

Date: May 30, 2006



TO: Board Members – Vancouver Park Board
FROM: General Manager – Parks and Recreation
SUBJECT: Ethical Purchasing Policy Experience and Amendment

RECOMMENDATION

THAT the Board amend the Ethical Purchasing Policy to allow different treatments for products being sold to the public and those for internal use as outlined in this report.

POLICY

As a public body, the Park Board is required to conduct its purchasing process in an equitable and transparent manner. The Board's purchasing process in acquiring goods and services is subject to the policies laid down by the Park Board and City of Vancouver By-Laws. To assist in ensuring that the Board's purchases are equitable and transparent, the Board has adopted a number of detailed purchasing policies which apply to specific circumstances. The Ethical Purchasing Policy (EPP) is one of these and provides guidelines to be used in selecting suppliers of apparel items and fair trade agricultural products, including coffee.

According to the EPP (see Appendix I for the full policy), the goal of the EPP "is to ensure that all suppliers to the City meet, at a minimum, the performance standards outlined in the Supplier Code of Conduct (SCC) which includes core labour conventions of the International Labour Organization (ILO). It demonstrates a commitment to sustainability by seeking to ensure safe and healthy workplaces for the people who make products for the City of Vancouver, where human and civil rights are respected".

The EPP defines the SCC as "the minimum performance standards for the City of Vancouver's Ethical Purchasing Policy". In implementing, ensuring compliance and monitoring the EPP, the "SCC will be one of the criteria in the overall evaluation process ... In choosing new or potential suppliers, the City will give preference to suppliers who are already in compliance with SCC standards over those who are not", and "compliance with the SCC will become part of the City's supplier evaluation process (along with other factors including service and performance)". In reporting and evaluation of the EPP, "where the City has knowingly entered into, or maintained contracts with suppliers and their subcontractors who do not fully comply with the EPP, these exceptions will be reported to Council along with a rationale for maintaining the ongoing relationship.

The SCC itself states that “The City will apply its SCC as one of the criteria used in its selection of business partners and suppliers for apparel and certified fair trade agricultural products. It is a requirement that all City suppliers and their subcontractors/suppliers follow this code”.

BACKGROUND

Council approved the EPP on February 17, 2005, including an additional \$246,000 for the Park Board operating budget for full year coverage of additional costs and revenue impacts related to the introduction of the EPP. Subsequent to Council’s approval, the Park Board approved the implementation of the EPP and SCC at its meeting of February 28, 2005. The policy covers all City departments and the Park Board and applies to the procurement of apparel items and fair trade agricultural products, including coffee.

On April 6, 2006, during the approval process for the 2006 Operating Budget, Council withdrew funding support for the implementation of the EPP. This included the funds for the one City full-time employee position working specifically on the implementation of the EPP, which was also acting as a resource to all City departments. For the Park Board, the \$246,000 in support for additional costs and reduced revenues was discontinued.

Given that the EPP is still in effect, any costs resulting from the continued implementation of the EPP are being absorbed within current approved budgets and current staffing levels. Should there be any issues arising out of contractor compliance of the SCC, the onus of dealing with these issues will fall upon the user departments.

DISCUSSION

Park Board Experience with the Ethical Purchasing Policy

A comparison was done of products purchased during the 12 months prior to implementation of the EPP and the 12 months after implementation of the EPP.

Non-Food Purchases

The EPP covers the purchase of apparel items (including clothing and uniforms). In a joint City of Vancouver proposal for uniforms, savings were realized due to the combined quantities from Animal Control, By-Law Enforcement, Police, Fire and Rescue Services, Parking Enforcement, Corporate Services Security, and the Vancouver Park Board. The Park Board portion of this contract was awarded to two suppliers and is projected to save approximately \$3,500 per year over the four year contract. Contractors have complied with the conditions of the SCC.

Food Purchases

During the first year of implementation of the EPP, the Board purchased the following agricultural fair trade products: bulk sugar, sugar portion packets, hot chocolate, portion pack ground coffee and coffee beans. While fair trade chocolate bars (large size) were also purchased, the Board had not previously purchased chocolate bars for resale in this larger size so valid comparisons cannot be made.

Pricing was higher for all fair trade products purchased other than coffee. However, the Park Board purchased lower quantities of all items (again, except coffee). In looking at coffee impacts, for the three year period April 1, 2002 - March 31, 2005, the coffee purchased for sale was from a high profile coffee company in an effort to generate increased sales. With the introduction of the EPP, the Board reverted back to a more mainstream coffee company using fair trade products effective April 1, 2005. Looking only at costs, savings were approximately 40%.

In looking only at the cost side, the Park Board experienced an overall cost-savings after implementation of the EPP. Given that prices for all commodities purchased except coffee were higher after the EPP, at least a portion of the cost savings must be linked to the lower quantities of products purchased. Possible factors resulting in lower quantities being purchased include:

- fewer visitors to the concessions and clubhouses (which can be affected by weather, economic issues, tourism, changing trends, changes in products offered for sale);
- fewer purchases per visitor;
- changes in the mix of products purchased by visitors;
- changes in customer preferences for products available for purchase;
- changes in the quality and taste of products available for purchase;
- the stock on-hand in April when the changeover to new suppliers was carried out.

When looking at the Park Board's experience with the purchase and sale of fair trade products, there are two effects to consider: changes in costs of products purchased and changes in the revenues generated from the sale of those purchases. It is important to examine both sides, since the Park Board concession operations are expected to generate a net profit, with the surplus used to subsidize other park and recreation programs.

The table below provides a comparison of the concession revenues generated over the past three years:

Park Board Concessions Revenue	Budget	Actual	Surplus/(Deficit)
2003	2,715,600	2,801,204	85,604
2004	2,780,000	2,831,837	51,837
2005	2,877,200	2,740,603	(136,597)

As noted in the table above, concession operations went from generating surpluses beyond their revenue targets of \$85,604 in 2003 and \$51,837 in 2004, to falling short of the target by \$136,597 in 2005. This is a change of over \$188,000 in one year and over \$222,000 between 2003 and 2005. Given that concession prices were raised to cover inflationary increases in costs, if everything had remained the same the Park Board should have been able to generate additional revenues, not see a decline in actual revenues of over \$90,000 from the previous years.

Overall Impact of EPP

With less than 12 months of experience in applying the new policy, the impact of implementing the EPP is not clear. While there will be some small cost-savings on clothing purchases, given the relatively small volume the overall impact to the Park Board is negligible. The significant impact to the Board comes from the purchase of fair trade agricultural products, due to their volume and sales impacts.

Recommendations for the Future of EPP

It is expected that over time the cost of fair trade items will come down, as has been the case with the purchase of recycled paper. When the Board first began purchasing recycled paper not only were prices higher, but the required quantities were not available. With the increase in suppliers providing recycled paper, the issue of availability no longer exists and the cost of recycled paper has been brought in line with virgin stock.

While in the future the costs for fair trade certified agricultural products may be comparable to non-certified products, at this time fair trade certified products, in general, cost more than non-certified products. Given the withdrawal of funding support by Council, the Board must decide how reduced revenues and additional costs will be offset in order to ensure a balanced financial position at the end of the year.

If the Board continues to exclusively purchase certified fair trade agricultural products (including new items as they become certified) without funding being available to offset additional costs or loss of revenues, then the additional costs will either need to be passed on to product purchasers (who may choose to take their business elsewhere) or come from other park and recreation programs (as net revenues generated from concessions are reduced).

In making a decision on this issue, it is imperative to consider the role and importance of providing customer choice in the provision of concession services to the public. Given the number of competing options for food purchasers, if Park Board customers do not like the products offered or do not feel they receive adequate value for the price of their purchase, they will choose another provider. With the introduction of the EPP as currently applied, the Board has limited the choices available to customers by insisting on the exclusion of non-fair trade certified products.

In order to improve customer services, manage impacts on revenues and costs, and continue the implementation of the EPP, staff recommend that:

- the EPP be used in all applicable contracts, but that it not be an overwhelming factor in the award;
- the Board allow non-certified agricultural products to be offered for sale so that the consumer has more choices; and
- the EPP be applied differently for products which are being resold to the public from those that are not.

These recommendations would be applied as follows:

When contracting for products where customer choice is not an issue, i.e. those not for resale to the public, the EPP can continue to be applied in the current manner.

When contracting for products where customer choices are impacted, i.e. resale items (including agricultural products), bids would be accepted for both fair trade certified products and non-certified products. In determining the award of such contracts, where all factors are generally equivalent, the contracts will be awarded within the parameters of the EPP and SCC. Staff can work within parameters of an agreed to percentage difference in pricing (i.e. 5%-10%). However, for contracts where the products are being resold to the public, should the costs of certified fair trade items be higher than non-certified items, the Board will reserve the right to bypass the EPP and use the criteria of best value to the Board in awarding contracts. This could include a joint award of both certified fair trade and non-certified products for resale, in order to offer more choice to our customers. Justification will be provided to and written approval will be requested from, the Director of Corporate Services or the General Manager when bypassing the use of the EPP in awarding a contract.

A modified policy incorporating the proposed changes is included in Appendix II.

By using this approach, the Park Board remains committed to the EPP, maintains an open, transparent purchasing process, offers more choice to the public and can continue to generate the revenues needed to subsidize other park and recreation programs.

SUMMARY

Staff recommend that the EPP be used in all applicable contracts, but that it not be the overwhelming factor in the award. For products which are not for resale to the public, the EPP can continue to be applied in the current manner. For products purchased for resale to the public, the Park Board would reserve the right to bypass the EPP and use the criteria of best value to the Board in awarding contracts. When bypassing the EPP in awarding a contract, justification will be provided and written approval will be obtained.

This approach allows the Park Board to balance its commitment to serving the public in its provision of park and recreation services while remaining committed to ethical purchasing principles.

This report was reviewed by the Finance Committee at its meeting of May 30, 2006 and it was recommended by the Committee that the Board approve the amended policy as attached in Appendix II.

Prepared by:

Corporate Services
Vancouver Board of Parks and Recreation
Vancouver, BC