or hold similar positions to that executive of BCFS,

(ii) not greater than the remuneration that provincial public sector employers in British Columbia provide to individuals who, in those organizations, perform similar services or hold similar positions to that executive of BCFS,

Under its legislation, BC Ferry Authority is only required to align executive compensation in BC Ferries to peers in Canada which thereby excludes Washington state ferries

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graph TD
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        BC[BC Ferries]
    end
    FA --> BC
    
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Purpose: is to appoint directors of BC Ferries and establish compensation plans for directors and certain executive officers

While legislation mandates alignment of BC Ferries' executive compensation to that of other Provincial Public Sector employers, the system is broken

A 2009 review by the Office of the Comptroller General found BC Ferries to be well managed with the exception of board and executive compensation

In 2013, it was made public that BC Ferries CEO Mike Corrigan made more than the top three Washington State Ferries executives combined<sup>2</sup>

In 2013, the Transportation Minister was forced to intervene in executive compensation at BC Ferries. The Minister directed the organization to conduct its own review of executive compensation. His expectation was for a plan "that will bring executive compensation at BC Ferries into line with executive compensation across the public service and other Crown corporations"

BC Ferries agreed to implement holdbacks, but there was no broader alignment of compensation levels. Board Chair Donald Hayes commented: "We have made the decision to voluntarily agree to direction to comply with the holdback principles of the Crown compensation guidelines, which means that our bonus program is being discontinued and replaced with a holdback system under the salaries."

<sup>1</sup> BC Laws, "Coastal Ferry Act" (2014)

<sup>2</sup> BC Ferry Services Inc., "Coastal Ferry Act - Executive Compensation Disclosure" (2013)

## Appendix C-9. Case studies around Regional & Local Government capabilities to set compensation

Evidence indicates that smaller municipalities lack capabilities and expertise with which to set compensation

No evidence was found of other jurisdictions in Canada setting consistent regional philosophies apart from in the face of extreme fiscal pressure.

### Maple Ridge Case Study: Council compensation

**Citizen committees:** As one counsellor commented in the face of proposed salary increase: "I think we need the examination from a citizens' committee. Just to make sure we are doing the right thing."

**Polls:** One counsellor voted against a recommended increase after using his Facebook page to poll - to which 30 responses were received - as to how the public felt.

**Benchmarking:** A review in 2008 resulted in a raise of 53% for councillors, while the mayor's salary jumped 28%. In the words of one councillor, the whole benchmarking approach creates a "snowball" effect

Source: The News, "Maple Ridge council votes for raise" (2011)

### Case study: Examples of wage control

- In 2014, the city council in Calgary froze its own salaries and held non union wages to a 1.8% increase for 2014 <sup>1</sup>
- Edmonton is considering a wage freeze for its workers to keep taxes down in 2013 <sup>2</sup>
- In New Brunswick, city employees including the police department, have agreed to a two- year wage freeze in 2012 <sup>3</sup>

Sources:

<sup>1</sup> Calgary Herald, "Council freezes their own salaries" (2013)

<sup>2</sup> CBC, "Wage freeze needed for city workers" (2013)

<sup>3</sup> CBC, "Saint John firefighters win pay hike in arbitration" (2012)

## Appendix C-10. PSEC, and the BC Public Service Agency provide advice, co-ordination and enforcement in the Provincial Government & AGLG audits of Local Government

Public Sector Employers' Council<sup>1</sup>: PSEC consists of the Minister, who chairs the Council, and the following members appointed by the Lieutenant Governor in Council:

- ▶ Not more than 7 persons each of whom is either a member of the Executive Council or a deputy minister;
- ▶ A person nominated by each of the employers' associations
- ▶ The head of the BC Public Service Agency

The functions of the Council are to:

- ▶ Set and coordinate strategic directions in human resource management and labour relations
- ▶ Advise the Government on human resource issues with respect to the public sector
- ▶ Provide a forum to enable public sector employers to plan solutions to human resource issues consistent with cost efficient and effective delivery of services in the public sector

Under the terms of the *Public Sector Employers Act*, PSEC's responsibilities apply to all public sector employers, where public sector employers are defined as:

- ▶ The Government
- ▶ Crown corporations
- ▶ School Boards
- ▶ Colleges
- ▶ Universities
- ▶ Health care employers
- ▶ Social services employers

BC Public Service Agency: Under a provision pertaining to "personnel management in the public service," the *Public Sector Act* defines the BC Public Service Agency's responsibilities as including advising the Minister respecting personnel policies; recruiting, selecting and appointing employees; overseeing staff training and carrying out research on compensation.

Indeed the original vision for the BC Public Service Agency as defined in the Commission's 1993 report was for it to have responsibility for "Strategic Human Resources."

AGLG: The office of the Auditor General for Local Government ("AGLG") was established in April 2012 through the *Auditor General for Local Government Act*.

This Act states that the purpose of the AGLG is to "conduct performance audits of the operations of local Governments in order to provide Local Governments with objective information and relevant advice that will assist them in their accountability to their communities for the stewardship of public assets and the achievement of value for money in the operations".

The AGLG, like its federal and provincial counterparts, will be limited in that it will not "question the merits of policy decisions or objectives of a local Government". The AGLG will therefore only comment on the quality of policy implementation. The AGLG will also provide non-binding recommendations to the audited local Governments through publically released reports.<sup>2</sup>

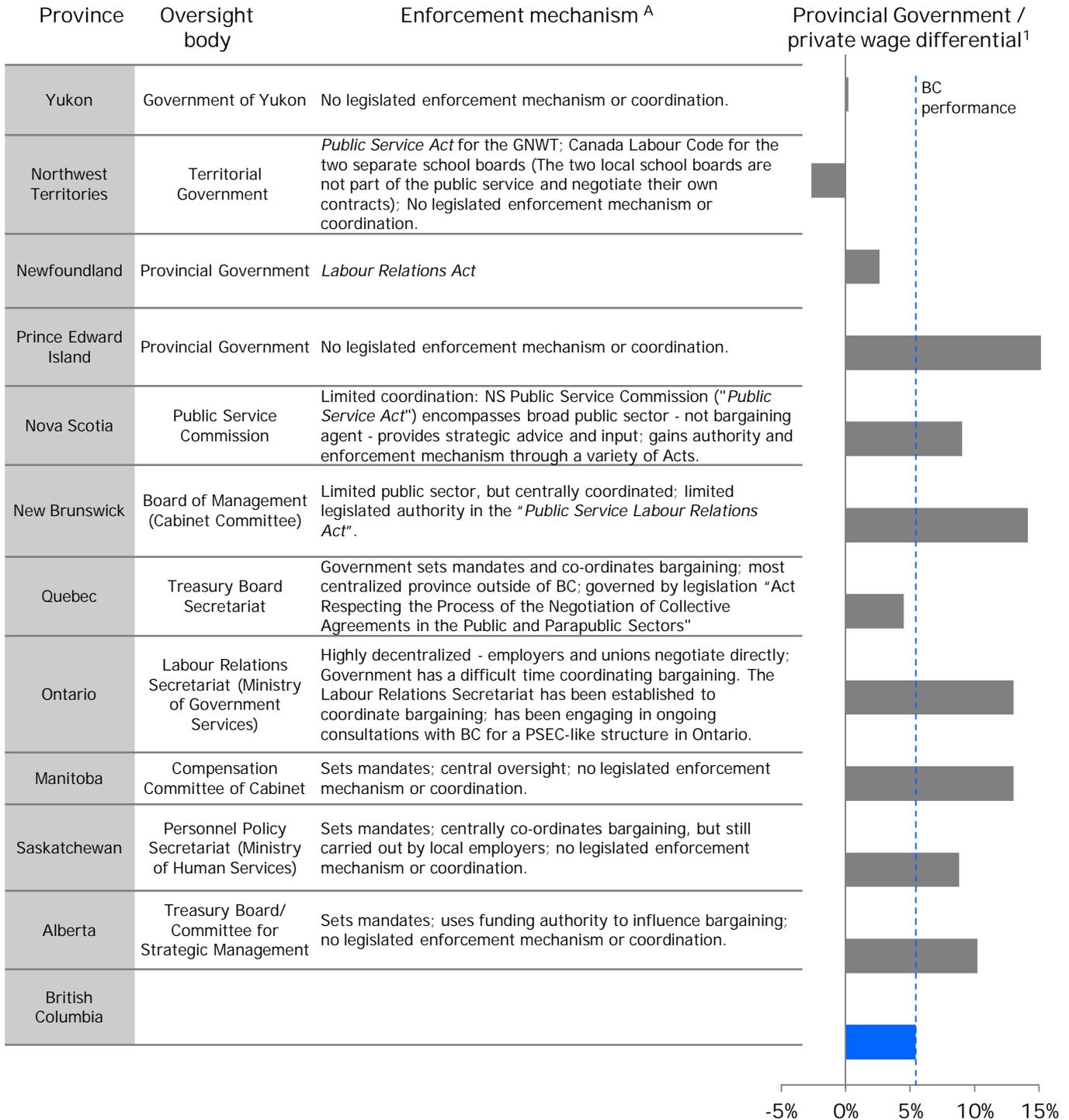
While the AGLG plans to conduct a performance audit of "Managing the Inherent Risks of Limited Human Resources within Small Local Governments", it does not currently have a publicly stated plan to review compensation as a specific issue.

<sup>1</sup> Government of BC, "Public Sector Employers Act" (2013)

<sup>2</sup> BC Laws, "Auditor General for Local Government Act" (2013)

## Appendix C-11. BC's provincial model is considered leading practice by a number of other Canadian jurisdictions

The following table compares BC's model and outcomes with respect to the Provincial Government and Private sector wage differential to other Canadian jurisdictions.



<sup>A</sup> Jurisdictional review conducted by PSEC

<sup>1</sup> CFIB, "Wage Watch: A comparison of Public Sector and Private Sector wages" (2008)

## Appendix C-12. The Minister has set policy to create a more rigorous approach to executive compensation in Crowns

Stakeholders from PSEC commented that over the last two years, a plan has been designed and implemented to resolve the issue of repeated breaching of CEO compensation caps, and reported that good progress had been made. In particular, in early 2012, a working group of Crown Corporation Board Chairs was formed at the request of Government to propose revisions to the framework guiding executive compensation in Crown Corporations. The Government, in its role as shareholder, was concerned about levels of bonuses available in some Crown Corporations, variations in their administration, and the number of executives in some Crown Corporations.<sup>1</sup>

Objectives of the review	
▶ Set maximum caps for CEOs and ensure all other executive salaries are less than that in each Crown	▶ Limit generic perquisites to transportation allowances and only provide such an allowance where appropriate
▶ Eliminate bonuses. Implement salary holdbacks within a maximum base salary	▶ Organizational design, including the number of executives and number of organizational layers that is satisfactory to Government

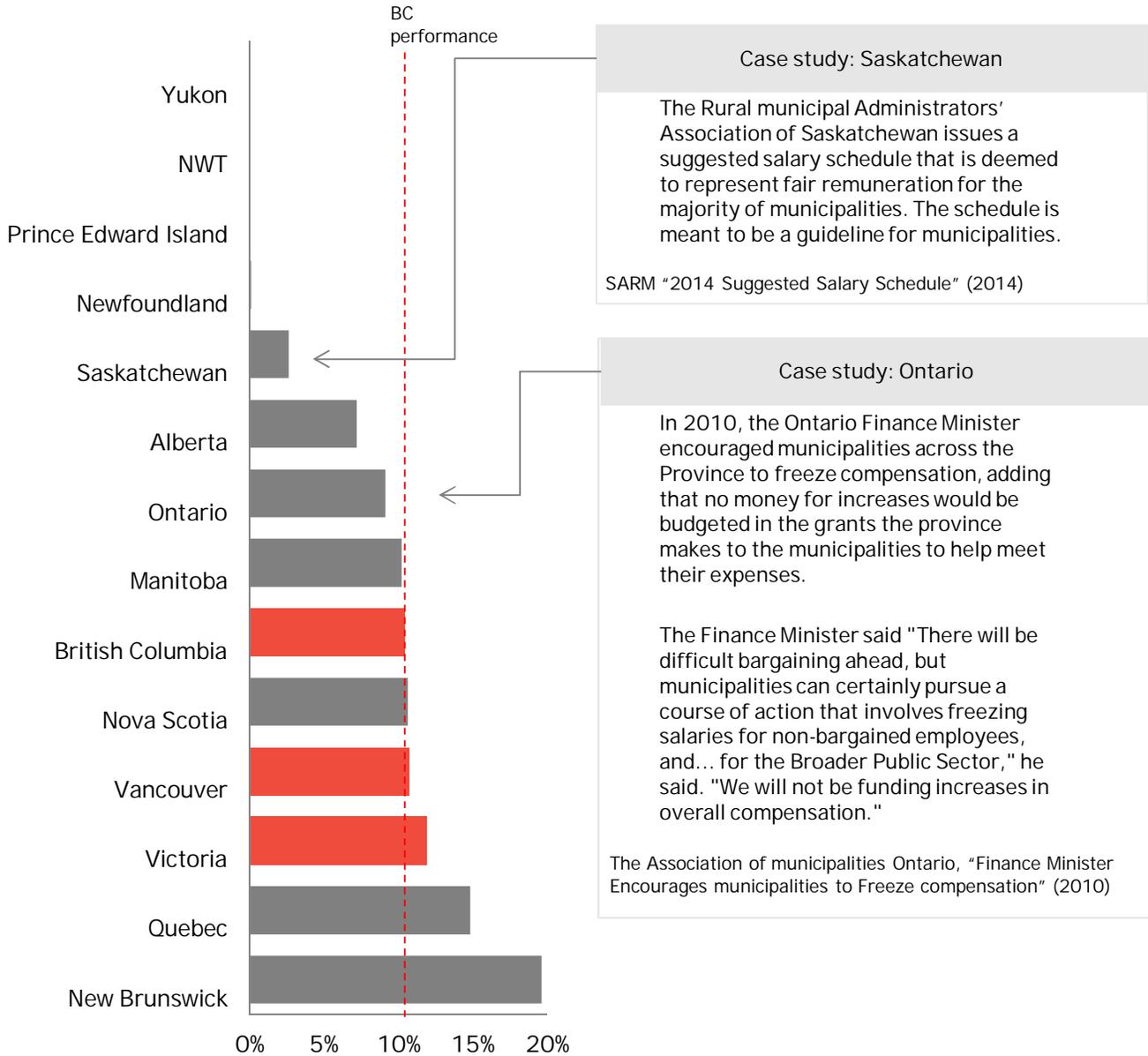
Outcome of the review	
▶ Executive salaries frozen in Crown Corporations	▶ However, the policy states, 'elimination of bonuses and holdbacks where they apply to unionized staff is a bargaining issue and not within the scope of the policy
▶ Where bonuses are now present, an implementation plan to move to holdbacks to be provided to PSEC secretariat	▶ Perquisites will be discontinued. Policy states that perquisites will be discontinued for new employees or newly appointed employees. For existing employees, they will be eliminated as quickly as possible within the bounds of employment law. A plan for the removal of perquisites is to be provided to PSEC
▶ When a new staff or newly promoted staff moves to an executive position, which currently has bonus, a holdback to a maximum of 20% of max base salary will be employed	▶ Transportation allowances are permitted
▶ Performance criteria will be established by agreement between the Board and the Minister responsible for the Crown Corporation and will reflect Government priorities as outlined in the shareholders' letters of expectations	▶ If executives to a CEO earn more than 85% of the CEOs total compensation, a plan to eliminate compression will be developed by Crown in consultation with PSEC
▶ Holdbacks should be phased out below executive level. In general holdbacks should be used for executive only	

<sup>1</sup> Crown Corporation Executive Compensation Policy (2012)

## Appendix C-13. The Regional and Local model does not have a comparable PSEC or the BC Public Service Agency model

The following analysis presents the wage differential between Regional & Local Government employees in BC and Regional & Local Government employees across Canadian jurisdictions. BC is a 'middle of the pack' performer.

Municipal / private wage differential <sup>1</sup>



**KEY**

- Provincial
- Regional and Local

<sup>1</sup> CFIB, "Wage watch: A comparison of Public Sector and Private Sector Wages" (2008)

## Appendix C-14. Employers' Association – Regional & Local Government lacks entities to provide coordination in response to organized labour

Vancouver and Victoria have built more co-ordinated responses to organized labour

The Lower Mainland and Victoria have both endeavoured to build more co-ordinated responses to organized labour in the form of the Labour Relations department of Metro Vancouver and the Greater Victoria Labour Relations Association.

In the Lower Mainland, for example, as early as the 1960s, it became evident that the municipal trade unions' increasingly sophisticated approach to collective bargaining was consistently producing settlement levels in the Lower Mainland municipalities which "could not be justified by reference to either the public or private sectors."

In response, the City of Vancouver, the City of New Westminster and the District of Burnaby established the Joint Liaison Committee on Labour Relations in order to formalize consultation and collaboration in collective bargaining matters. In a further effort to enhance levels of consultation and co-ordination, in 1965 the municipal Labour Relations Bureau ("MLRB") was formed to provide common negotiating, research, and advisory services to its members. By 1982, the MLRB joined the Labour Relations Function of the Greater Vancouver Regional District (now known as "Metro Vancouver").

Today, the labour relations department of Metro Vancouver provides labour relations and ancillary services to Metro Vancouver's 15 municipalities, 1 regional district, and 16 related employers. On behalf of its members, the Labour Relations department:

- ▶ Negotiates collective agreements
- ▶ Evaluates and re-classifies jobs
- ▶ Researches key collective bargaining information like pay in the market place
- ▶ Other related labour relations services

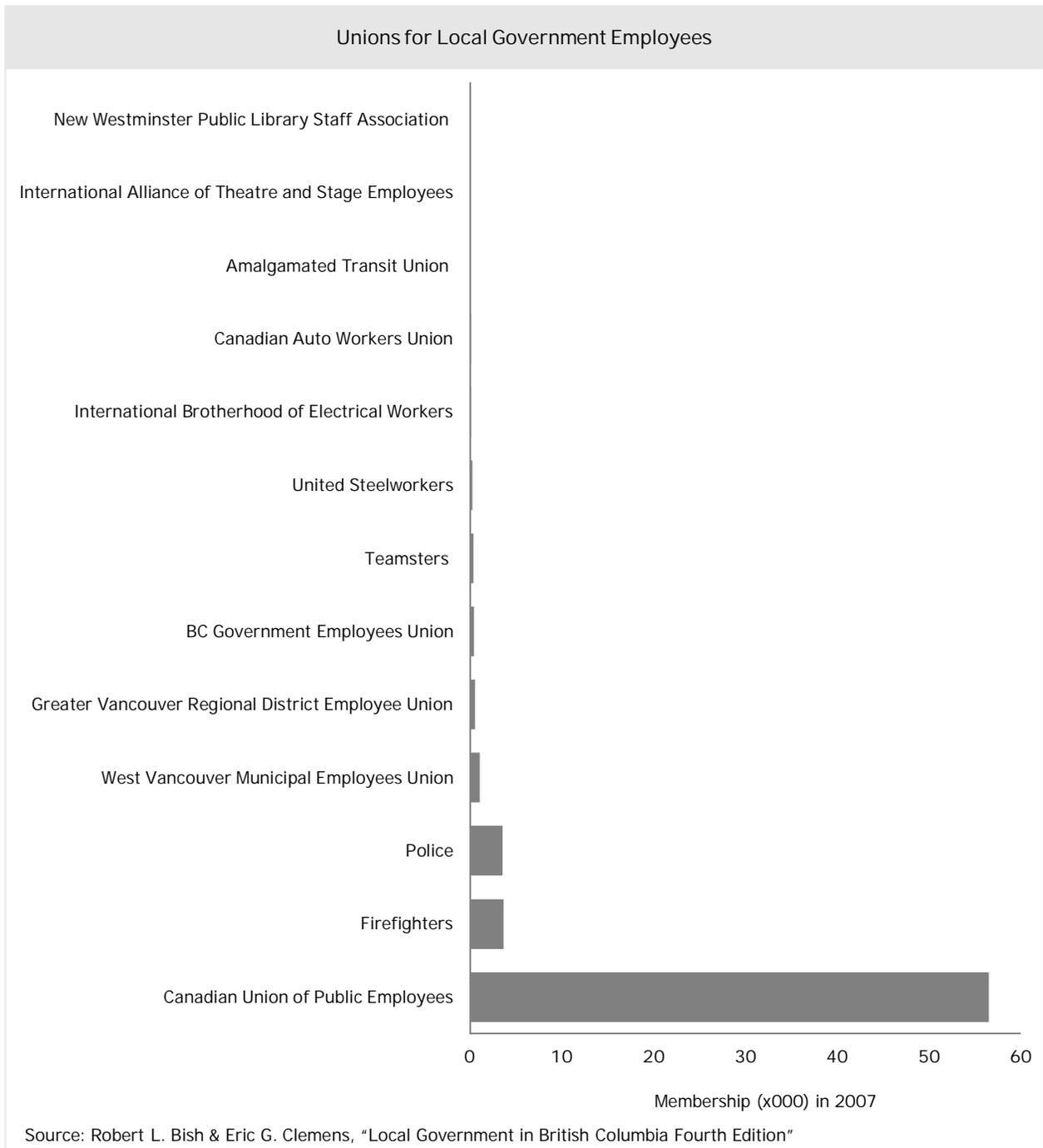
However, the co-ordination of labour relations in the Lower Mainland is increasingly fragmented

Municipalities within metro Vancouver can choose whether they want to be participating members of the Bureau. The Bureau has never had Surrey as a full participant and has been hit by a series of withdrawals or notification of intent to leave in recent years including Richmond and Coquitlam, Burnaby, Vancouver, Delta, and West Vancouver. One stakeholder speculated that some of these departures were due to union pressure on city mayors and councillors.

"Municipalities have acted at and away from collective bargaining table in ways that have surprised and aggravated others."

*James Dorsey, "Sustainable or Spent Force: Review of Metro Vancouver Labour Relations Function" (2011)*

## Appendix C-15. Size of unions in Regional & Local Government sector



## Appendix C-16. Collective bargaining models and processes – There is a mixed approach to collective bargaining process across the Province

### Influence of strikes on political players

In the private sector when work ceases, customers can procure substitutes from alternative suppliers – generally with little inconvenience and with no ‘out of pocket’ cost. When work ceases in the public sector, however, the associated services – such as garbage collection or public transit – cease to be available. In many cases this causes significant inconvenience for citizens while they generally continue to pay for or subsidize these services through taxation which continues to be collected during work-stoppages. The inconvenience may potentially cause the electorate to withhold support or deliberately vote against elected officials in power at the time of the work-stoppage at future elections.

In the Province certain modifications have been made to the private-sector labour relations model, including legislation to prevent stoppage of essential services such as fire or police services and the arbitration of disputes involving such services. However, in many other non-essential service areas, when the public is injured or inconvenienced by a cessation of public service, Government employers have no more authority to end the stoppage than a private employer despite the fundamentally different implications. Given the implications of work-stoppage, there may be a greater willingness to concede to union demands in the municipalities, on the hope that tax payers will not react as vehemently to a marginal increase in taxation than they would do to a stoppage in services. Given the size of municipalities and the nature of the services provided, some observers have speculated that this impact is accentuated at the municipal level.

### Political influence of unions

In addition, it must also be considered that Public Sector union members may be active political participants<sup>1</sup>. As Bish observes, union members may contribute to campaigns or work on behalf of elected officials who promise to provide them with more generous settlements or to increase services and may work against those who promise to cut taxes or reduce services. Unions political support comes in numerous kinds:

- ▶ Cash
- ▶ In kind
- ▶ Free labour time: electioneering services
- ▶ Information: newspapers, magazines

<sup>1</sup> The Fraser Institute, “Wage board: The solution to reining in public sector compensation” (2012)

## Appendix C-17. Arbitration system in Fire and Police services

A number of parties are attempting to change the current arbitration system

Academic studies suggest that if arbitration is set up to consider a range of factors, it will have comparable outcomes to mediation

### Case Studies <sup>1</sup>

1) Nelson City's mayor commented that the processes for negotiation for Fire and Police services are biased in favour of the unions. He has called for a change in the way negotiating is done with them.

2) A majority of the Big 12 Police Services Boards recently endorsed a resolution requesting that the Province of Ontario amend the interest arbitration system to ensure that arbitrators apply local economic criteria and consider the financial impact of salary and benefits on the municipality and its taxpayer.

The BC Government may already specify specific terms of reference for arbitration. This could be used to limit the range of outcomes

### Arbitration under the *Fire and Police Services Collective Bargaining Act*

If the Minister directs that a dispute be resolved by arbitration, the parties may, by agreement, make arrangements for the appointment of an arbitrator. The arbitrator may encourage settlement of the dispute and may use mediation or other procedures to encourage settlement at any time during the arbitral proceedings. In rendering a decision under the Act, the arbitrator must consider:

- ▶ Terms and conditions of employment for employees doing similar work
- ▶ The need to maintain internal consistency and equity amongst employees
- ▶ Terms and conditions of employment for other groups of employees who are employed by the employer
- ▶ The need to establish terms and conditions of employment that are fair and reasonable in relation to the qualifications required, the work performed, the responsibility assumed and the nature of the services rendered
- ▶ The interest and welfare of the community served by the employer and the employees as well as any factors affecting the community
- ▶ Any other factor that the arbitrator or arbitration board considers relevant
- ▶ In addition, The minister may specify terms of reference for an arbitration.

### US Case Study: Impact of arbitration

In the US some states are governed by arbitration laws and others are not. <sup>2</sup> A nationwide US study examined the effects of arbitration on police and firefighter wages, and concluded that:

1. Wages of police and firefighters covered by arbitration statutes were not significantly different from wages for police and firefighters in states in which collective bargaining does not include arbitration but typically includes mediation, fact-finding, or both.

2. Wage growth for police and firefighters in states with bargaining laws that include arbitration did not differ from wage growth in states with bargaining laws that do not include arbitration.

3. There were no significant differences between wage increases awarded to police and firefighters in arbitration and wage increases resulting from negotiations without the use of arbitration

These results are not surprising, because most arbitration statutes in the US require arbitrators to compare wages and other terms of employment together with cost of living, ability to pay, and other objective factors among comparable jurisdictions in shaping their awards. <sup>3</sup>

<sup>1</sup> The Nelson Daily, 'Mayor wants to change process for bargaining with police and fire unions' (2013); NNL, 'Big 12 Police Services Boards call for arbitration fix' (2011)

<sup>2</sup> Labour Relations Board BC, "Guide to the Labour Relations Code Province of BC (2014)

<sup>3</sup> D. Lewin, "The New Great Debate about unionism and Collective bargaining in U.S. State and Local Governments" (2012)

## Appendix C-18. Data limitations have implication for controlling compensation

There are legislated requirements for the public reporting of public sector compensation in British Columbia

We present a brief discussion of the data available to conduct analysis of public sector compensation in British Columbia. In particular, two acts mandate the public disclosure of public sector compensation in the province: the *Public Sector Employers Act* and the *Financial Information Act*. A number of additional sources on public sector compensation are also potentially at the disposal of the BC Government.

1. Under the *Public Sector Employers Act*, Provincial Government employers have two reporting obligations:

- ▶ All Provincial Government organizations covered by the Act must publish compensation information for the CEO and the next four highest paid/ranking executives earning a base salary of at least \$125,000. School Districts must publish compensation information for all Superintendents, regardless of their salary. This disclosure, or 'Statement of Executive Compensation', must include information about base salary, benefits, pension contributions, and any performance payments
- ▶ All public sector employers are also required to make available for inspection during normal business hours contracts of employment for senior employees (defined as any employee earning a base salary of \$125,000 or more) <sup>1</sup>

2. The *Financial Information Act* requires all public sector employers to disclose the total amount of remuneration and expenses of all employees with a base salary over \$75,000 as part of their Financial Statements made in accordance with the FIA, where remuneration includes any form or salary, wages, performance incentives, gratuities, taxable benefits, payment into trust or any form of income deferral paid by the corporation to the employee, and does not include anything payable under a severance agreement <sup>2</sup>

### Case study: Surrey School district

FIA data does not provide a total compensation view. For example, a former association superintendent in the Surrey school district received \$614,382 in compensation in 2009-10.

His base salary was \$117,095 but he also received \$486,650 in "vehicle allowance, unused vacation, retiring allowance and severance payout". There was also a pension contribution of \$9,637 and another \$1,000 unaccounted for.

His compensation under FIA disclosure was reported as \$332,224 in 2009-10.

Vancouver Sun, "Surrey gets a record \$614,382 compensation" (2010)

Stakeholders interviewed observed that British Columbia is considered to have one of if not the most stringent legislated disclosure requirements for compensation in North America

<sup>1</sup> PSEA, "A Guide to Excluded and Executive Compensation in the BC Public Sector" (2009)

<sup>2</sup> Financial Information Act (1993)

## Appendix C-18. Data limitations have implication for controlling compensation

There are also a number of aggregate data sources available from Statistics Canada

1. Settlement agreements covering the outcomes of collective bargaining are also reported publically, and are available through a number of sources including:

- ▶ The Negotech database, a repository of collective agreements which is available as a courtesy via the Human Resources and Skills Development Canada website<sup>1</sup>
- ▶ The BC Bargaining database as maintained by the Business Council of British Columbia<sup>2</sup>

2. Census data – note that where in previous years census reporting was mandatory, reporting for the 2011 census was voluntary and may therefore impact results. Data is not publically available at an adequate level of detail to support analysis of compensation differentials, but can be purchased from Statistics Canada. PSEC has traditionally purchased this information

3. Labour Force Survey (LFS) – The Labour Force Survey is a monthly survey of approximately 56,000 Canadian households. This source is not currently leveraged by the BC Government

The BC Government has made initial efforts to use these sources to begin to understand variation in compensation across the arms of the Public Sector

- ▶ PSEC collects detailed compensation data across the broader Provincial Public Sector prior to each bargaining round through electronic submissions. This data covers wages, wage impacted benefits, non-wage impacted benefits, headcount and FTE numbers, by bargaining unit or grouping, for all Provincial Government employers and employees. PSEC does not have the legislated authority to collect similar data from local Governments.
- ▶ Data reported under the *Financial Information Act* is not currently collected, aggregated or analysed, by the Government. While the data may be available on organizations' respective websites, to collect this data would take considerable time and effort. This is compounded by the fact that many organizations report their data in scanned 'hard copy', limiting the ability to extract and manipulate data. It is worth noting that the Vancouver Sun has collected and aggregated this data in electronic format over the last six years, through Freedom of Information requests submitted to individual organizations across both the Provincial and Municipalities. This dataset is, in turn, made available in searchable form to the public
- ▶ The BC Government does collect data on collective wage settlements in electronic format from Human Resources and Development Canada. PSEC is in the process of building a comprehensive dataset of public sector collective agreements
- ▶ PSEC has traditionally purchased census data from Statistics Canada but not LFS data

This Review represents an early step by the BC Government to build on its own existing work.

<sup>1</sup> Human Resources and Skills Development Canada, "Negotech" (2013)

<sup>2</sup> BC Bargaining Database (2013)

## Appendix C-19. Data limitations have implication for controlling compensation

Current legislated sources, however, cannot enable the construction of a complete picture

One of the major constraints identified in conducting this Review was the availability and comparability of compensation data of employees across the BC Public Sector. On the following page, the three primary sources are reconciled against a number of key fundamentals required to provide meaningful comparisons across organizations within the BC Public Sector.

Note as an aside, that all municipalities in British Columbia are required to submit to the Ministry of Community Services (MCS) a summary of financial activities for the previous year. These data are collected on an annual basis, and then summarized and released to the public. municipalities are required to submit a summary of revenues based on the source of funds, and a summary of expenditures based on the specific function on which the spending was directed, but it does not appear this information includes compensation costs.

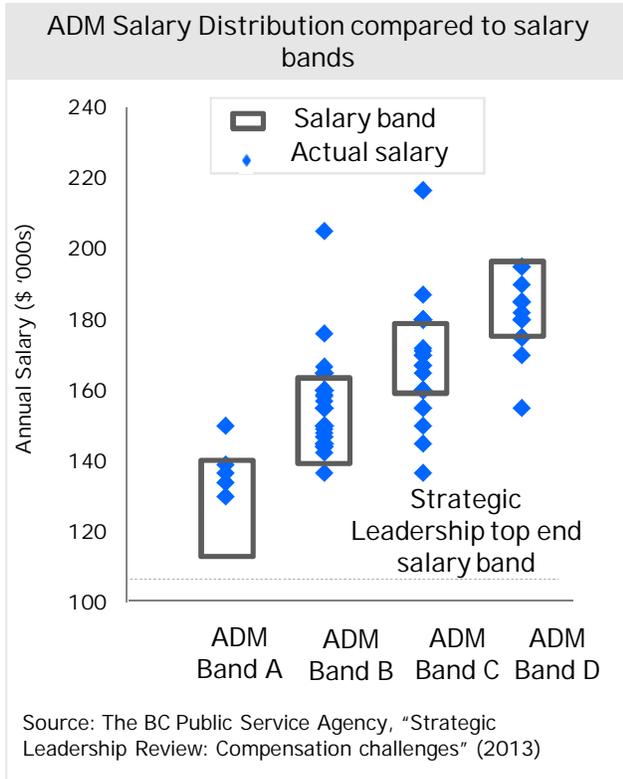
Data sources			
Legislated sources of information >>>>	Executive data ( <i>Public Sector Employer Act</i> )	Management & Exec. Data <sup>A</sup> ( <i>Financial Information Act</i> )	Bargaining unit data (Wage settlements)
Cover all arms of Government	Provincial Government only	Provincial Government and Regional and Local Government	Provincial Government and Regional and Local Government
Reported for all employees	CEO and next four earning > \$125k	All employees earning >\$75k, which can be assumed to cover executives and management <sup>2</sup>	General settlements only - no employee level information
All elements of total compensation reported	Total compensation including benefits	Wages and performance incentives	% increase in wages and salaries
Information provided on full time equivalency of employees	No	No	No
Job description of employee	Job title only, but in the case of those covered, this provides adequate information	Job title only - in the case of those covered this does not provide adequate information	No
Information provided to the Government in electronic format	Yes - the information is provided through web-based submission	No - Challenging to collect and analyse	No - Challenging to collect and analyse
Data provided with reasonable frequency	Annually	Annually	With settlement

<sup>A</sup> Note that data reported under the Financial Information Act may include information on employees covered by collective agreements

## Appendix C-20. Analysis of Strategic Leadership compensation

Analysis of ADM's actual salary indicates that the ADM bands are well used. The lower end of the ADM Band A, however, is not currently used. This suggests that there is likely a material gap between the compensation of top earning employees within Strategic Leadership and ADMs.

Data indicates that over time, the gap between Strategic Leadership maximum salary and ADM maximum salary has increased.



## Appendix C-21. The Canadian Coalition for Good Governance best practices

The Canadian Coalition for Good Governance best practices<sup>1</sup> are worth considering.

The first requirement is to build an independent compensation committee:

### 1. Selecting committee members

- ▶ Do not have current company CEO on the compensation committee (to keep the committee independent)
- ▶ Choose committee members with diverse professional backgrounds that include specific expertise in executive compensation
- ▶ Limit committee membership to no more than one-third sitting CEOs

### 2. Establish a committee work plan

### 3. Hold in camera meetings

A recent review by the Canadian Coalition for Good Governance of over 150 Canadian companies identified that the majority of companies adhere to these standards and have an independent compensation committee of solely independent directors

"Municipal councils need to have a human resources standing committee that has a mandate to provide oversight on an enterprise-wide total compensation strategy, senior management performance, accountability and total compensation productivity and performance, including total cost. Human resources (or compensation) committees are a recognized and standard governance mechanism in the private sector, and are increasingly become standard practice in the public and para-public sectors."

*Cullwick, "Compensation Governance: what municipalities need to change" (2005)*

<sup>1</sup> Canadian Coalition for Good Governance, "Best practices in executive compensation – related information" (2009)

## Appendix C-22. Global steps are being taken to control CEO compensation

The Government of BC has moved to control executive compensation in the Broader Public Sector at a time when the private sector is also grappling with this issue including through the creation of pay Czars and the move to 'Say on pay'.

Case study: Pay Czar	Case study: International move to say on Pay
<ul style="list-style-type: none"> <li>▶ The US created a pay "Czar" in response to high private sector CEO compensation (in federally supported institutions)</li> <li>▶ The Czar has authority to oversee pay for the 100 highest paid employees at those companies</li> <li>▶ Kenneth Feinberg, the administration's new "special master for compensation" said that he will follow certain principles in making his decisions, including "whether compensation: rewards risk, allows a firm to remain competitive, is comparable to peers, tied to long-term performance and contributes to the value of the firm"<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>▶ The US has recently experienced a move to "Say on Pay"; the UK has previously legislated on 'Say on Pay'; and the Canadian private sector is also considering moving to such a model</li> <li>▶ In October 2009, the Canadian Coalition for Good Governance (CCGG) released its Model "Say on Pay" Policy for private sector Board of Directors for public comment</li> <li>▶ CCGG recommends that boards voluntarily add to each annual meeting agenda a shareholder advisory vote on the company's report on executive compensation<sup>2</sup></li> </ul>

"CCGG members believe that institutional shareholders should have regular, constructive engagement with the boards and board compensation committees of public companies to explain their perspectives on governance, compensation and disclosure practices, and to provide detailed comments on the company's practices to the board"

*Canadian Coalition for Good Governance, "Best Practices in Executive Compensation Related Information" (2009)*

<sup>1</sup> The Wall Street Journal, "Pay Czar gets broad authority over executive compensation" (2009)

<sup>2</sup> Canadian Coalition for Good Governance, "Best Practices in Executive Compensation Related Information" (2009)

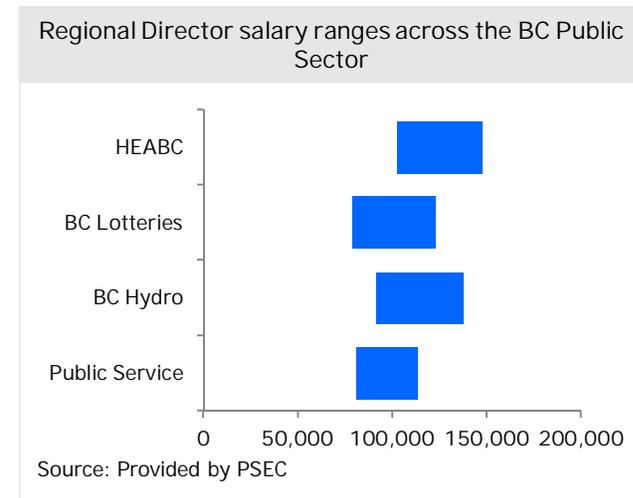
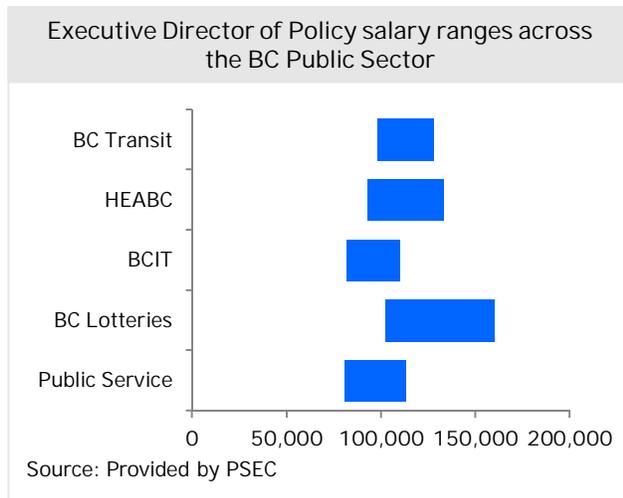
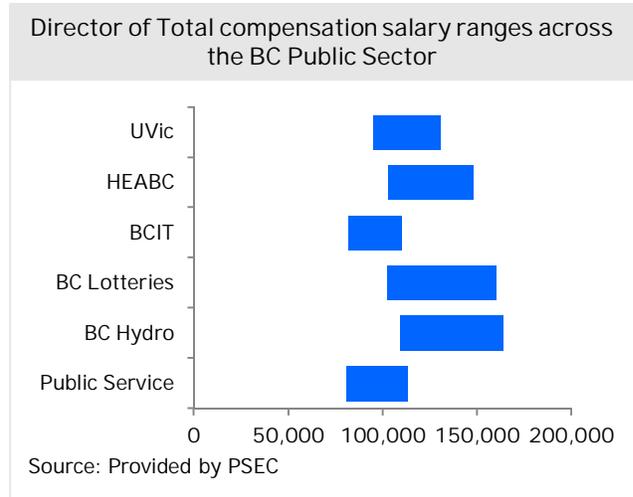
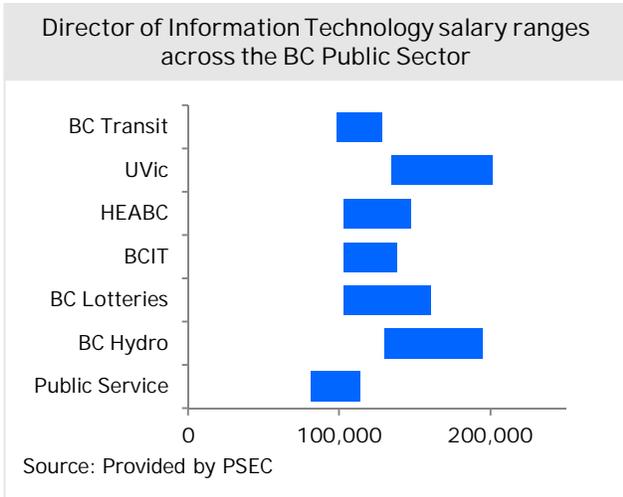
## Appendix C-23. Public / private compensation differential across Canada

Below we present some findings from studies on Public / Private compensation differential in Canada

Summary of studies on the public / private compensation differential in Canada			
Source	Data used	Included benefits	Findings
Gunderson	Canadian Census data (1971)	No	Found a 6.2% public sector premium for males across Canada; 8.6% premium for females; and found that lower wage workers received the largest premium
Shapiro and Stelcner	Canadian Census data (1980)	No	Found a 4.2% public sector premium for males across Canada; and a 12.2% public sector premium for females
Gunderson	LFS (1997) and Canadian Census data (1971, 81, 91, 96)	No	Found a 7.5% to 9.0% public sector premium across Canada
Prescott and Wandschneider	Canada's Survey of Consumer Finances (1990)	No	Found a 14.3% public sector premium for males across Canada and a 25% public sector premium for females
Mueller	Labour Market Activity Survey (From 1988 to 1990)	No	Found an overall public sector wage premium of 3.3% for males across Canada and 11.3% premium for females Found at the provincial level across Canada that the public sector wage premium was negative 3.5% for males and positive 10.9% for females Found at the local or municipal level, the public sector wage premium across Canada was 5.0% for males & 6.6% for females
Gunderson, Hyatt and Riddell	Labour Force Survey 1997, Census 1996, regression analysis	No	Found a public sector pay premium across Canada of 7% to 11%
Institut de la Statistique du Québec	Comparisons with various different groups (1999-2010)	Yes	Found that in Quebec public sector workers were paid on average 7% less than comparable private sector peers
CFIB	Census data (2006)	Yes	Found public sector wage premium of 8% to 17% across Canada; and concluded that "taking into account significantly higher paid [non-wage] benefits and shorter work weeks, the public sector total compensation advantage balloons past 30 per cent"
CUPE	Canadian Census data (2006)	No	Found pay premium of 0.5% for Canadian public sector workers, but concluded "this is entirely because of a smaller pay gap for women in the public sector"
Tiagi	Labour Force Survey data (2008)	No	Found a 5.4% public sector premium for men across Canada and a 19.8% premium for women
Fraser Institute	Labour Force Survey (April 2011)	No	Found: "After controlling for such factors as gender, age, marital status, education, tenure, size of firm, type of job, and industry, public sector workers (including federal, provincial, and local) located in British Columbia in April 2011 enjoyed, on average, a 13.6 per cent wage premium over their private sector counterparts"
Watson Wyatt and Hay Associates	Independent studies of specific jobs	No	Found higher pay for lower classifications but lower pay at the executive level of the federal public service

## Appendix C-24. Comparison of the salary bands of comparable roles in the Strategic Leadership level across BC Public Sector

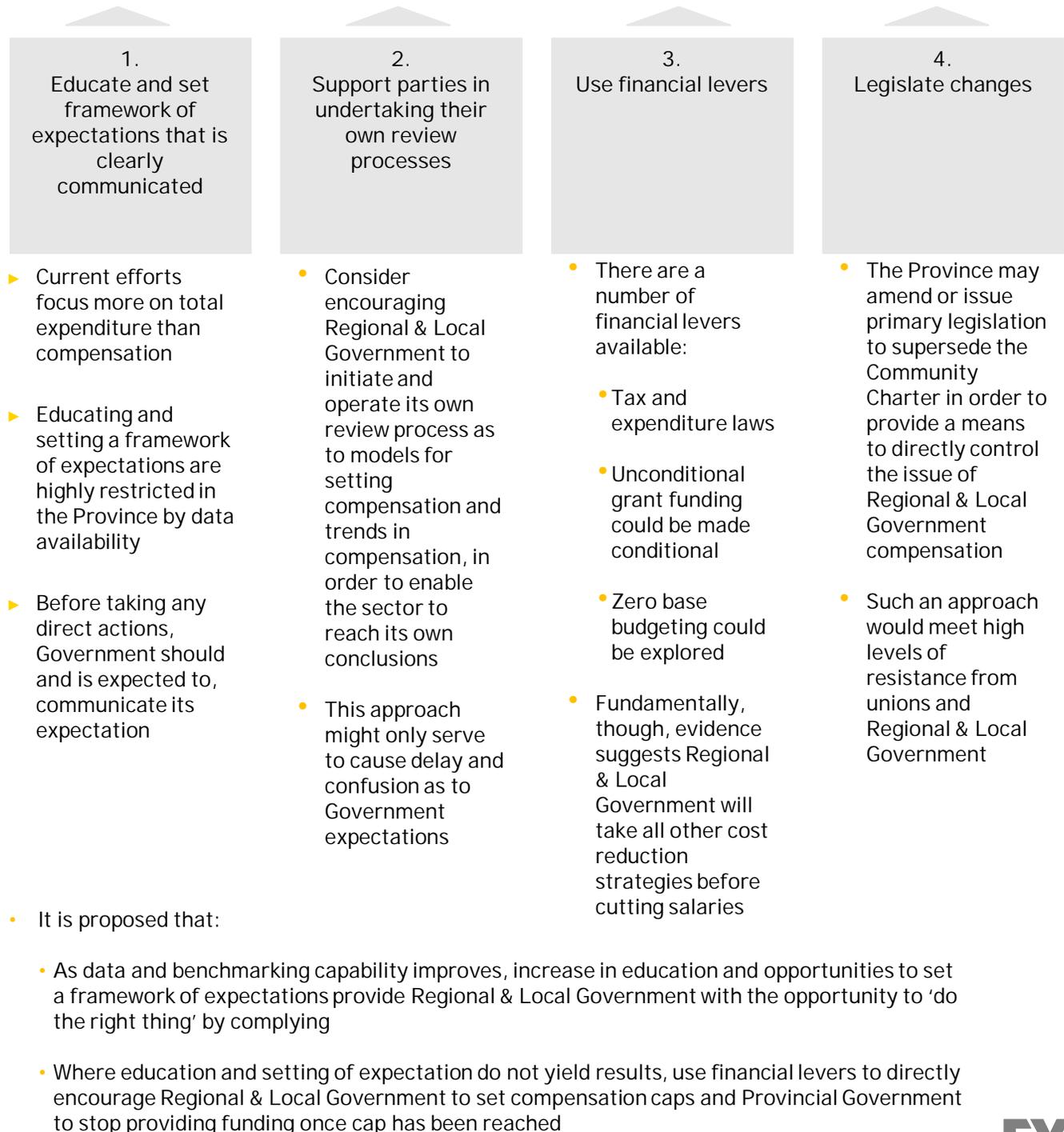
Analysis of management salary bands indicates that there is material variation in pay bands across the BC Public Sector, with the Public Service being the lowest paying in all cases.



## Appendix D. Spectrum of strategies for Regional & Local Government Select strategy to create adherence to philosophy and governance mode

In detailed design, the strategy pertaining to Regional & Local Government, will need to be selected from the spectrum outlined below.

Select level of central Government involvement (See Appendix D for further information on options)



## Appendix D. Spectrum of strategies for Regional & Local Government

### Educate and set framework of expectations that is clearly communicated

One senior stakeholder commented that “moral indignation” is the only strategy that Government currently has to influence municipal compensation levels.

As the Business Council of British Columbia observes, one factor for this may be that the fiscal policies of individual Municipal Governments in a fragmented sector do not typically attract the same degree of systematic scrutiny from legislators, the public, the media or the business community as the spending or taxation decisions of the Provincial Government.<sup>1</sup>

In BC there is some education and a framework of expectations, but they do not principally focus on compensation, generally focusing instead on total expenditure.

One key driver of this is the availability of data. A key component of educating and the setting of a framework of expectations is making data available to support communities of interest to exert influence. Currently in BC a number of communities of interest that are keen to exert education on Regional & Local Government struggle to find adequate data on compensation.

The general view voiced by stakeholders, was that education and the setting of a framework of expectations have historically proved to have little impact on municipal behaviour.

Example of municipal education and setting of expectations in BC

#### BC's 10 Worst Performing Municipalities in 2011

Listed from Largest to Smallest 2010 - 2011 Spending Increases

Municipality	2010-2011 Change in Real Municipal Operating Spending per Capita (%)
Stewart	58
Dawson Creek	21
Telkwa	20
Chetwynd	20
Hope	17
Silverton	16
Sooke	15
Comox	14
Mission	13
Surrey	13

Source: CFIB, “BC municipal Spending watch” (2013)

<sup>1</sup> Business Council of British Columbia, “Policy Perspectives, Up and Away: The Growth of municipal Spending in Metro Vancouver” (2012)

Ontario case study of the value of data for municipal education and setting of expectations

In Ontario, the *Public Sector Salary Disclosure Act* requires organizations that receive funding from the Province – including municipalities – to release annually the compensation of those earning more than \$100,000. The Government collects, collates and releases in electronic format compensation all of this data.

The release of this information in a consolidated electronic format in Ontario may increase the level of scrutiny faced. For example, in Ontario, the Canadian Taxpayers Federation releases a 'municipal Report Card'. The scorecard includes a 'Fat Cat Ratio' which compares cities on a per capita basis. The report also includes a calculation of the average property tax bill across municipalities to determine how many households - paying the average property tax rate - are required to pay the salary of the average Sunshine List employee.

**Taxpayer.com**  
Stand Up. Be Heard!

**Municipal Report Card**

**Hamilton** **C-**

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**Taxpayer.com**  
Stand Up. Be Heard!

**Municipal Report Card**

**Kingston** **D**

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**Taxpayer.com**  
Stand Up. Be Heard!

**Municipal Report Card**

**Oshawa** **F**

Population: 155,000

Growth of List	79.3%	<b>F</b>
Growth of Salaries	82.1%	<b>F</b>
Fat Cat Ratio	9.48/10,000	<b>C</b>
Average Salary	\$119,115	<b>C</b>
Top Salary	\$281,402	<b>F</b>
Households/Fat Cat		<b>D</b>

Mayor John Henry: \$137,660  
 City Manager/CEO Robert Scott Duigan: \$281,402  
 Fire Chief Steven Meringer: \$163,569  
 Police Chief (Durham Region) Mike Ewles: \$243,861

**COMMENT:**  
 "Oshawa scored poorly on all measurements in this report card. It has experienced massive growth in compensation spending, maintains a high average Sunshine List salaries, and pays its top dogs more on average than other jurisdictions in Ontario."  
 "Oshawa finished dead last in CTF's Municipal Report Card."  
 -Candice Malcolm, Ontario Director

Candice Malcolm, Ontario Director  
 Nick Bergamini, Research Director

28

Canadian Taxpayers Federation  
 July 2013

Source: Canadian Taxpayer Federation, "Ontario municipal Report Card" (2013)

## Appendix D. Spectrum of strategies for Regional & Local Government

### Explore using financial levers to influence Regional & Local Government behaviour

The Government has a number of financial levers available

Local Governments have available to them the revenue sources that Provincial Government has ascribed: firstly, own-source revenue, which includes principally property tax and user fees, and, secondly, transfers from Provincial and Federal Governments<sup>1</sup>. The Government could therefore consider using a number of financial levers with which to control levels of municipal compensation.

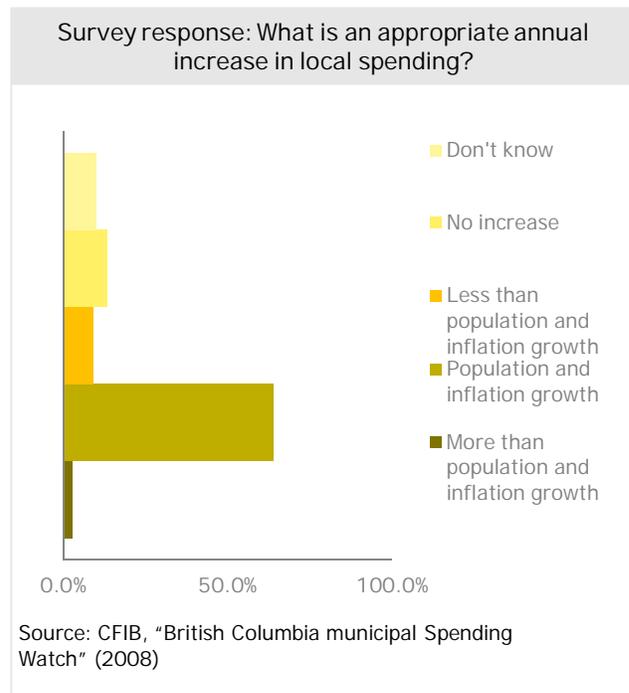
The Provincial Government could consider putting in place tax and expenditure laws

With respect to own-source revenue, Provincial Governments can establish the range and variety of municipal taxation powers. In view of their status, Local Governments in Canada have to be content with the revenue sources that Provincial Governments have been willing to allot to them. The Provincial Government could therefore potentially put in place tax and expenditure limitation laws that would constrain the growth of taxes collected and municipal spending. The intent of this action would be to force municipalities to rein in compensation costs.

The Confederation of Independent Business has been a strong proponent of this concept.

The CFIB is a strong proponent of this concept and has considered the design of such legislation. CFIB argues that "a successful tax and expenditure limitation law would constrain spending growth and property tax growth to no more than population and inflation growth." In support of this argument, CFIB argues that<sup>2</sup>:

- ▶ A survey conducted by CFIB in 2007 identified that 87% of BC's Small and Medium Enterprises believe that municipal spending should remain fixed or increase at or below population and inflation growth.
- ▶ "Laws enforcing tax and expenditure limitations can be found at the state and local level in the U.S., and have generally proven to be effective particularly when they have been initiated and designed by citizens"



<sup>1</sup> ICPS, "municipal Organization in Canada, Tradition and Transformation - Varying from Province to Province" (2003)

<sup>2</sup> Canadian Federation of Independent Business, "British Columbia municipal Spending Watch" (2008)

Unconditional grant funding could be made conditional

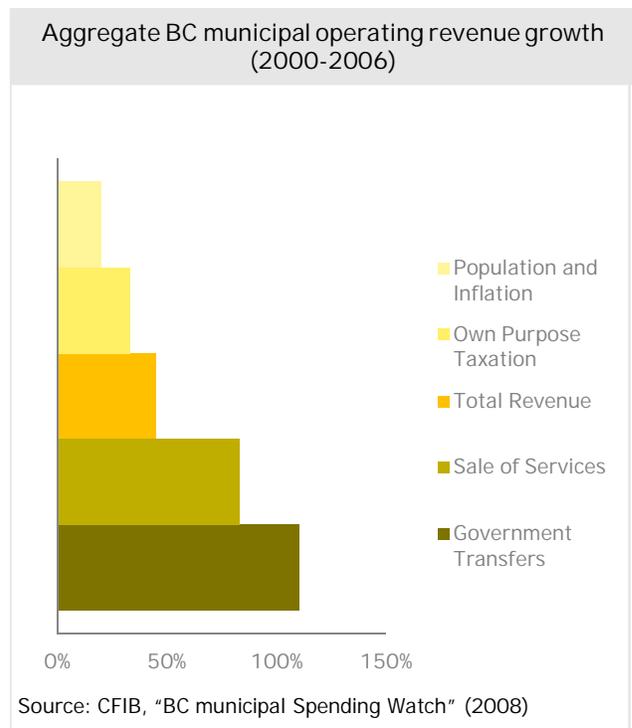
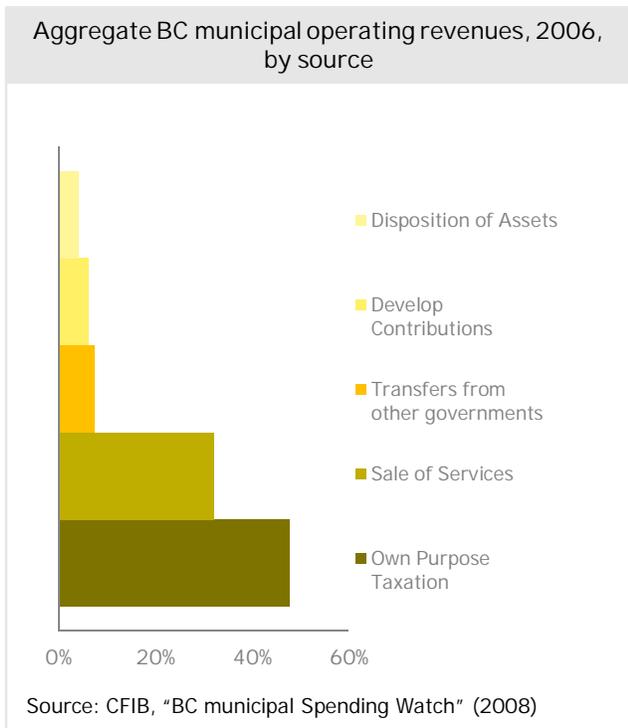
British Columbia’s Local Government division administers a general program offering unconditional grants to local municipalities in conformity with the *Local Government Grants Act* (as at 2003) <sup>1</sup>. Each municipality receives a predetermined basic amount based on the relative fiscal wealth of the municipality <sup>1</sup>.

The Provincial Government could consider making this grant funding conditional on Local Government achieving certain performance indicators pertaining to the control of municipal compensation.

Grant funding is not a significant contributor to municipal revenues, but is growing

It is worth noting, however, that transfers from Government only constitute a small share of municipal revenues. CFIB analysis in 2006, indicated that in BC only 7.4% of revenues came from transfers from other Governments

However, municipal grants are also one of the fastest growing sources of revenue for Municipal Governments. Between 2000 and 2006, CFIB estimates that contributions to municipalities from senior levels of Government more than doubled, increasing by 110 per cent <sup>2</sup>.



<sup>1</sup> ICPS, "municipal Organization in Canada, Tradition and Transformation - Varying from Province to Province" (2003)

<sup>2</sup> Canadian Federation of Independent Businesses, "British Columbia municipal Spending Watch" (2008)

Explore zero based budgeting

One financial lever that might have lower risk of potential unintended consequences than other levers could be the introduction of zero based budgeting.

In the traditional incremental budgeting process, previous levels of spending are treated as given, and approval is only needed for additional spending increases.

Under zero based budgeting, all spending by each municipal department must be reviewed and approved.

The introduction of a periodic zero based budgeting review process, along with a series of meaningful performance measures designed to ensure that public money is being spent efficiently, would ensure greater accountability among Municipal Governments and provide better value to taxpayers.

Various approaches have been taken to deal with budget shortfalls in the US

A survey in the US of 120 cities and counties conducted in October 2004, identified that 86% of respondents had faced budget shortfalls.<sup>1</sup> These organizations reported relying on a combination of approaches to dealing with budget shortfalls.

The three most popular strategies dealt with reducing the labour force:

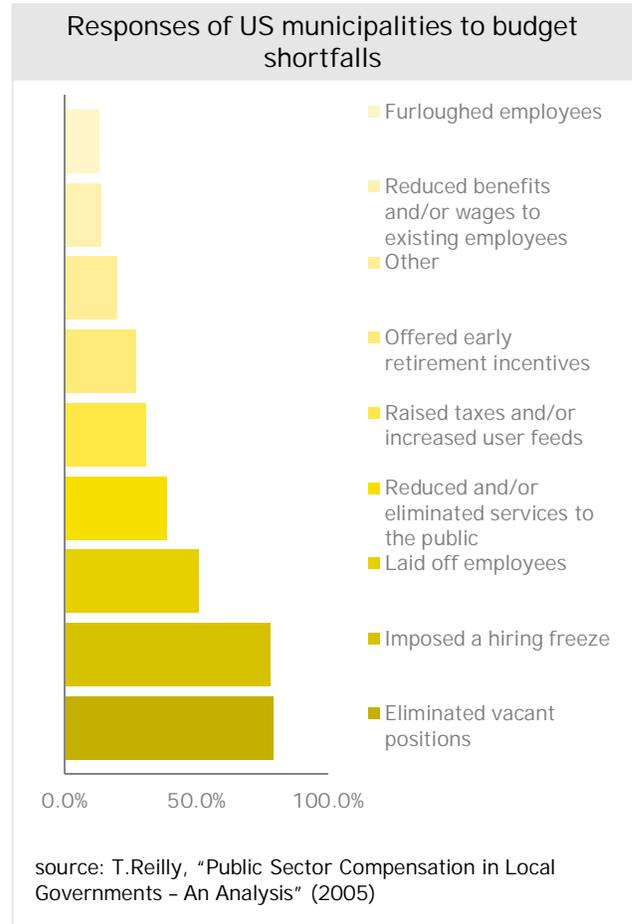
- ▶ Reducing their labour force through elimination of vacant positions (79%)
- ▶ Instituting a hiring freeze (78%)
- ▶ Employee layoffs (51%)

These approaches were followed by:

- ▶ Reducing and / or eliminating services to the public (39%)
- ▶ Raising taxes and or / user fees (31%)

Only 14% of Governments chose to reduce wages and / or benefits for current employees

As the authors commented, "these statistics clearly indicate Governments were more likely to reduce their labour force, reduce services, and raise taxes than cut wages and benefits in response to budgetary shortfalls" rather than reduce compensation.<sup>1</sup>



<sup>1</sup> Canadian Federation of Independent Businesses, "British Columbia municipal Spending Watch" (2008)

## Appendix D. Spectrum of strategies for Regional & Local Government Legislate changes

Local Governments are “creatures of the Province” and can be directed by the Provincial Government.

The *Community Charter and the Local Government Act* are built on the principle of Local Government being responsible and accountable.<sup>1</sup> If the Provincial Government has strong evidence that Local Government has failed to act in a financially responsible manner, and that there is inadequate response to; education, setting a framework of expectation, or attempts to discuss or mediate the issue of control of compensation, Government may wish to raise the possibility of infringement upon local autonomy.

As stated in section 92(8) of the Canadian Constitution, municipal affairs come under the exclusive jurisdiction of the Provinces. Local Governments are created by Provincial legislation and it is Provincial legislation that defines what they can do, how they are managed, and their sources of revenue. “In short, from a strictly legal viewpoint, the very existence of municipalities depends on the goodwill of the Provincial Governments,”<sup>2</sup> and if the Provincial Government so wishes it may amend or issue primary legislation to supersede the *Community Charter or Local Government Act* in order to provide a means to directly control the issue of Local Government compensation.

In particular, the Provincial Government might elect to threaten to establish – or, in the event of inadequate response, actually establish – the right of a Minister to set rules and mandates for Local Government sector compensation and powers to enable a new or existing entity with a similar mandate as PSEC to provide strategic direction to employers in the sector. Mandates could, for example, constrain growth in compensation to no more than population and inflation growth, or might mandate alignment of compensation to the Core.

<sup>1</sup> R.L. Bish, “Local Government in British Columbia” (2008)

<sup>2</sup> ICPS, “Municipal Organization in Canada, Tradition and Transformation – Varying from Province to Province” (2003)

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