



ADMINISTRATIVE REPORT

Report Date: August 23, 2016
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Meeting Date: September 21, 2016

TO: Standing Committee on City Finance and Services

FROM: Deputy City Manager, General Manager of Community Services, Chief Procurement Officer, Chief Human Resources Officer

SUBJECT: Making the City of Vancouver a Living Wage Employer

RECOMMENDATION

- A. THAT Council approve the proposed Living Wage Implementation Plan described in this report.
- B. THAT Council direct staff to pursue “Living Wage Employer” certification from the *Living Wage for Families Campaign* through submission of a *Living Wage Implementation Plan* to the *Living Wage for Families Campaign* by January 31, 2017.
- C. THAT Council encourage and support the Vancouver Police Board and Vancouver Public Library Board to pursue Living Wage certification for the Vancouver Police Department (VPD) and Vancouver Public Library (VPL) respectively.
- D. THAT Council direct staff to inform the Vancouver Park Board of the City’s plan to pursue Living Wage certification, including any relevant background information, and seek the Park Board’s endorsement of Living Wage certification requirements in relation to applicable contracted services procured on behalf of the Park Board.
- E. THAT Council authorize staff to amend and/or supplement existing City policies to incorporate the Living Wage Implementation Plan and related requirements.
- F. THAT Council direct staff to report back on the certification process as well as provide an update on the analysis of Living Wage certification implications for other civic agencies by July 2017.

REPORT SUMMARY

In July 2015, Council approved a motion affirming its commitment to have the City of Vancouver become certified as a Living Wage Employer and directed staff to report back on the steps necessary to achieve that goal. The purpose of this report is to outline the steps required to become a Living Wage Employer through the *Living Wage for Families Campaign*.

To be recognized as a Living Wage Employer, the City must implement measures to ensure that direct employees and individuals employed by contracted service providers, including subcontractors, are compensated at or above the Living Wage rate. In Metro Vancouver, the Living Wage rate has been established by the *Living Wage for Families Campaign* at \$20.64 per hour, including direct salary and certain benefits. To determine the implications of adopting Living Wage certification status, staff conducted best practice research, analyzed the City's wage rates and reviewed the City's third party contractor spend, vendor base and key contracts.

As the present time, all City of Vancouver employees are paid at or above the current Living Wage. An internal review of City contracts for third party services identified approximately 120 contracts potentially in-scope for consideration relative to Living Wage certification. All but four of these 120 contracts provide compensation above the Living Wage threshold. A portion of the services provided under these four contractual arrangements related to security, janitorial and graffiti removal services are currently delivered by individuals compensated below the 2016 Living Wage rate.

Over the coming years, as these contracts expire, the City will engage in a competitive procurement process for new service contracts. The exact financial impact to the City will be subject to the market conditions at the time those procurements are conducted and the City's needs associated with these services. Based on current rates for services and the 2016 Living Wage rate, the financial impact to the City to bring these contracts up to the 2016 Living Wage rate is estimated at \$590,000 annually.

The anticipated financial impact for VPD and VPL to achieve the Living Wage certification is estimated at a further \$453,000 per year.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

Over the past 2 years, Council has identified moving toward a Living Wage employer status as a priority in a number of Council actions, including:

Innovation Fund Recommendations to Support Healthy City Strategy Action Plan (2015-2018 Implementation): In June 2016, Council approved funding from the Social Innovation Fund to implement Healthy City Action Plan initiatives in partnership with external stakeholders including a \$60,000 allocation to implement a Living Wage plan at the City of Vancouver, and share knowledge with other major employers through the Healthy City Leadership Table to encourage them to consider Living Wage implementation.

Healthy City Strategy: In July 2015, Council adopted the Healthy City Strategy Action Plan for 2015-2018 and directed staff to report back on progress in 2017. Under the goal of Making Ends Meet and Working Well, the Action Plan includes the following Living Wage related actions: 4.(a) Educate the Leadership Table and City of Vancouver staff on the Living Wage Employer certification process; and 4.(b) Assess the steps which need to be taken to implement a Living Wage policy at the City of Vancouver.

Make the City of Vancouver a Living Wage Employer: In July 2015, Council approved a Motion to make the City of Vancouver a Living Wage Employer. "THEREFORE BE IT RESOLVED THAT Vancouver City Council affirms its commitment to have the City of Vancouver be certified as a Living Wage employer by the *Living Wage for Families Campaign* and direct staff to report back on the steps necessary to achieve that goal."

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The report recommends support for the City of Vancouver to submit a *Living Wage for Families Campaign Implementation Plan* with the goal of achieving certification as a Living Wage Employer, and to seek support for this objective from the Park Board and Boards of the Vancouver Police Department and Vancouver Public Library. This action is aligned with the goals of the Healthy City Strategy.

The City Manager recommends approval of the foregoing.

REPORT

Background/Context

The Healthy City Strategy is the City's social sustainability plan which sets out a vision of a Healthy City for All; a community where together we are creating and continually improving conditions that enable everyone to enjoy the highest level of health and well-being possible. It comprises thirteen integrated goals and related aspirational targets. These include a goal for Making Ends Meet and Working Well. Two associated targets have been adopted to measure this success: the City's poverty rate will be reduced by 75% by 2025; and the median income will be increased by at least 3 percent every year.

At 20.6%, BC has one of the highest child poverty rates in the country. Vancouver's child poverty rate is even higher at 22%. Almost one-third of the poor children in BC live in families with at least one adult working full time, illustrating the extent of low wage poverty in our communities.

Working families at low wages face impossible choices – buy food or heat the house, buy clothes or pay the rent. Child care costs represent an added pressure on families, particularly those with young children. The result can be spiralling debt, constant anxiety and long-term health problems. In many cases, adults are required to work long hours, often at two or three jobs, just to pay for basic necessities. Median family income rate for two parent families is \$73,000 but only \$38,000 for single parent families. Single parents working in low-wage employment are particularly challenged by rising housing and living costs, resulting in greater inequality, child poverty and social costs.

The Living Wage threshold, as calculated by the *Living Wage for Families Campaign*, reflects the amount that two working adults supporting two children need to earn to cover their basic expenses, taking into account government transfers and deductions. It is calculated on an annual basis using the actual costs of living for a specific community. The Living Wage rate for Metro Vancouver for 2016 is \$20.64 per hour, including direct wages as well as the value of non-mandatory benefits such as paid sick leave, employer-paid Medical Services Plan premiums and extended health benefits.

The *Living Wage for Families Campaign* has developed a program to encourage organizations to become certified as Living Wage Employers. To date, over 65 employers in BC have achieved certification, including Vancouver City Savings Credit Union (Vancity), the City of New Westminster and the City of Quesnel. The City of Port Coquitlam, City of Parksville and Huu-ay-aht First Nations have also initiated the process to become certified as a Living Wage Employer.

For organizations, the benefits of providing compensation at or above the Living Wage threshold include:

- improved mental and physical health and economic well-being of employees which can translate into increased productivity;
- decrease in employee turnover and absenteeism and increased retention and productivity;
- public recognition for socially responsible corporate practices.

Strategic Analysis

The Healthy City Strategy Action Plan commits the City to educate the Leadership Table and City of Vancouver staff on the Living Wage Employer certification process and assess the steps which need to be taken to implement a Living Wage Policy at the City of Vancouver.

A. Living Wage Employer Program Overview

To become certified as a Living Wage Employer, an organization must commit that:

- All directly employed employees (full time, part time and casual) are compensated at the 2016 Living Wage rate, including direct wages and non-mandatory benefits.
- Contractors and subcontractors that provide regular, ongoing services on the Living Wage employer's premises compensate their employees at the 2016 Living Wage rate. In the case of contracts presently in effect, there is an obligation to signal intent to contract at the new Living Wage rate when the contract is renewed.
- The organization has implemented a process for an annual adjustment in wages for direct staff to the 2016 Living Wage.
- The organization has implemented a process for an annual adjustment in wages for contractors and subcontractors to the 2016 Living Wage.

The *Living Wage for Families Campaign* recognizes that it could take time for employers to achieve full compliance, particularly in relation to external service contracts.

To apply for certification, employers must prepare and submit a *Living Wage Employer Implementation Plan* that includes general information regarding the organization, the representative responsible for oversight of the Living Wage program, the number and compensation levels of direct staff, the estimated number and type of service contracts that will be affected and the mechanism to ensure that renewal contracts are consistent with the Living Wage guidelines.

B. Impact Analysis

1. Direct Employees

Staff have analysed the compensation provided to direct employees of City of Vancouver. All City employees are presently compensated at or above the current Living Wage rate of \$20.64 per hour.

To become certified, the City must have procedures in place to ensure that employees' wage rates are maintained at the 2016 Living Wage rate on an annual basis. The Living Wage rate has increased on average two percent over the past five years. With the City's current collective agreements and the anticipated settlements for collective agreements

that are subject to renewal, staff expects compensation levels for all employees to remain in excess the Living Wage rate.

2. *Contracted service providers*

Due to the large number of contracts and externally contracted staff, the *Living Wage for Families Campaign* recognizes that it is not feasible to apply the Living Wage clause to every City contractor (approximately 4,000). Living Wage Employers typically apply some defensible criteria to determine which contracts fall within the scope of the policy.

To determine the appropriate criteria for the City of Vancouver, staff benchmarked two other Living Wage Employers: Vancity and City of New Westminster. Based on the experience of those organizations and guidance from the Living Wage for Families Campaign, staff have applied the following parameters to determine in-scope contracts and vendors:

- annual service contract value in excess of \$250,000;
- service is provided on City sites;
- contractor or its subcontractors provide regular and on-going services to the City;
- work must last longer than one continuous hour per occasion;
- service is provided on a regular ongoing basis; contractor must perform services over 120 hours per year.

The *Living Wage for Families Campaign* acknowledges a number of criteria on which specific employees or contractors are appropriately exempted from consideration in the certification process, including:

- students, interns and practicum placements for summer projects, etc. (as long as no more than 10% of total staff);
- workers providing fewer than 120 hours of service per year;
- ad hoc contract work (for example emergency or non-recurring repairs or maintenance where no standing contracts are in place);
- volunteers;
- employees of organizations (for profit or not-for-profit) that lease property from the City;
- social enterprise (as long as no more than 10% of employer's total procurement);
- multiple small contracts. For larger employers, where a contract makes up no more than half of a percentage of its annual purchasing budget (over a \$1 million contract size for the City).

Based on the foregoing criteria, staff analysed spend reports, vendor lists and individual contracts and identified approximately 120 contracts in-scope with a cumulative spend of \$135 million per annum. This represents about 45% of the City's total annual spend of approximately \$300 million for third party goods and services.

Based on the information available to the City, staff have identified only four of the 120 contracts under which the contactors' employees are compensated below the 2016 Living Wage rate. These contracts are for the provision of janitorial services, security services and graffiti removal services. These contracts expire within the next two to three years. For these contracts, it is estimated that the cost of compliance with the Living Wage guidelines would represent an additional \$590,000 per year. This impact assessment is based on the current service contract rates for these services relative to the 2016 Living Wage rate; the actual cost will reflect market factors at the time of procurement.

Given the requirements imposed on vendors under the terms of the Living Wage certification, staff have identified the potential for operational procurement impacts including reduction in bidders or less competitive pricing. Of particular note, it may be necessary for vendors to establish 2-tier compensation structures that distinguish employees providing service to the City of Vancouver from the rest of their staff. However, based on benchmarking with other organizations, these risks do not appear to have materialised or have been mitigated through pro-active contractor information sessions on Living Wage as well as with succinct information inserted into the bid documents.

Contractor non-compliance with the Living Wage requirements poses a low risk which would be mitigated through self-reporting, signed supplier declaration, signage on City premises and work sites of Living Wage status and active contract management post award. The \$60,000 allocated from the Innovation Fund will assist with implementation and increased administration time to create the necessary documentation and vendor / staff engagement. Staff will also develop a continuous monitoring process as part of the program for the identified risk factors above and any others, and will report back to Council with any significant impacts and concerns.

C. Action Plan

Action 4 of the Healthy City Action Plan includes two parts: a) educating the Healthy City for All Leadership Table and City of Vancouver staff and b) Living Wage certification for the City of Vancouver.

1. Educating the Healthy City for All Leadership Table and City staff

At the upcoming Healthy City Leadership Table (HCLT) meeting on September 28, 2016, City staff will partner with the Living Wage for Family Campaign and Vancity to conduct a Living Wage certification workshop. The HCLT is comprised of senior executive staff from business, public health, education, NGOs, health etc., who champion the implementation of the Healthy City goals. City staff will have the opportunity to attend internal Living Wage workshops.

2. Living Wage certification

Applications for the Living Wage Employer certification are accepted between May 1 and January 31 annually. Staff anticipate that the City will be in a position to submit a *Living Wage Implementation Plan* to the Living Wage for Families Campaign by January 31, 2017 and subsequently begin roll-out of Living Wage requirements for new contracts and bid documents. The City is not required to renegotiate existing contracts in order to be compliant, but would inform current vendors of the intent to implement the Living Wage requirements at contract renewal.

With the objective to have a *Living Wage Implementation Plan* submitted to the Living Wage for Families Campaign by January 31, 2017 the proposed actions include:

- Formalising the project team consisting of Social Policy, Supply Chain Management, Human Resources, Legal Services, Communications;
- Providing communications to vendors by way of letters, information sessions and updated information on the City's website;
- Providing information to all City staff;
- Developing or amending existing City policies to reflect the Living Wage requirements;

- Developing Living Wage clauses for incorporation in bidding and contracting documents;
- Defining metrics, audit and tracking procedures.

Impact Analysis for City Agencies

In relation to VPD and VPL, staff from those organizations have also conducted impact assessments which are outlined below. VPD and VPL staff have confirmed that they will be seeking approval from their respective Boards to pursue certification to become a Living Wage employer.

Vancouver Police Department (VPD)

An internal analysis of direct staff conducted by VPD has identified approximately 200 casual workers who are currently compensated below the current Living Wage rate. To bring this worker group up to the Living Wage threshold, there would be a financial impact to the VPD operating budget of approximately \$127,000 (based on 2015 figures). An analysis of VPD contracted services conducted by VPD and City staff highlighted an approximate impact on security and facility-related services of \$60,000 per year. Based on the above, the total estimated impact for VPD is estimated at roughly \$187,000 per year.

Vancouver Public Library (VPL)

An internal analysis of direct staff conducted by VPL staff has identified one classification of worker covered by the CUPE 391 Collective Agreement (shelver) that is currently compensated below the current Living Wage rate. To bring this group up to the Living Wage threshold, there would be a financial impact to the VPL operating budget of approximately \$161,000. VPL also has one contract for security services that provides compensation below the 2016 Living Wage threshold. An additional annual cost of approximately \$105,000 for security services would be required to bring this contract into alignment with Living Wage guidelines. Based on the above, the total estimated impact for VPL is expected to be \$266,000 per year.

Vancouver Park Board

Pursuant to the *Vancouver Charter*, the Park Board is not a direct employer. However, the Park Board does approve contracts for external service contracts. Accordingly, in relation to those service contracts, staff recommend that Council seek endorsement from the Park Board for the Living Wage Policy and Implementation Plan.

At present, Park Board has contractual arrangements with several proprietors for the lease and operation of concessions in Parks. These arrangements are complex and are currently under review. The outcome of that review and any resulting modification of the existing business arrangements may have implications for application of the Living Wage guidelines and, as such, specific impacts cannot be predicted at this time. Initial estimates of potential cost implications could range from \$0 to \$170,000 on an annual basis.

Other Civic Agencies

As a second phase of work in relation to Living Wage certification, City staff will work with the management of other City agencies to review the certification requirements and assess the implications of certification on each agency. As independent legal entities, these agencies would necessarily pursue their own certification applications separately from the City.

Financial Implications

In reviewing the City's contracted service arrangements, staff have identified four contracts that do not meet the applicable Living Wage threshold in relation to the compensation paid by the contractors to their employees. These contracts expire over the next two to three years. Based on the information presently available to the City, it is estimated that an additional annual cost of \$590,000 will be incurred as these four contracts are renewed to provide for compensation consistent with the Living Wage standard.

The estimated incremental costs for VPD to achieve compliance with the Living Wage guidelines for direct staff and contracted services is estimated at \$187,000 per year.

The estimated incremental cost for VPL to achieve compliance with the Living Wage guidelines for direct staff and contracted services is estimated at \$266,000 per year.

There is a potential for additional costs related to the operation of concessions in Parks, although it is not possible to estimate that impact with any degree of certainty at this time.

The above-referenced costs would be incurred incrementally over the coming years as internal compensation adjustments and new service contracts are implemented. The actual timing and magnitude of the cost impacts would only be known definitively at the point those changes are finalized.

Additional costs associated with the implementation of the Living Wage guidelines for the City, Park Board, VPD and VPL would be incorporated into the annual operating budget for 2017 and subsequent years.

Human Resources/Labour Relations Implications

All City employees are presently compensated at or above the 2016 Living Wage threshold of \$20.64 per hour. Based on existing and anticipated collective agreement settlements, it is anticipated that compensation levels will continue to exceed the Living Wage threshold over the coming years.

Pursuant to the terms of the Living Wage certification program, the City is obligated to inform any unions representing direct employees of the intention to apply for Living Wage status. The five unions that represent City staff have been formally advised of Council's commitment to pursue this certification and the recommendations presented herein. Human Resources will maintain communication with union leaders as the certification process moves forward.

Legal Implications

Legal Services has been involved in the process to date and will continue to advise on the development of all required documentation including language for inclusion in bidding documents, contract terms and conditions, as well as compliance and auditing procedures.

CONCLUSION

As directed by Council, staff have undertaken a detailed analysis of the conditions that the City would be required to satisfy in order to achieve certification as a Living Wage Employer. While the City already meets the conditions regarding compensation provided to direct staff, compliance with the requirements in respect of contracted service providers would entail a financial impact that would be incurred over the next 2 to 3 years to an estimated incremental cost of \$590,000 per year. VPD and VPL would also incur costs estimated at \$465,000 per year in order to meet the requirements of the Living Wage Employer program. The foregoing costs, while material, are manageable in the context of the City's overall operating budget and would represent an investment in delivering on the explicit goals articulated in the Health City Strategy. Accordingly, staff recommend that the City pursue certification as a Living Wage Employer with the goal of submitting a *Living Wage Implementation Plan* by January 31, 2017 and rolling out Living Wage requirements in new service contracts commencing in the first quarter of 2017.

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