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## APPENDICES

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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. 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:

<table>
<thead>
<tr>
<th>Core Government (Public Service)</th>
<th>Broader Public Sector</th>
<th>Municipality</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 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</td>
<td>• The majority of Broader Public Sector organizations appear to have broadly 'held the line' on executive compensation from 2009 to 2011</td>
<td>• 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</td>
</tr>
<tr>
<td>• Note that given the lack of available data, compensation of the most senior levels of leadership across Government was compared with the intent of providing one potentially insightful comparator. Further information would be required as to responsibilities and spans of control of these groups, in order to enable interpretation of the above findings</td>
<td>• In 2011-12, compensation across the most senior leadership roles (e.g. CEO vs. Deputy Minister) was higher in the Broader Public Sector than in the Core Government</td>
<td></td>
</tr>
<tr>
<td>• At the management level, Core Government compensation has been essentially flat since 2009 and there have been virtually no increases in compensation</td>
<td>• Analysis of a sample of salary bands indicated that managers in the Broader Public Sector are typical paid more than peers in the Core Government but less than those in Municipality</td>
<td>• At the management level there is no clear alignment between Provincial and Municipality compensation, with Municipality paying higher compensation in the majority of cases for comparable roles</td>
</tr>
<tr>
<td>• 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 Municipality received 38% This in comparison to inflation of 23%</td>
<td>• At the bargaining unit level there is no clear alignment between Municipality compensation and compensation in the Core Government and Broader Public Sector. Municipality are paying higher compensation in the majority of cases for comparable roles</td>
<td></td>
</tr>
</tbody>
</table>

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 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 Government has no direct oversight or say in compensation in the Local & Regional Government. If compensation is to be aligned across the BC Public Sector, these philosophies and models must be standardized and aligned.

Summary of recommendations

► There is a need to drive greater alignment in compensation across the Core, Public Service, Broader Public Sector and Municipality 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 but was partially implemented in 2008 due to the fiscal restraints it 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 the Municipality can be expected to follow; but the Government should do what is necessary to bring Municipal Government compensation into alignment over time, including using financial levers if necessary

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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; Municipality includes Municipal Government, Regional Government, Fire and Police, BC Ferries and TransLink.

Philosophies refers to principles, mandates and rules for setting compensation including alignment with market comparators

Note that BC Ferries and TransLink are not covered by the Public Sector Employers Act.
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.

Three connected initiatives are recommended

1. Create common philosophy & enablers
   - Refresh Core Government philosophy for application to Broader Public Sector

2. Build governance model and processes to enable alignment across BC public sector
   - Design future state governance model to enable alignment of compensation across BC Public Sector to Core Government
   - Design strategic approach to bringing Municipality under this governance models and design detailed transition plan to move to future state

3. Deploy and sustain
   - Make model more sustainable and market sensitive

   1. Communicate and set expectation that Cabinet will set philosophy and direction across entire BC Public Sector
   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
   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
   4. Finalize current review of Provincial model including need to align Employers’ Associations in the Broader Public Sector
   5. Enable a common bargaining approach in the Regional & Local Government
   6. Conduct a review of current arbitration models
   7. Select strategy to create adherence to philosophy and governance model. It is proposed that:
      - As data and benchmarking capability improves, educate and set a framework of expectations in order to provide Regional & Local Government with the opportunity to ‘do the right thing’ by complying
      - Where education and setting of expectations do not yield results, use financial levers to directly encourage municipalities to set compensation caps and Government to stop providing funding once cap has been reached

   With strategy selected, design detailed transition plan to future state, including setting clear timelines as to expectations for Municipality

   1. Revisit and update the previously approved compensation philosophy for the Core where necessary
   2. Further develop this philosophy to create a shared philosophy for the entire BC Public Sector, providing common principles, processes and guidelines
   3. Establish standardized benchmarking tools in Core and roll out across the BC Public Sector
   4. Invest in more accessible and comprehensive data in the Core and roll out across the BC Public Sector

   1. Communicate and set expectation that Cabinet will set philosophy and direction across entire BC Public Sector
   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
   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
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   6. Conduct a review of current arbitration models

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   4. Finalize current review of Provincial model including need to align Employers’ Associations in the Broader Public Sector
   5. Enable a common bargaining approach in the Regional & Local Government
   6. Conduct a review of current arbitration models

   1. Deploy and make sustainable including:
      - Execute implementation plan
      - Conduct market reviews every two years to review compensation and adjust bands as required
      - Make ongoing adjustments to models through a standard approval process
      - Cabinet to approve philosophy as required
      - Put process in place to review and refresh compensation philosophy on a regular and ongoing basis.
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 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 of 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 Municipality 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 the 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

Scope of review

<table>
<thead>
<tr>
<th>(1) In scope time series</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
</tr>
</tbody>
</table>

| (2) In scope areas of the public sector |

Regional and Local Government
Broader Public Sector
Core

<table>
<thead>
<tr>
<th>(3) In scope elements of total compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
</tr>
<tr>
<td>Performance incentive or holdback</td>
</tr>
<tr>
<td>Base salary</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(4) In scope employee groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bargaining unit</td>
</tr>
<tr>
<td>Management &amp; excluded</td>
</tr>
<tr>
<td>Executive</td>
</tr>
</tbody>
</table>

* Federal Crowns operating in BC were out of scope of this review

^ Municipality includes Municipal Government, Regional Government, Fire and Police, BC Ferries and TransLink

B Broader Public Sector includes Crowns, Schools, Colleges, Universities, Health Authorities and social services

C 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 the Municipality.

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 Municipality 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 Municipality managers to those of peers in the Provincial Government indicates that the Municipality is paying more in the majority of cases for comparable management and excluded roles.

At the bargaining unit level, data indicates that 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 Municipality 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 that of Municipality. The Province acts as both the legislator and the employer, thus having more control and power over employees’ compensation. The municipalities do 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 councils 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 municipal 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.

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Average annual base salary of executives in the Core Government (F07 – F14)

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Base Salary ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>200</td>
</tr>
<tr>
<td>2008</td>
<td>200</td>
</tr>
<tr>
<td>2009</td>
<td>200</td>
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<tr>
<td>2010</td>
<td>200</td>
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<tr>
<td>2011</td>
<td>200</td>
</tr>
<tr>
<td>2012</td>
<td>200</td>
</tr>
<tr>
<td>2013</td>
<td>200</td>
</tr>
<tr>
<td>2014</td>
<td>200</td>
</tr>
</tbody>
</table>

Note that salaries exclude 10% executive holdback payment

Source: The Public Service Agency, “Historical Average Salaries for Executives and Management” (2013)

Distribution of total compensation increases for Broader Public Sector executives (2009-2011)

Majority of Broader Public Sector organizations are “holding the line” on CEO compensation

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.

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\(^{\text{A}}\) 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.

Distribution of the Broader Public Sector CEO total compensation (2011-2012)

<table>
<thead>
<tr>
<th>Number of CEOs in the Broader Public Sector</th>
<th>Salary, wages, bonuses, gratuities, taxable benefits ($ '000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Average DM salary &amp; incentive (~$230K)</td>
</tr>
<tr>
<td>12</td>
<td>Maximum DM salary &amp; incentive (~$299K)</td>
</tr>
<tr>
<td>10</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
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<tr>
<td>4</td>
<td></td>
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<td>2</td>
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<td>0</td>
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</tbody>
</table>

Number of CEOs in the Broader Public Sector

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.”

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

Data is not readily available to assess how well the Municipality 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.

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

<table>
<thead>
<tr>
<th>Compensation of CAOs and City Managers in the local Government (2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anmore (CAO)</td>
</tr>
<tr>
<td>Belcarra (CAO)</td>
</tr>
<tr>
<td>White Rock (City manager)</td>
</tr>
<tr>
<td>Mission (CAO)</td>
</tr>
<tr>
<td>Pitt Meadows (CAO)</td>
</tr>
<tr>
<td>Langley (CAO)</td>
</tr>
<tr>
<td>Prince George (City manager)</td>
</tr>
<tr>
<td>West Vancouver (CAO)</td>
</tr>
<tr>
<td>Burns Lake (CAO)</td>
</tr>
<tr>
<td>Burnaby (City manager)</td>
</tr>
<tr>
<td>Coquitlam (City manager)</td>
</tr>
<tr>
<td>Maple Ridge (CAO)</td>
</tr>
<tr>
<td>Abbotsford (City manager)</td>
</tr>
<tr>
<td>N. Vancouver (City manager)</td>
</tr>
<tr>
<td>N. Vancouver (CAO)</td>
</tr>
<tr>
<td>Vancouver (City manager)</td>
</tr>
<tr>
<td>Metro Vancouver (CAO)</td>
</tr>
</tbody>
</table>

This data indicates that in 2011, compensation of City Managers and Chief Administrative Officers of larger municipalities 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 is 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. The rationale for these concerns should be investigated.

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1 The 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%
2 FIA Data
3 Canadian Taxpayers Federation, “Rein in the Crowns!” (2014)
4 CEO Compensation includes Salary, wages, bonuses, gratuities, taxable benefits
5 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.

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

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 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 Municipality typically pays higher compensation than the Provincial Government for comparable positions.

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 and Municipality 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, Municipality 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 the Municipality. The hypothesis that Municipality 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.

Base salary comparison - Professional Engineers and Geoscientists of BC (2012)


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 and Local and Provincial Governments

Analysis of FIA data indicates that Municipality has a higher percentage of employees receiving higher levels of compensation than is the case for the Provincial Government.

FIA data also indicates that municipalities allocate 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.

Analysis of FIA data indicates that Municipality has a higher percentage of employees receiving higher levels of compensation than is the case for the Provincial Government.

Increase in bargaining unit compensation in the Provincial and Municipality

Analysis prepared by PSEC of HRSDC settlement data for the Core Government, Broader Public Sector and Municipality indicates that Municipal 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 Municipality received 38% This in comparison to inflation of 23% over the same time period.
Compensation of union members in the Provincial and Municipalities

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, the Municipality pays higher compensation than the Provincial Government for comparable roles.

<table>
<thead>
<tr>
<th>Category</th>
<th># of data points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protective Services</td>
<td>293</td>
</tr>
<tr>
<td>Technical related to Natural and Applied Sciences</td>
<td>92</td>
</tr>
<tr>
<td>Professionals in Natural and Applied Sciences</td>
<td>61</td>
</tr>
<tr>
<td>Clerical</td>
<td>167</td>
</tr>
<tr>
<td>Administrative and Regulatory</td>
<td>117</td>
</tr>
</tbody>
</table>

Increase in compensation expenditure in Municipality

The majority of municipal 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. A study also calculated that in Vancouver 67% of operating spending went to wages, salaries and benefits, on average, annually between 2000 and 2011.

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

Given that there has been a rapid escalation in municipal 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 Municipality pays more for comparable positions. This analysis is provided in the appendix. (See Appendix C-1)

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1 ICBA of British Columbia, “Construction Monitor” (2012)
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 Municipalities 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, Municipal 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 the Municipality 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. The Municipality’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 and Municipalities, and the 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 compensation 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).

Municipality – 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 75th percentile of the defined external marketplace. It is assumed that material variation may exist in the compensation philosophies applied across Municipality. (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. 1

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. 2

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).

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1 BCPSEA, “Public Sector Management & Executive Compensation Freeze Policy” (2012)
2 Newsleader, “TransLink staff earning 6-figure salaries” (2013)
4c. Strategic advice, coordination and enforcement

Strategic coordination is provided to the Core Government by the 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.

The Regional and Local jurisdictions do not have a comparable PSEC or the 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 municipal sector. (See Appendix C-13)

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).

BC is, however, the only Canadian jurisdiction to have an Auditor General for the Local Government (See Appendix C-10). While 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 AGLG has been widely applauded, but some parties suggest that 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 Public Service Agency provides employers’ association services to the Core Government

Under the Public Service Act, the 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:

1. Compensation for employees who are not subject to collective agreements
2. Benefit administration
3. Human resource practices
4. 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:

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

While Employers’ Associations provide sector coordination 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 the 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. ¹ 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 coordination 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 municipal 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 coordinated 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 municipality 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.” ³

In conclusion, the Municipality approach to collective bargaining is highly fragmented and inefficient. (See Recommendation 2.5).

3 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 Municipalities 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 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 50th percentile of the blended healthcare and external market pay policy guidelines.

The approach to benchmarking is also highly fragmented in Municipality

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 positions¹

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 the Municipality (See recommendation 1.3).

4g. Collective bargaining models and processes

Unions may have undue influence in the collective bargaining process at the Municipality 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.¹ In addition, unlike the Provincial Government, Municipality 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”⁴. See recommendation 2.5).

There is a mix of arbitration and collective bargaining models in the Municipality

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.²

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.³ 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).

² J IBC, “Police Compensation/ Negotiation of Contracts video” (2013)
⁴ 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 and Municipalities. 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, Municipalities.

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.

<table>
<thead>
<tr>
<th>Key issues mapped to prescribed salary ranges within the Core Government</th>
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<tbody>
<tr>
<td>Deputy Minister of the Premier</td>
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<tr>
<td>Deputy Minister</td>
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<td>Assistant Deputy Minister Band D</td>
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<td>Assistant Deputy Minister Band C</td>
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<td>Assistant Deputy Minister Band B</td>
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<td>Assistant Deputy Minister Band A</td>
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<tr>
<td>Strategic leadership</td>
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<td>Business leadership</td>
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<td>Applied leadership</td>
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<td>Bargaining unit</td>
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Issue #1: The BC Government is not making full use of its existing compensation bands at DM/ADM level.

Issue #2: Because the 2008 compensation philosophy was never implemented at Strategic Leadership level, the top end of this band is too low and thus pay is uncompetitive.

Issue #3: Compression exists between Bargaining unit and management, created by lack of increase in management compensation from 2009 and restrictions on movement of individuals within management bands.

| A No salary bands for Bargaining unit employees - data indicates range of actual compensation |

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 50th 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 50th 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 the Municipality 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 2nd 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 3rd 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 6th 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 Municipality. 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 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 2nd and 3rd highest in Canada respectively, Strategic Leadership, for example, is receiving the second lowest maximum achievable compensation in Canada.

<table>
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<tr>
<th>Cross-jurisdiction ranking of maximum achievable Strategic Leadership salary range</th>
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<tr>
<td>Salary ($’000s) (unknown constituents)</td>
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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.
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 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.

- No evidence was found of other jurisdictions using executive holdbacks

- 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.
6. Recommendations

- There is an opportunity to drive greater alignment in compensation across the Core, Broader Public Sector and Municipality 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 but never fully implemented and sustained due to the fiscal restraints imposed. It should be refreshed and could form the basis for the philosophy for the breadth of the BC Public Sector.
- The Provincial Government should take the opportunity to fix its provincial issues before the Municipality can be expected to follow; but the Government should do what is necessary to bring Municipal Government compensation into alignment over time, including using financial levers if necessary.

Three connected initiatives are recommended

<table>
<thead>
<tr>
<th>1. Create common philosophy &amp; enablers</th>
<th>2. Build governance model and processes to enable alignment across BC public sector</th>
<th>3. Deploy and sustain</th>
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</thead>
<tbody>
<tr>
<td>Refresh Core Government philosophy for application to Broader Public Sector</td>
<td>Design future state governance model to enable alignment of compensation across BC Public Sector to Core Government</td>
<td>Make model more sustainable and market sensitive</td>
</tr>
<tr>
<td>1. Revisit and update the previously approved compensation philosophy for the Core where necessary</td>
<td>1. Communicate and set expectation that Cabinet will set philosophy and direction across entire BC Public Sector</td>
<td>1. Deploy and make sustainable including:</td>
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<td>2. Further develop this philosophy to create a shared philosophy for the entire BC Public Sector, providing common principles, processes and guidelines</td>
<td>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</td>
<td>• Execute implementation plan</td>
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<tr>
<td>3. Establish standardized benchmarking tools in Core and roll out across the BC Public Sector</td>
<td>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</td>
<td>• Conduct market reviews every two years to review compensation and adjust bands as required</td>
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<td>4. Invest in more accessible and comprehensive data in the Core and roll out across the BC Public Sector</td>
<td>4. Finalize current review of Provincial model including need to align Employers’ Associations in the Broader Public Sector</td>
<td>• Make ongoing adjustments to models through a standard approval process</td>
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<td>5. Enable a common bargaining approach in the Regional &amp; Local Government</td>
<td>• Cabinet to approve philosophy as required</td>
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<td></td>
<td>6. Conduct a review of current arbitration models</td>
<td>7. Select strategy to create adherence to philosophy and governance model. It is proposed that:</td>
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<td>• 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</td>
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<td>• Where education and setting of expectations do not yield results, use financial levers to directly encourage municipalities to set compensation caps and Government to stop providing funding once</td>
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<td>• With strategy selected, design detailed transition plan to future state, including setting clear timelines as to expectations for Municipality</td>
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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” A, 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 Municipality.

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 Municipality

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

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 the Municipality

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 Municipalities. 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 the Municipality.

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 the Municipality

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. The following options were considered:

Option 1: Provincial Government to issue general compensation guidelines and share expectations around a common philosophy that municipalities 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 Municipality compensation ‘Cabinet’ including representatives from Municipality and representation from the Provincial Government to establish consistent compensation philosophy for the municipalities

- This Municipality 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 the Municipality 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 the local Governments don’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 the Municipality

The Regional and Local model does not have a comparable PSEC or the 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 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 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 AGLG and may be premature to make significant changes to its mandate
- This would face significant opposition from municipalities and unions

Option 2: Empower and create a PSEC equivalent body covering Municipality 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 Municipality

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 the Municipality (e.g. through extending PSEC to cover Municipality 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 the Municipalities and unions

Recommendation:
Option 2 is recommended. It is preferable to provide municipalities 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 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.

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 the Municipality

The Municipality’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 Municipality

- 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 Municipality

- Unlikely to be taken up among municipalities given sense of municipal 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 Municipality 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 the Municipality

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 Municipality, will need to be selected from the spectrum outlined below.

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

1. Educate and set framework of expectations that is clearly communicated
   - Current efforts focus more on total expenditure than compensation
   - Educating and setting a framework of expectations are highly restricted in the Province by data availability
   - Before taking any direct actions, Government should and is expected to, communicate its expectation

2. Support parties in undertaking their own review processes
   - Consider encouraging the Municipality to initiate and operate its own review process as to models for setting compensation and trends in compensation, in order to enable the sector to reach its own conclusions
   - This approach might only serve to cause delay and confusion as to Government expectations

3. Use financial levers
   - There are a number of financial levers available:
     - Tax and expenditure laws
     - Unconditional grant funding could be made conditional
     - Zero base budgeting could be explored
   - Fundamentally, though, evidence suggests municipalities will take all other cost reduction strategies before cutting salaries

4. Legislate changes
   - The Province may amend or issue primary legislation to supersede the Community Charter in order to provide a means to directly control the issue of municipal compensation
   - Such an approach would meet high levels of resistance from unions and municipalities

- It is proposed that:
  - As data and benchmarking capability improves, increase in education and opportunities to set a framework of expectations provide Regional & Local Government with the opportunity to ‘do the right thing’ by complying
  - Where education and setting of expectation do not yield results, use financial levers to directly encourage municipalities to set compensation caps and Government to stop providing funding once cap has been reached
7. Limitations

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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

A  Approach to building the evidence base  45
B  Total Public Sector wages  49
C  Supplementary evidence  51
D  Spectrum of strategies for 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.

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<th>04 Nov</th>
<th>11 Nov</th>
<th>18 Nov</th>
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(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 = 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.

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


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


Appendix A. Approach to building the evidence base


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


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 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)


Appendix B. Total Public Sector wages

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

<table>
<thead>
<tr>
<th>Number of employees across the BC Public Sector (March 2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Social Services</td>
</tr>
<tr>
<td>Crown Corporations</td>
</tr>
<tr>
<td>Colleges and Institutes</td>
</tr>
<tr>
<td>Universities</td>
</tr>
<tr>
<td>Public Service</td>
</tr>
<tr>
<td>Local general government</td>
</tr>
<tr>
<td>Education</td>
</tr>
<tr>
<td>Health Sector</td>
</tr>
</tbody>
</table>

Sources:
- Data point for Local general Government: Statistics Canada, “Public sector employment, wages, salaries, seasonally unadjusted and adjusted, monthly” (Mar 2012)
- All data points except Local general Government: PSEC, “Ministry of Finance” (2013)

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
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.

![Bar chart showing total wages and salaries for public sector employees from January 2011 to December 2011.](chart)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total cost ($BN)</th>
<th>Per capita cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Social Services</td>
<td>131</td>
<td>131</td>
</tr>
<tr>
<td>Colleges and Institutes</td>
<td>240</td>
<td>240</td>
</tr>
<tr>
<td>Crown Corporations</td>
<td>415</td>
<td>415</td>
</tr>
<tr>
<td>Universities</td>
<td>415</td>
<td>415</td>
</tr>
<tr>
<td>Local general government</td>
<td>524</td>
<td>524</td>
</tr>
<tr>
<td>Public Service</td>
<td>524</td>
<td>524</td>
</tr>
<tr>
<td>Education</td>
<td>1004</td>
<td>1004</td>
</tr>
<tr>
<td>Health Sector</td>
<td>2772</td>
<td>2772</td>
</tr>
</tbody>
</table>

Sources:
- Data point for Local general Government: Statistics Canada, “Public sector employment, wages, salaries, seasonally unadjusted and adjusted, monthly” (Mar 2012)
- All data points except Local general Government: PSEC, “Ministry of Finance” (2013)

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)

**Poll Question: Taxpayers can’t afford to pay more to Government employees (BC respondents)**

![Poll question chart showing the percentage of respondents who agree or disagree with the statement.](chart)

Source: Canadian Taxpayers Federation, “Rein in the Crowns” (2013)
Appendix C-1. Analysis of Census data

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

<table>
<thead>
<tr>
<th>Comparison of Provincial and Regional and Local compensation - Management (2006)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Provincial</strong></td>
</tr>
<tr>
<td>Managers in Public Administration</td>
</tr>
<tr>
<td>Managers in Health, Education, Social and Community Services</td>
</tr>
<tr>
<td>Managers in Financial and Business Services</td>
</tr>
</tbody>
</table>

In all but three of the thirteen job categories reported in Census 2006 data under Business, Finance and Admin occupations, Municipality 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.

### Comparison of Provincial and Regional and Local compensation – Finance and Admin (2006)

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Provincial</th>
<th>Regional and Local</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mail and Message Distribution Occupations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Equipment Operators</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secretaries, Recorders and Transcriptionists</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Library, Correspondence and Related Information Clerks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clerical Occupations, General Office Skills</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance and insurance clerks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance and Insurance Administrative Occupations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative Support Clerks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recording, Scheduling and Distributing Occupations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative and Regulatory Occupations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clerical Supervisors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditors, Accountants and Investment Professionals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources and Business Services Professionals</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


**KEY**
- Blue: Provincial
- Red: Regional and local

**Number of provincial respondents**

**Number of Regional and Local respondents**

*a 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, Municipality respondents reported receiving higher compensation from their employer than Provincial Government respondents. Provincial compensation is higher for only four of the job categories reported.

### Comparison of Provincial and Regional and Local compensation – Natural Science (2006)

<table>
<thead>
<tr>
<th>Category</th>
<th>Provincial</th>
<th>Regional and Local</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical Science Professionals</td>
<td>165</td>
<td></td>
</tr>
<tr>
<td>Mathematicians, Statisticians and Actuaries</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Other Engineers</td>
<td>155</td>
<td></td>
</tr>
<tr>
<td>Technical Occupations in Architecture, Drafting, Surveying and Mapping</td>
<td>170</td>
<td>340</td>
</tr>
<tr>
<td>Technical Occupations in Electronics and Electrical Engineering</td>
<td>20</td>
<td>120</td>
</tr>
<tr>
<td>Technical Occupations in Life Sciences</td>
<td>1250</td>
<td>300</td>
</tr>
<tr>
<td>Technical Occupations in Civil, Mechanical and Industrial Engineering</td>
<td>45</td>
<td>290</td>
</tr>
<tr>
<td>Technical Occupations in Computer and Information Systems</td>
<td>315</td>
<td>180</td>
</tr>
<tr>
<td>Life Science Professionals</td>
<td>1180</td>
<td>80</td>
</tr>
<tr>
<td>Computer and Information Systems Professionals</td>
<td>1285</td>
<td>430</td>
</tr>
<tr>
<td>Other Technical Inspectors and Regulatory Officers</td>
<td>375</td>
<td>870</td>
</tr>
<tr>
<td>Architects, Urban Planners and Land Surveyors</td>
<td>115</td>
<td>865</td>
</tr>
<tr>
<td>Technical Occupations in Physical Sciences</td>
<td>90</td>
<td>100</td>
</tr>
<tr>
<td>Civil, Mechanical, Electrical and Chemical Engineers</td>
<td>235</td>
<td>620</td>
</tr>
</tbody>
</table>


### Key

- **Provincial**
- **Regional and Local**

A Data assumed to include base salary only
Appendix C-1. Analysis of Census data

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

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Provincial</th>
<th>Regional and Local</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paralegals, Social Service Workers and Occupations in Education and Religion, n.e.c.</td>
<td>1615</td>
<td>470</td>
</tr>
<tr>
<td>Psychologists, Social Workers, Counsellors, Clergy and Probation Officers</td>
<td>2320</td>
<td>50</td>
</tr>
<tr>
<td>College and Other Vocational Instructors</td>
<td>100</td>
<td>60</td>
</tr>
<tr>
<td>Policy and Program Officers, Researchers and Consultants</td>
<td>1675</td>
<td>860</td>
</tr>
<tr>
<td>Judges, Lawyers and Quebec Notaries</td>
<td>1110</td>
<td>55</td>
</tr>
</tbody>
</table>


Income A

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.¹

<table>
<thead>
<tr>
<th>Date</th>
<th>Mandate</th>
<th>Applies to...</th>
<th>Key features...</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>Net Zero Mandate</td>
<td>All public sector employers whose collective agreements expired on or after 2009.</td>
<td>Collective agreements that expired in 2010 or 2011 and that have not yet been renegotiated must meet the Net Zero Mandate for two years. While there are outstanding agreements still being negotiated with some unions under the 2010 mandate, virtually all of BC's public sector collective agreements covered by the 2010 mandate are now settled for two years of net zero. Under the 2010 Mandate, negotiators are seeking to move money from one part of the collective agreement to another — any improvements in the collective agreements have to be offset by savings in other compensation areas.</td>
</tr>
<tr>
<td>2010</td>
<td>Cooperative Gains Mandate</td>
<td>All public sector employers whose collective agreements expire on or after 2011.</td>
<td>The key feature of the Cooperative Gains Mandate is that it provides public sector employers with the ability to negotiate modest wage increases made possible by productivity increases within existing budgets. Settlements under the Cooperative Gains Mandate are expected to be unique and differentiated between sectors and between employers in some sectors as each will depend on a number of factors, particularly the ability to generate savings to fund modest compensation improvements.</td>
</tr>
<tr>
<td>2012</td>
<td>Economic Stability Mandate</td>
<td>All public sector employers with unionized employees whose collective agreements expire on or after 2013.</td>
<td>The mandate provides employers the ability to negotiate longer-term agreements within a fixed fiscal envelope and offers public sector employees an opportunity to participate in the Province’s economic growth through the Economic Stability Dividend – if actual real GDP growth is one percentage point above forecast real GDP growth, then a 0.5 percent wage increase would result, beyond whatever wage increase had been negotiated in the contract. Settlements are expected to be unique between sectors and reflect Government’s priorities of having labour stability and affordable service delivery throughout BC.</td>
</tr>
</tbody>
</table>

**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

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.

---

**Development of executive compensation plans in the Broader Public Sector**

**Cabinet and Minister**
- Policy approved
  - Yes: Exec Comp Plan approved
  - No: PSEC

**PSEC**
- Executive comp policy developed
  - No: Policy Drafted
  - Yes: Employer Exec Comp Plan

**Employer**
- Develop Executive Compensation plan
- Implementation of comp Plan

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

<table>
<thead>
<tr>
<th>Cabinet and Minister</th>
<th>PSEC</th>
<th>Employers’ Association</th>
<th>Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mandate approved</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>Mandate concept developed</td>
<td>Employer Guide to Mandate (EGM)</td>
<td>Employer Guide to Mandate (EGM)</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>Develop Bargaining Plan</td>
<td>Develop Bargaining Plan</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>Bargaining Plan</td>
<td>Bargaining Direction Letter</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Barg. Plan Approved</td>
<td>Bargaining Direction Letter</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>Bargaining Commences</td>
<td>Bargaining Commences</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bargaining Commences</td>
<td>Bargaining Commences</td>
</tr>
</tbody>
</table>

**Setting the mandate for unionized bargaining in the Broader Public Sector**

- Cabinet and Minister
- PSEC
- Employers’ Association
- Employer

- Mandate approved
- Mandate concept developed
- Development of policy
- Employer Guide to Mandate (EGM)
- Develop Bargaining Plan
- Bargaining Direction Letter
- Bargaining Commences
## Appendix C-5. Compensation philosophies applied by the Broader Public Sector entities

<table>
<thead>
<tr>
<th>Organization</th>
<th>Comparators</th>
<th>Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vancouver School District</td>
<td>Labour market includes other BC school districts, other Canadian school districts, other public sector organizations, selected private sector organizations</td>
<td>50th</td>
</tr>
<tr>
<td>Greater Victoria</td>
<td>No publicly available compensation philosophy found</td>
<td></td>
</tr>
<tr>
<td>Kamloops School District</td>
<td>BC School districts with 10,001 to 20,000 FTE students</td>
<td>75th</td>
</tr>
<tr>
<td>Simon Fraser University</td>
<td>Undefined</td>
<td>N/A</td>
</tr>
<tr>
<td>University of British Columbia</td>
<td>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</td>
<td>N/A</td>
</tr>
<tr>
<td>Douglas College</td>
<td>Other post secondary and public sector employers</td>
<td>N/A</td>
</tr>
<tr>
<td>Northern Lights College</td>
<td>Post secondary industry</td>
<td>50th</td>
</tr>
<tr>
<td>Vancouver Island Health Authority, Provincial Health Services Authority, Interior Health Authority</td>
<td>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</td>
<td>50th</td>
</tr>
<tr>
<td>Northern Health Authority</td>
<td>Undefined targeted market</td>
<td>50th</td>
</tr>
<tr>
<td>BC Hydro</td>
<td>BC Hydro target market includes other Canadian electric utilities and general industry companies of a similar size which includes public and private sector organizations</td>
<td>50th</td>
</tr>
<tr>
<td>BC Assessment Authority</td>
<td>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</td>
<td>50th</td>
</tr>
<tr>
<td>BC Pavilion Corporation</td>
<td>Undefined market</td>
<td>75th</td>
</tr>
<tr>
<td>Insurance Corporation of British Columbia</td>
<td>In 2012, ICBC’s comparator market included Canadian public and casualty insurance companies (including SGI and MPI), Canadian public sector and general industry companies</td>
<td>50th</td>
</tr>
</tbody>
</table>
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”\(^1\). The diagram below indicates the principal parties involved in the Provincial Government model.

---

*BC Ferries, BCIMC do not fall under the Public Sector Employers’ Act*
*Each employer will have its own collective agreement with unions – each agreement may include different provisions for benefits, salary and other benefits*
*Public Service Agency is responsible for some smaller Crowns such as the British Columbia Pension Corporation and Destination BC*
*Numbers in the diagram above indicate number of organizations for which EA is responsible – additional entities exist*
Appendix C-6. Models in the Municipality

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

<table>
<thead>
<tr>
<th>Organizations involved in setting the compensation in the Municipality</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Government prerogative to direct public sector compensation</td>
</tr>
<tr>
<td>No body for setting and coordinating strategic direction</td>
</tr>
</tbody>
</table>

- **(1) Municipal Government**
  - 160 municipalities

- **(2) Regional Government**
  - 28 regional districts

- **(3) Fire services**
  - 152 fire departments

- **(4) Police Services**
  - 11 police forces

- **(5) TransLink**
  - 1 organization

Unions and employees

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

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.

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

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:

(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

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

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.”

1 BC Laws, “Coastal Ferry Act” (2014)
Appendix C-9. Case studies around Municipality 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.

<table>
<thead>
<tr>
<th>Maple Ridge Case Study: Council compensation</th>
<th>Case study: Examples of wage control</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.”</td>
<td>• In 2014, the city council in Calgary froze its own salaries and held non union wages to a 1.8% increase for 2014 ¹</td>
</tr>
<tr>
<td>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.</td>
<td>• Edmonton is considering a wage freeze for its workers to keep taxes down in 2013 ²</td>
</tr>
<tr>
<td>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</td>
<td>• In New Brunswick, city employees including the police department, have agreed to a two-year wage freeze in 2012 ³</td>
</tr>
</tbody>
</table>


Sources:
¹ Calgary Hearald, “Council freezes their own salaries” (2013)
² CBC, “Wage freeze needed for city workers” (2013)
³ CBC, “Saint John firefighters win pay hike in arbitration” (2012)
Appendix C-10. PSEC, and the Public Service Agency provide advice, coordination and enforcement in the Provincial Government & AGLG audits Local Government

Public Sector Employers’ Council: 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 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

Public Service Agency: Under a provision pertaining to “personnel management in the public service,” the Public Sector Act defines the 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 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 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”.

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”. AGLG will therefore only comment on the quality of policy implementation. AGLG will also provide non-binding recommendations to the audited local Governments through publically released reports.²

While 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.

¹ Government of BC, “Public Sector Employers 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.

<table>
<thead>
<tr>
<th>Province</th>
<th>Oversight body</th>
<th>Enforcement mechanism(^\text{a})</th>
<th>Provincial Government / private wage differential(^\text{1})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yukon</td>
<td>Government of Yukon</td>
<td>No legislated enforcement mechanism or coordination.</td>
<td></td>
</tr>
<tr>
<td>Northwest Territories</td>
<td>Territorial Government</td>
<td>Public Service Act for the GNWT; Canada Labour Code for the two separate school boards (The two local school boards are not part of the public service and negotiate their own contracts); No legislated enforcement mechanism or coordination.</td>
<td></td>
</tr>
<tr>
<td>Newfoundland</td>
<td>Provincial Government</td>
<td>Labour Relations Act</td>
<td></td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>Provincial Government</td>
<td>No legislated enforcement mechanism or coordination.</td>
<td></td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>Public Service Commission</td>
<td>Limited coordination: NS Public Service Commission (&quot;Public Service Act&quot;) encompasses broad public sector - not bargaining agent - provides strategic advice and input; gains authority and enforcement mechanism through a variety of Acts.</td>
<td></td>
</tr>
<tr>
<td>New Brunswick</td>
<td>Board of Management (Cabinet Committee)</td>
<td>Limited public sector, but centrally coordinated; limited legislated authority in the “Public Service Labour Relations Act”.</td>
<td></td>
</tr>
<tr>
<td>Quebec</td>
<td>Treasury Board Secretariat</td>
<td>Government sets mandates and co-ordinates bargaining; most centralized province outside of BC; governed by legislation “Act Respecting the Process of the Negotiation of Collective Agreements in the Public and Parapublic Sectors”</td>
<td></td>
</tr>
<tr>
<td>Ontario</td>
<td>Labour Relations Secretariat (Ministry of Government Services)</td>
<td>Highly decentralized - employers and unions negotiate directly; Government has a difficult time coordinating bargaining. The Labour Relations Secretariat has been established to coordinate bargaining; has been engaging in ongoing consultations with BC for a PSEC-like structure in Ontario.</td>
<td></td>
</tr>
<tr>
<td>Manitoba</td>
<td>Compensation Committee of Cabinet</td>
<td>Sets mandates; central oversight; no legislated enforcement mechanism or coordination.</td>
<td></td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>Personnel Policy Secretariat (Ministry of Human Services)</td>
<td>Sets mandates; centrally co-ordinates bargaining, but still carried out by local employers; no legislated enforcement mechanism or coordination.</td>
<td></td>
</tr>
<tr>
<td>Alberta</td>
<td>Treasury Board/ Committee for Strategic Management</td>
<td>Sets mandates; uses funding authority to influence bargaining; no legislated enforcement mechanism or coordination.</td>
<td></td>
</tr>
<tr>
<td>British Columbia</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^\text{a}\) Jurisdictional review conducted by PSEC

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. 

### Objectives of the review

- Set maximum caps for CEOs and ensure all other executive salaries are less than that in each Crown
- Eliminate bonuses. Implement salary holdbacks within a maximum base salary
- Limit generic perquisites to transportation allowances and only provide such an allowance where appropriate
- 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
- Where bonuses are now present, an implementation plan to move to holdbacks to be provided to PSEC secretariat
- 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
- 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
- Holdbacks should be phased out below executive level. In general holdbacks should be used for executive only
- 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
- 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
- Transportation allowances are permitted
- 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

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1 Crown Corporation Executive Compensation Policy (2012)
Appendix C-13. The Regional and Local model does not have a comparable PSEC or the Public Service Agency model

The following analysis presents the wage differential between Municipality employees and Municipal Government employees across Canadian jurisdictions. BC is a ‘middle of the pack’ performer.

Municipality / private wage differential ¹

Case study: Saskatchewan

The Rural municipal Administrators’ Association of Saskatchewan issues a suggested salary schedule that is deemed to represent fair remuneration for the majority of municipalities. The schedule is meant to be a guideline for municipalities.


Case study: Ontario

In 2010, the Ontario Finance Minister encouraged municipalities across the Province to freeze compensation, adding that no money for increases would be budgeted in the grants the province makes to the municipalities to help meet their expenses.

The Finance Minister said “There will be difficult bargaining ahead, but municipalities can certainly pursue a course of action that involves freezing salaries for non-bargained employees, and... for the Broader Public Sector,” he said. “We will not be funding increases in overall compensation.”

The Association of municipalities Ontario, “Finance Minister Encourages municipalities to Freeze compensation” (2010)

Appendix C-14. Employers’ Association – Municipality 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.”

Appendix C-15. Size of unions in the Municipality sector

Unions for Local Government Employees

New Westminster Public Library Staff Association
International Alliance of Theatre and Stage Employees
Amalgamated Transit Union
Canadian Auto Workers Union
International Brotherhood of Electrical Workers
United Steelworkers
Teamsters
BC Government Employees Union
Greater Vancouver Regional District Employee Union
West Vancouver Municipal Employees Union
Police
Firefighters
Canadian Union of Public Employees

Source: Sean O'Melllnn, interviews (2007)
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. 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

1 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

<table>
<thead>
<tr>
<th>Case Studies¹</th>
<th>US Case Study: Impact of arbitration</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>In the US some states are governed by arbitration laws and others are not.² A nationwide US study examined the effects of arbitration on police and firefighter wages, and concluded that:</td>
</tr>
<tr>
<td>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.</td>
<td>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.</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Arbitration under the Fire and Police Services Collective Bargaining Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>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:</td>
</tr>
<tr>
<td>▶ Terms and conditions of employment for employees doing similar work</td>
</tr>
<tr>
<td>▶ The need to maintain internal consistency and equity amongst employees</td>
</tr>
<tr>
<td>▶ Terms and conditions of employment for other groups of employees who are employed by the employer</td>
</tr>
<tr>
<td>▶ 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</td>
</tr>
<tr>
<td>▶ The interest and welfare of the community served by the employer and the employees as well as any factors affecting the community</td>
</tr>
<tr>
<td>▶ Any other factor that the arbitrator or arbitration board considers relevant</td>
</tr>
<tr>
<td>▶ In addition, The minister may specify terms of reference for an arbitration.</td>
</tr>
</tbody>
</table>


¹ 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)
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).

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.

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.

2 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
   
   1 Human Resources and Skills Development Canada, “Negotech” (2013)

   ► The BC Bargaining database as maintained by the Business Council of British Columbia
   
   2 BC Bargaining Database (2013)

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.
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.

<table>
<thead>
<tr>
<th>Data sources</th>
<th>Legislated sources of information &gt;&gt;&gt;&gt;</th>
<th>Executive data (Public Sector Employer Act)</th>
<th>Management &amp; Exec. Data A (Financial Information Act)</th>
<th>Bargaining unit data (Wage settlements)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cover all arms of Government</td>
<td>Provincial Government only</td>
<td>Provincial Government and Municipality</td>
<td>Provincial Government and Municipality</td>
<td>General settlements only – no employee level information</td>
</tr>
<tr>
<td>Reported for all employees</td>
<td>CEO and next four earning &gt;$125k</td>
<td>All employees earning &gt;$75k, which can be assumed to cover executives and management²</td>
<td>General settlements only – no employee level information</td>
<td></td>
</tr>
<tr>
<td>All elements of total compensation reported</td>
<td>Total compensation including benefits</td>
<td>Wages and performance incentives</td>
<td>% increase in wages and salaries</td>
<td></td>
</tr>
<tr>
<td>Information provided on full time equivalency of employees</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Job description of employee</td>
<td>Job title only, but in the case of those covered, this provides adequate information</td>
<td>Job title only – in the case of those covered this does not provide adequate information</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Information provided to the Government in electronic format</td>
<td>Yes - the information is provided through web-based submission</td>
<td>No - Challenging to collect and analyse</td>
<td>No – Challenging to collect and analyse</td>
<td></td>
</tr>
<tr>
<td>Data provided with reasonable frequency</td>
<td>Annually</td>
<td>Annually</td>
<td>With settlement</td>
<td></td>
</tr>
</tbody>
</table>

² Note that data reported under the Financial Information Act may include information on employees covered by collective agreements
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\(^1\) 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

\(^1\) 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’.

The US created a pay “Czar” in response to high private sector CEO compensation (in federally supported institutions)

The Czar has authority to oversee pay for the 100 highest paid employees at those companies

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”

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

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

CCGG recommends that boards voluntarily add to each annual meeting agenda a shareholder advisory vote on the company’s report on executive compensation

“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”


1 The Wall Street Journal, “Pay Czar gets broad authority over executive compensation” (2009)
## Appendix C-23. Public / private compensation differential across Canada

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

<table>
<thead>
<tr>
<th>Source</th>
<th>Data used</th>
<th>Included benefits</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gunderson</td>
<td>Canadian Census data (1971)</td>
<td>No</td>
<td>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</td>
</tr>
<tr>
<td>Shapiro and Stelcner</td>
<td>Canadian Census data (1980)</td>
<td>No</td>
<td>Found a 4.2% public sector premium for males across Canada; and a 12.2% public sector premium for females</td>
</tr>
<tr>
<td>Gunderson</td>
<td>LFS (1997) and Canadian Census data (1971, 81, 91, 96)</td>
<td>No</td>
<td>Found a 7.5% to 9.0% public sector premium across Canada</td>
</tr>
<tr>
<td>Prescott and Wandschner</td>
<td>Canada’s Survey of Consumer Finances (1990)</td>
<td>No</td>
<td>Found a 14.3% public sector premium for males across Canada and a 25% public sector premium for females</td>
</tr>
<tr>
<td>Mueller</td>
<td>Labour Market Activity Survey (From 1988 to 1990)</td>
<td>No</td>
<td>Found an overall public sector wage premium of 3.3% for males across Canada and 11.3% 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 &amp; 6.6% for females</td>
</tr>
<tr>
<td>Gunderson, Hyatt, and Riddell</td>
<td>Labour Force Survey 1997, Census 1996, regression analysis</td>
<td>No</td>
<td>Found a public sector pay premium across Canada of 7% to 11%</td>
</tr>
<tr>
<td>Institut de la Statistique du Québec</td>
<td>Comparisons with various different groups (1999-2010)</td>
<td>Yes</td>
<td>Found that in Quebec public sector workers were paid on average 7% less than comparable private sector peers</td>
</tr>
<tr>
<td>CFIB</td>
<td>Census data (2006)</td>
<td>Yes</td>
<td>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”</td>
</tr>
<tr>
<td>CUPE</td>
<td>Canadian Census data (2006)</td>
<td>No</td>
<td>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”</td>
</tr>
<tr>
<td>Tiagi</td>
<td>Labour Force Survey data (2008)</td>
<td>No</td>
<td>Found a 5.4% public sector premium for men across Canada and a 19.8% premium for women</td>
</tr>
<tr>
<td>Fraser Institute</td>
<td>Labour Force Survey (April 2011)</td>
<td>No</td>
<td>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”</td>
</tr>
<tr>
<td>Watson Wyatt and Hay Associates</td>
<td>Independent studies of specific jobs</td>
<td>No</td>
<td>Found higher pay for lower classifications but lower pay at the executive level of the federal public service</td>
</tr>
</tbody>
</table>
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 Local Government
Select strategy to create adherence to philosophy and governance mode

In detailed design, the strategy pertaining to Municipality, will need to be selected from the spectrum outlined below.

| Select level of central Government involvement (See Appendix D for further information on options) |
|----------------------------------|--------------------------------------------------|--------------------------------------------------|--------------------------------------------------|--------------------------------------------------|
| 1. Educate and set framework of expectations that is clearly communicated | 2. Support parties in undertaking their own review processes | 3. Use financial levers | 4. Legislate changes |
| ▶ Current efforts focus more on total expenditure than compensation | ▶ Consider encouraging the Municipality to initiate and operate its own review process as to models for setting compensation and trends in compensation, in order to enable the sector to reach its own conclusions | ▶ There are a number of financial levers available: Tax and expenditure laws | ▶ The Province may amend or issue primary legislation to supersede the Community Charter in order to provide a means to directly control the issue of municipal compensation |
| ▶ Educating and setting a framework of expectations are highly restricted in the Province by data availability | ▶ This approach might only serve to cause delay and confusion as to Government expectations | ▶ Unconditional grant funding could be made conditional | ▶ Such an approach would meet high levels of resistance from unions and municipalities |
| ▶ Before taking any direct actions, Government should and is expected to, communicate its expectation | | ▶ Zero base budgeting could be explored | |

• It is proposed that:

• As data and benchmarking capability improves, increase in education and opportunities to set a framework of expectations provide Regional & Local Government with the opportunity to ‘do the right thing’ by complying

• Where education and setting of expectation do not yield results, use financial levers to directly encourage municipalities to set compensation caps and Government to stop providing funding once cap has been reached
Appendix D. Spectrum of strategies for 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.¹

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 municipalities struggle to find adequate data on compensation in municipalities.

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

<table>
<thead>
<tr>
<th>BC’s 10 Worst Performing Municipalities in 2011</th>
<th>Listed from Largest to Smallest 2010 - 2011 Spending Increases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipality</td>
<td>2010-2011 Change in Real Municipal Operating Spending per Capita (%)</td>
</tr>
<tr>
<td>Stewart</td>
<td>58</td>
</tr>
<tr>
<td>Dawson Creek</td>
<td>21</td>
</tr>
<tr>
<td>Telkwa</td>
<td>20</td>
</tr>
<tr>
<td>Chetwynd</td>
<td>20</td>
</tr>
<tr>
<td>Hope</td>
<td>17</td>
</tr>
<tr>
<td>Silverton</td>
<td>16</td>
</tr>
<tr>
<td>Sooke</td>
<td>15</td>
</tr>
<tr>
<td>Comox</td>
<td>14</td>
</tr>
<tr>
<td>Mission</td>
<td>13</td>
</tr>
<tr>
<td>Surrey</td>
<td>13</td>
</tr>
</tbody>
</table>

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

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.

Appendix D. Spectrum of strategies for Local Government

Explore using financial levers to influence municipal 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. 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:

1. 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.

2. “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.”

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Unconditional grant funding could be made conditional

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

The Provincial Government could consider making this grant funding conditional on municipalities 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.

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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. 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%)

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.¹

Appendix D. Spectrum of strategies for Local Government
Legislate changes

Municipalities are “creatures of the Province” and can be directed by the Provincial Government. The Government should flex and consider potentially executing this right.

The Community Charter is built on the principle of municipalities being responsible and accountable.¹ If the Provincial Government has strong evidence to believe that municipalities have failed to act in a financial 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, the Government may wish to raise the possibility of – and worst case scenario, actually execute on - infringement on municipal autonomy.

As stated in section 92(8) of the Canadian Constitution, municipal affairs come under the exclusive jurisdiction of the Provinces. Municipalities are created by provincial legislation and it is the 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,”² and if the Provincial Government so wishes it may amend or issue primary legislation to supersede the Community Charter in order to provide a means to directly control the issue of municipal 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 municipal 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.

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