

Employee Concerns Regarding the Elimination and Reduction of the Living Cost Differential Component of the Isolated Post Allowance in the Yukon

January 10, 2006

Purpose:

To provide representatives on the Isolated Posts and Government Housing Directive Sub-Committee (IPGHC) of the National Joint Council with Yukon employee issues and concerns about the Living Cost Differential calculations of the Isolated Posts Directive.

Background:

At a meeting of the IPGHC on June 27, 2005, the Sub-Committee approved a Statistics Canada report that resulted in the elimination of the Living Cost Differential (LCD) component of the Isolated Post Allowance for employees based in Whitehorse, Yukon. There were also major reductions in the allowance for other Yukon members residing outside Whitehorse.

Yukon federal employees, including management, were taken aback by this decision, which came without warning and which appears totally unjustified. The LCD allowance has been characterized by drastic fluctuations in recent years – employees are now losing confidence in the method of computation and administration of the LCD and are increasingly frustrated by having to adjust to harsh economic realities of these random take-home pay reductions.

To put things in perspective, the elimination of the LCD is equivalent to \$5407.00 per annum for employees with dependents and \$3244.00 for those without dependents. Put another way, these reductions are equal to \$275.00 to \$420.00 per month, or anywhere from 5 to 25 percent of take-home pay. **For most employees, this cut more than wipes out the last round of increases following the last strike.**

The cuts affect all 800 federal employees in the Yukon - and represent an estimated total loss of 3.5 million dollars to the Yukon's economy.

Employees took immediate action to have the cuts reversed, including direct written appeals to the President of the Treasury Board and several group grievances to the NJC (totalling approximately 400 names).

The only outcome so far has been the announcement by the NJC of a plan to phase in the cuts over 22 months. Despite clear and sound arguments from members refuting the LCD method and its application in the Yukon, the NJC has decided to go ahead with the cuts, rather than wait until the imminent results of the ongoing triennial review.

Needless to say, this is not a satisfactory resolution for affected employees.

Moving Forward

The arguments below form the basis of our opposition to the reductions in the LCD.

Argument 1: Wrong base city

The Treasury Board is using the wrong base city as a comparator. The NJC Directive sets out that “the comparison will be made to the base city most associated with the majority of posts in the region”.

The NJC has been using Vancouver - one of the most expensive cities in Canada - as the Yukon’s base city. It is likely that the base city was selected decades ago, prior to the viability of the Alaska Highway as an efficient trucking route, and at a time when most air and sea links with Vancouver were the most viable transport routes for both goods and people. For similar reasons, Vancouver was, 20 or 30 years ago, considered to be the major point of recruitment for Yukon-based employees.

In the last few decades however, the origin of shipped goods and employees has changed significantly in the Yukon. The Alaska highway has become the primary artery for shipped goods, and Yukon employees originate from many parts of Canada, (including a significant number from the nearby prairie provinces). For five years, daily flights have been available to Calgary and Edmonton as well as Vancouver. It can therefore no longer be unequivocally stated that Vancouver is the city “most associated with the posts” in the Yukon Region, either from the perspective of “point of supply” or “point of recruitment”.

In an effort to clarify the intent of the NJC directive and to lend objectivity to the process of selecting a “base city”, the NJC approved Statistics Canada’s “Detailed Methodology” (see Appendix 1) which sets out that the meaning of the words “most associated with the majority of posts in that Region” found in the NJC Directive would be taken to mean: “the city that is determined to be the major source of supply for the majority of posts within that region”, for the purposes of computing the Living Cost Differential.¹

If the NJC were to apply its own approved methodology for determining base city in the case of the Yukon, it is clear to us that the base city selected would be Edmonton. A comprehensive survey by employees of most major retail outlets in Whitehorse conducted in 2002 (see Appendix 2), clearly establishes that most of the items in the “basket of goods” are shipped from Edmonton. Based on an informal survey of new retail outlets in Whitehorse since 2002, the proportion of goods coming from Edmonton has now increased.

¹ The Detailed Methodology established by Statistics Canada and approved by the NJC, interprets this in two different ways, depending on whether one reads the French or the English version of the Detailed Methodology. In English, it is interpreted to mean: “the city that is determined to be the major source of supply for the majority of posts within that region”. The French version does not reference the notion of “majority” of posts and interprets the directive as: “la ville qui est jugée comme la source d’approvisionnement principale de ce poste” (the city that is determined to be the major source of supply for that post)

For reasons unknown, the NJC has yet to apply its own rules relating to the determination of “base city” for the Yukon, as stated in the “Detailed Methodology”. And this despite having agreed, in response to past NJC grievances on this very matter, that it would look into the determination of base city for the Yukon as part of a future review of the Isolated Post Allowances (see Appendix 3). Instead, the NJC continues to define the post “most associated with” the Yukon as the “major point of recruitment”, which it still considers to be Vancouver.

As far as we know, there is no data to support the view that most employees originate from Vancouver. This is certainly not the sense we get, working side by side with colleagues from all over Canada on a daily basis.

As far as point of supply for goods and services, Statistics Canada has not conducted surveys in relation to the origin of goods in the Yukon, and therefore the NJC has no way to deny the findings of the employees’ 2002 Point of Supply survey.

We are asking the NJC to apply its own rules to the determination of base city for the purposes of the Yukon Living Cost Differential. It is as simple as that.

Argument 2: Unequal treatment of sales tax

The LCD methodology adds GST and PST to the price of goods and services in the Complete Pricing Schedule (Basket of Goods). Since Yukoners pay no territorial sales tax, the price of goods and services relative to Vancouver is thus lower than if both jurisdictions had the same sales tax. This has the effect of decreasing the differential under the LCD.

While Yukoners seem to be saving at the till, the territorial sales tax is in fact “paid” by all Yukoners on a yearly basis, in an unseen way. Federal transfers to the territories are provided to the Yukon net of an imputed amount for the value of a territorial sales tax that could be raised in the Yukon. In short, the Yukon Government and Yukoners alike are penalized for having a low tax effort. For example, this penalty in the 2004-2005 territorial transfer was equal to roughly 43 million dollars or \$4,100 for every household in the Yukon². This loss of revenues is then made up by inferior government services or higher user fees for Yukoners.

Federal employees are therefore doubly penalized, since the Treasury Board compares the post-tax prices of items in Vancouver and the Yukon (perhaps out of ignorance of the Department of Finance’s practice).

For the sake of fairness, the lack of Yukon sales taxes should be treated in the same manner by Finance and Treasury Board. The easiest way to do this would be to

² Based on total 2004-2005 retail, wholesale and restaurant receipts of \$610M * 7% = \$43M. \$43M/10,500 households = 4,100 per household.

compare only the pre-tax price of items in both jurisdictions. Simply using the correct base city would have the same effect, since Alberta has an identical sales tax scheme to the Yukon's. Alternatively, Treasury Board could "impute" a sales tax on items in the "basket", to parallel the Department of Finance's approach.

Argument 3: The LCD method is biased against larger isolated posts

Most Yukoners know that certain items such as automobiles, lumber, household repair products, clothing and furniture are much more expensive than in Vancouver or Edmonton. In their Detailed Methodology, Statistics Canada states, without providing an explanation:

"Several important components of the typical family budget are not included in the LCD measurements. Costs associated with shelter, clothing, furniture and vehicle purchase are not taken into consideration".

It can be surmised that such items are excluded because they are generally not widely available at smaller posts, and are usually shipped by the employer (cars and furniture), provided by the employer (housing and repairs) or purchased when outside the post during the one or two IPA trips (clothing, household items). It may also be that purchases are simply delayed until the end of the posting, which is usually shorter than in a larger post.

Employees generally remain in Whitehorse and other larger posts for longer periods of time than smaller posts. Over the course of time, employees in larger posts will need to replace vehicles, furniture and household items initially shipped by the employer, and do not benefit from government housing, repair and maintenance. These employees therefore face much higher costs for items that are, for the benefit of the smaller posts, excluded from the living cost calculation.

There should be a separate basket of goods for larger isolated posts such as Whitehorse that would assess expenditures on items that are recognized by Treasury Board's own statisticians as being major parts of household budgets. The current basket is biased in favour of smaller centres and does not reflect the reality of living in a larger isolated post.

Argument 4: The survey method results in significant respondent bias

As part of comparing costs, Statistics Canada attempts to determine employee buying patterns by way of a Consumer Information Survey. This informs the relative weighting to be given to the items in the "basket" as well as the relative weights given to different stores. While this survey is meant to be "a representative sample", Statistics Canada has revealed that in its last survey in Whitehorse, only 9 Consumer Information Surveys were filled out. There are approximately 600 federal employees in Whitehorse, and 200 outside Whitehorse. This is a sample size of less than 1.2%.

In addition, surveys seem not to be administered in a random fashion. Rather, appear to have been filled on a voluntary basis by employees who happened to find surveys on coffee tables in lunch rooms. Several long-time Yukon employees were completely unaware of the survey, which suggests that it has been administered in a haphazard fashion for a number of years.

Potential methodological flaws of the sample size and administration method must be examined. Respondent bias has a significant effect on results, if, for example, only those employees who have lunch in the coffee room fill out a survey. For example, one could probably conclude that the “restaurant meals” component of the basket would thereby be seriously underweighted.

Argument 5: Discount/promotion programs are not computed in LCD method

Employees in southern locations are able to benefit from discounts and promotions that simply do not exist in the Yukon. Examples include two for one sales on food items, discounts for bulk purchases or bonus point collection programs. The LCD makes no comparison of Yukon discount or bonus programs (or lack thereof) to the discount or bonus programs of southern locations.

Argument 6: Dual purpose of the IPA

The purpose of the directive is twofold:

- 1) “to facilitate the recruitment and retention of staff delivering government programs in isolated locations, and;
- 2) “to ensure that employees in government housing are treated in a manner equivalent to persons renting similar accommodation from private or commercial sources.”

These two items have lost their individual meaning over the course of time. A heavy focus on statistical calculations to “level the playing field” has been at the expense of the first stated purpose of the IPA allowances – that of recruiting and retaining a highly qualified federal labour force in the north. Not only do the drastic reductions negatively impact the ability to recruit and retain, but the apparently random and drastic fluctuations in take-home pay create a degree of uncertainty and financial insecurity which can be difficult to manage in locations with many fewer employment alternatives.

Argument 7: The LCD margin of error should favour employees

Under its contract with Treasury Board, Statistics Canada agrees not to divulge the exact number of the index it determines for any given location. Due to statistical constraints, confidence is within the 5 percent range at best. Whitehorse has apparently fallen into the category of 110 to 115. This could mean it is at 110.1 or 114.9. Why the secrecy around the actual figure? Presumably, employees who find their location at 114

or above would argue that the standard deviation of the survey should weigh in their favour. Perhaps, given the point raised in Argument 6 above, it should.

Argument 8: Overestimating the Wal-Mart and Superstore effect

It is probably true that the arrival of Wal-Mart in Whitehorse has had an effect on retail prices of certain goods. Pointing to Wal-Mart or Superstore as an explanation for the elimination of the differential is, however, a sign of Treasury Board's superficial analysis and poor advice on the LCD issue. After all, it is the differential in prices that matters, not the absolute levels of prices – and there are many Wal-Marts and Superstores in the Greater Vancouver Regional District, where Stats Can does its price surveys. Thanks to wider availability, prices should be falling there too, leaving the differential intact.

Finally, it is interesting to note that the arrival of Wal-Mart in Yellowknife appears not to have affected the LCD.

Argument 9: Treasury Board's own travel and meal rates reflect a 22% differential

The Treasury Board's travel and meal rates reflect a 22% differential between southern locations and the Yukon (\$57.35 for southern locations and \$69.95 for the Yukon) It should also be noted that from October 1, 2002 to October 1, 2005, the total meal rate increase for the southern locations was 9.7%, while in the Yukon, that increase was 12.5%. Not only does the Treasury Board's own directive reflect the fact that the cost of living is greater in the Yukon than in the south, but it also indicates that over the last three years, the gap appears to be widening rather than shrinking.