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Chair

Mr. Tom Lukiwski

Standing Committee on Government Operations and Estimates

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● (1100)

[English]

The Vice-Chair (Ms. Yasmin Ratansi (Don Valley East, Lib.)): Ladies and gentlemen, we have quorum.

Today's meeting is on the procurement strategy for aboriginal business and small and medium-sized enterprises.

By video conference, we have with us, from the City of Toronto, Mr. Pacholok, the Chief Purchasing Officer, and April Lim, Policy Development Officer, Social Development, Finance, and Administration.

I believe you have some opening remarks.

Mr. Mike Pacholok (Chief Purchasing Officer, Purchasing and Materials Management Division, City of Toronto): Yes, that's right. I have a presentation.

The Vice-Chair (Ms. Yasmin Ratansi): Okay. You have 10 minutes. Please start. Thank you.

Mr. Mike Pacholok: Thank you very much for giving us this opportunity to talk to you about the City of Toronto's social procurement program. It's an exciting opportunity for us, whereby we're implementing institutional changes in Toronto.

Moving to the first slide of the presentation in front of you, on November 3, 2015, Toronto City Council unanimously approved "TO Prosperity", a 20-year strategy to tackle poverty in Toronto. As part of this strategy, it laid out 17 recommendations and 71 actions across six areas of focus, from housing stability and accessible transit to food access and systemic change.

Six months later, Toronto City Council unanimously adopted the City of Toronto social procurement program as a tangible step to meeting systemic change recommendation number 13, which challenges the city to leverage our economic power "to stimulate job growth, support local businesses, and drive inclusive economic growth".

Going to slide 2, the question then is, what is social procurement? For us, it's the practice of using our procurement power to create positive social and economic outcomes. The idea behind social procurement is that the dollars we spend get used twice: once for our operations and another for social impacts intended to achieve a double bottom line. Social procurement is about leveraging even a small portion of our procurement spend to create economic opportunities for people experiencing economic disadvantage, systemic discrimination, and barriers to equal access. On average,

the city awards approximately \$1.8 billion in new contracts each year.

Moving to slide 3, in Toronto the social procurement program has two equity goals, the first being to diversify the city's supply chain. This means creating an enabling climate that allows businesses owned by equity-seeking groups—racialized and aboriginal people, minorities, women, or people with disabilities—and social enterprises to be able to compete for city contracts on their own or as part of a partnership with larger businesses.

To go to slide 4, let me describe in a nutshell how this would work. For contracts under \$100,000, our staff are required to get at least three quotes before they choose the lowest bid to give the contract to. With the new social procurement program, we want our staff to contact at least one certified diverse supplier of the three quotes they receive. We do this by using third-party supplier councils to certify diverse suppliers. These councils will provide the city with diverse supplier profiles that then populate our own internal supplier list. We then use that list to contact them to get quotes and allow them an opportunity to bid on business with the city.

For contracts above \$100,000, where we have to go to the open market, in the cases of requests for proposals we will actually give points for companies that are either a certified diverse supplier and/or have their own supply chain policy in place. To be clear, this is not about giving preferential treatment to diverse suppliers. It's about removing inequitable barriers to access and supporting a truly competitive climate. Studies have shown that on getting to economic equity aboriginal- and minority-owned businesses are more likely to create jobs in their communities than large corporations.

In our first year of implementation, which was 2017, the city awarded 42 contracts under \$100,000 to diverse suppliers, for a total spend of about \$550,000.

Slide 5 shows the third-party supplier councils that the city is currently doing business with to get the diverse supplier list. I believe you've talked with some of them in a previous session, including WBE Canada.

Moving to slide 6, the second objective of the social procurement program is to develop our workforce. Here, we're using city contracts to create training, apprenticeships, and employment opportunities for economically marginalized residents. This is easily done in construction contracts, but it's also possible in other types of contracts. Social procurement is not about taking jobs away from existing vendors. We're asking them instead to use these workforce development initiatives as an additional source of qualified candidates for the jobs they were going to hire for in that particular contract.

On slide 7, an infographic highlights how workforce development works. I'm not going to go into all the details. The general premise is that the city, as part of the procurement process, is either going to ask the proponents to submit a proposal on their workforce development that they would want to do during their contract, or we're going to set out a couple of items that we would expect to be done in the contracts. We will then work with the successful vendors to ensure that they have the right access to workforce recruitment and candidates. We'll monitor progress with them and track the outcomes.

We did a two-year pilot project before we implemented the policy and we noted that not all contracts are suitable for workforce development. Right now, we actually look at contracts that are valued at at least \$5 million and above and have a duration of at least two years. We also look at other criteria, including the suitability of the employment opportunities that might result from that contract; the reach, which we define as the ability to find suitable candidates; the feasibility that those employment opportunities can be achieved within the project time frame; and the volume that might be achieved.

We look for strategies from the proponents, including customized recruitment, training and work-based learning skills development, opportunities for registered apprenticeships during construction, and the use of social enterprises or other diverse suppliers in the supply chain. It links back to our first goal.

On slide 8 are just some of the examples of where we have implemented workforce development opportunities into different types of contracts. The first three represent engineering and design contracts for large infrastructure programs, and the bottom two are contracts for specific construction of infrastructure such as community centres and schools.

Turning to slide 9, one of the key components of our social procurement program is to have data analysis and reporting. Shown are some examples of items that we are tracking, such as supply chain diversity; the number and percentages of awarded purchases to diverse suppliers, and that's further broken down by equity-seeking communities; and, on the workforce development side, things like the number of new training and job opportunities. We know that we're still early in our implementation and that we're going to have to keep revisiting and revising the data we're collecting and the metrics that we want to track against.

Moving to slide 10, in terms of social procurement the City of Toronto is one of the leading municipalities. We get asked a number of questions repeatedly, including the following ones. Is this program legal? Does it take away jobs from existing employees?

Does it add costs to the city contracts? Also, is it for supplier diversity or is it preferential treatment? We have consistently provided clear answers to these questions, which we've learned over our pilot phase, and we've been working with other anchor institutions around the GTA, as well as other municipalities, to make sure that we share our lessons with respect to these types of programs.

On slide 11, we show that lessons learned is a really critical part of what we've done so far for social procurement. The first lesson is that leadership at the top is necessary to create an enabling environment.

We were very fortunate back in 2015 when we were asked to look at this that the city was looking at the Pan Am Games. The Pan Am Games were implementing their own supply chain diversity program at the time, and our city council wanted us to find a way to ensure that concept continued after the Pan Am Games left. So we had political champions driving staff to look at this, as well as senior management staff in the city, including those in our social development and purchasing groups, to make sure that we would look at this very closely and get working on it across the team.

We also wanted to make sure that whatever we did complied and was consistent with public procurement principles and other legal obligations. We worked very closely with our procurement and legal staff to ensure that the program we created would comply with our own purchasing bylaw and meet the public procurement principles of accountability, transparency, and efficiency, and that it didn't contravene any existing legislation the city might be subject to, and that it was consistent with requirements from collective agreements and federal and international trade agreements.

Finally, we understood that this wasn't just about setting up a procurement policy and leaving it at that. We actually had to continue to work with the entire ecosystem that is involved in it. We are very closely engaged with our supplier diversity councils to help educate vendors and other suppliers to get certified. We work very closely with the workforce development pipelines and our construction associations to ensure that everyone looks at this as a successful program and that we find and deal with items as they come up—

•(1105)

The Vice-Chair (Ms. Yasmin Ratansi): I have to ensure that we maintain time. The bells will start ringing at 11:17 and I need unanimous consent that we allocate each of the first round of questions five minutes, which would take us to 11:30. Do I have unanimous consent for this?

Some hon. members: Agreed.

The Vice-Chair (Ms. Yasmin Ratansi): Thank you. We'll start with the first round of questions. We're going to keep it at five minutes so that everybody gets an equal opportunity.

We have votes, so it's going to be five minutes, Mr. Peterson.

• (1110)

Mr. Kyle Peterson (Newmarket—Aurora, Lib.): Thank you, Madam Chair.

Just to explain this to our witnesses, we have to vote in the House today so we're going to be a little short of time. It's unfortunate, because I do appreciate the amount of information you've provided and, of course, all that information means that there are going to be tons of questions. Unfortunately, we're not going to be able to get to all of them.

I want to talk a bit about the certified diverse supplier process that you have in place. I understand that the councils you've listed here certify them, I guess, or characterize them, as certified diverse suppliers. Is that process overseen by the city at all? How does that process work? Also, how are you assured that it's a legitimate process?

Mr. Mike Pacholok: The city is a member of each of those organizations. The organizations have set up a process in which they will go out and verify that a company is owned, managed, or controlled by 51% or more of the respective minorities that they represent. CAMSC and WBE Canada are based on processes that were set up in the U.S. They're based on the U.S. equivalent. We feel that there's a very rigorous process involved in determining that there's a certified supplier, and the city didn't want to add its own process on top of things that were already existing. We wanted to utilize what was already out there.

Mr. Kyle Peterson: Okay.

I'm going to go quickly in the interests of time. For the contracts of \$100,000 plus, the bidders are encouraged to develop a supplier diversity policy. What does that process look like and how is it implemented?

Mr. Mike Pacholok: As I said, in requests for proposals, we'll ask them as part of their submission to us to submit their policy, or to submit that they're a certified supplier. That does give them points in the evaluation criteria, which might give them an edge compared to another competitor. We are working on a further phase to determine in "low bid wins" scenarios how we might utilize them having that policy. We know that early in the process we don't want to demand something from vendors that is completely new to them.

Mr. Kyle Peterson: Okay. Can you give me an idea, just for context, of how much the City of Toronto spends on purchasing every year?

Mr. Mike Pacholok: The amount that we're spending on contracts in place is between \$2 billion to \$3 billion, and we award another \$1.8 billion each year.

Mr. Kyle Peterson: Okay, so it's a significant number, obviously.

I was very interested in your discussion about the Pan Am Games. My riding is just north of Toronto. I was working in Toronto during the Pan Am Games. It was a wonderful success for the city, I think. Did you say that this process was developed during that bit and then was carried over after that? If so, what was the impetus for that?

Mr. Mike Pacholok: The Pan Am Games developed their own supply chain diversity policy, and we had councillors on city council

who made note of it and asked staff, through council, to find a way to keep that kind of concept alive for the city going forward.

Mr. Kyle Peterson: It's a relatively new concept for the city currently?

Mr. Mike Pacholok: That's right.

Mr. Kyle Peterson: How is my time, Madam Chair?

The Vice-Chair (Ms. Yasmin Ratansi): You have a minute and a half.

Mr. Kyle Peterson: I know that you track, but can you us give some numbers? Of the billion-dollar spend, what percentage would you say is from a diverse supplier? How do you give credit if a bidder, a contractor, is using diverse suppliers in their own supply chain? How do you measure this? What metrics do you use to see if the program is successful?

Mr. Mike Pacholok: Roughly, in 2017 we had about \$20 million, give or take, of spend with diverse suppliers. I'm sorry, but I can't do the percentage off the top of my head.

We are again looking at future phases of how we're going to get reporting down through their own subcontractors to help inform us. We've learned through discussions with the supplier councils that this is often the way private organizations have started. They start at tier one and get the information from that, and then they start looking at how to get down to the tier two and tier three levels.

Mr. Kyle Peterson: Thank you. I'm out of time. I appreciate your input and your being with us this morning.

The Vice-Chair (Ms. Yasmin Ratansi): Thank you. We'll go to the next person.

Mr. McCauley, please, for five minutes.

Mr. Kelly McCauley (Edmonton West, CPC): Good morning. Thanks for joining us. I'm sorry that we're going to have to interrupt you.

Toronto has been held out to us by other people during our study as a gold standard or a high standard for simplified procurement processes. This is an open-ended question, but I'm wondering if you could comment on some of the things you've done.

One of the issues we have with federal procurement is that we drive away small businesses. It doesn't matter whether it's a target such as indigenous people or women, we drive them away because of the complexity of our bidding process. I wonder if you could explain anything you've done to simplify your process as you target it towards small and medium enterprises.

• (1115)

Mr. Mike Pacholok: Thank you, and I appreciate the compliment.

I would say that we still struggle, like the federal government, in finding ways to simplify it for small and medium-sized businesses—

Mr. Kelly McCauley: We were misled then.

Mr. Mike Pacholok: I would think that our social procurement program is in part one of the ways to help address it. With contracts under \$100,000, people would just contact the same vendors they know. We're trying to open that up so that small and medium-sized businesses that are diversely owned have an opportunity.

We're still working on other avenues with respect to simplifying our larger contracts, which I think is a problem that most public sector organizations are trying to deal with. We're trying to move to an e-procurement system so we can do electronic submissions. We're trying to pull back on requirements, and being mindful of things—

Mr. Kelly McCauley: Sorry, can you give us any details of anything you've done to streamline the process that you found to be successful, or you've had feedback that it's been successful?

Mr. Mike Pacholok: I think this social procurement program is one example that's been successful. We've heard quite clearly from the—

Mr. Kelly McCauley: It's not necessarily the social procurement part, but I'm thinking towards small and medium enterprises. Is there anything you've done to streamline the system to make it easier for small companies to bid on Toronto procurement projects?

Mr. Mike Pacholok: I would say that we're still working on a good example. We're trying to do more outreach. We still struggle in the bigger contracts to break them down so that small and medium-sized businesses can participate.

Mr. Kelly McCauley: Okay.

You've spent a lot of time talking about your social projects. How do you measure the results?

One of the issues we've heard from some of the women entrepreneurs as well as the indigenous businesses is that sometimes people are starting up a shell company with just one person up top who might be indigenous, and then everyone else is not, and they're winning contracts.

How do you measure how much value you're adding to your target groups?

Mr. Mike Pacholok: To clarify, we don't have targets with respect to groups, but I understand the issue that is being presented. We work with the supplier councils to help try to make sure that their program is being rigorously met, and we monitor them. We've only been up and running for over a year now, so we'll have to keep monitoring to ensure that those issues aren't resulting where someone is just setting up a sham corporation to get around the issue.

We are trying to measure the amount of spend generally with diverse suppliers, without a specific target for any specific group.

Mr. Kelly McCauley: You mentioned \$3 billion that you're spending, and then \$1.8 billion is directed towards a certain area.

How much is directed toward target groups, though I know you said you don't use the word "target groups". Nevertheless, you have some targets that you've set for delivering business to certain, I guess, identified groups. How much are you actually accomplishing? What percentage are reaching with those identified groups you're trying to help, be they female entrepreneurs or certain social groups?

Mr. Mike Pacholok: Sorry, I don't have the percentages with me.

I know that in 2017, for women-owned businesses, we had about \$17 million worth of spend with them, and that was primarily driven by one contract, which was a construction contract.

The Vice-Chair (Ms. Yasmin Ratansi): You have 30 seconds left.

Mr. Kelly McCauley: I only have about 30 seconds left. How are you getting this information out to the various identified groups that you're trying to push business towards or get involved in the process?

Mr. Mike Pacholok: We're setting up supplier network events with our supplier councils. We have our own internal ones, and we have ones with them as well. We try to get out about 12 times a year to push this message.

The Vice-Chair (Ms. Yasmin Ratansi): Thank you.

Mr. Kelly McCauley: Okay, thank you.

The Vice-Chair (Ms. Yasmin Ratansi): Just so that everybody confirms we have unanimous consent to sit until 11:30, I'm fine.

Mr. Blaikie, for five minutes.

Mr. Daniel Blaikie (Elmwood—Transcona, NDP): Thank you very much.

I want to ask an anecdotal question.

I understand that sometimes the barriers for diverse suppliers are things like the complexity of certain contracts, which we talked about earlier. Also, with some cases, a bond is required, especially in construction work, and it's not that the company can't complete the work, but they can't put up the bond, so they get excluded that way.

On that end, I'm wondering if there's some work being done or changes being made by the city to the conditions of the contract to try to make some of these contracts more accessible.

• (1120)

Mr. Mike Pacholok: For contracts that are under \$100,000, generally speaking we don't do construction contracts through there, but when we do, we wouldn't require a bond. We have a policy that bonds are only applicable above \$250,000. A general concern that we're always facing in procurement is ensuring that the mandatory requirements put into the call documents by the respective division or department aren't specifically excluding people on the basis of their not having done business with the city before. We work hard to try to eliminate things like that.

Now with CETA, we want to be more mindful of how we phrase the requirements so that they are as broad as possible, while we're still trying to drive towards ensuring that we get a qualified contractor.

Mr. Daniel Blaikie: Okay. Thank you very much.

Again anecdotally, I've heard stories of diverse suppliers sometimes being awarded a subcontract by larger contractors who fit the bill in terms of bidding requirements and performing work second-hand for cities or other governments across the country at a severely discounted rate. At that point, the larger firm really is just getting paid to find the talent. They're not actually performing a lot of the work.

It seems to me that part of the success of a supplier diversity program would be in trying to connect with those suppliers directly, pay them what they're getting paid by the larger companies, and not have to be responsible for the extra costs. My understanding is that this is a relatively new program for the city. Has it been long enough that there are some success stories you can point to, or is it still in its development phase? Has it worked? Have you seen any bump in numbers? Have you found a particular case where, in the opinion of the city, they were able to save money on a project for having connected directly with diverse suppliers?

Mr. Mike Pacholok: There definitely have been success stories. For example, when dealing with an organization as large as ours, convincing the department to actually follow through on the process properly is a challenge in itself. We managed to get 42 contracts awarded to diverse suppliers in 2017. That might not sound like a lot of contracts, but this was something new. We're doing hundreds and hundreds of these small contracts, so there's success there.

We've also had success in just raising the profile. I mentioned that there was a contract won by a woman-owned business in construction. It helps drive the reality that it's possible to achieve working with this city or working with the government without any preferential treatment. She's one of our great advocates for ensuring that other companies that could be certified as diversely owned are getting there, so that they can get access to these contracts as well.

Mr. Daniel Blaikie: Great.

Thank you very much.

The Vice-Chair (Ms. Yasmin Ratansi): Mr. Ayoub, you have five minutes.

[Translation]

Mr. Ramez Ayoub (Thérèse-De Blainville, Lib.): Thank you, Madam Chair.

Mr. Pacholok, I am especially interested in contracts above \$100,000 that were mentioned in your presentation.

[English]

Do you have the translation?

The Vice-Chair (Ms. Yasmin Ratansi): They do have the translation, yes.

Mr. Ramez Ayoub: Okay. I just wanted to make sure.

[Translation]

For contracts above \$100,000, you are saying that you encourage bidders to adopt a supplier diversity policy. Do you encourage those bidders by giving them points if they meet certain criteria? How does it work more specifically?

[English]

Mr. Mike Pacholok: Yes, when we do a pre-qualification or request for proposal and there's an evaluative component, there will be points assigned if they have their own supply chain diversity policy. They would have to provide that to us to demonstrate and get the points, including if they're a certified diverse supplier. We do add points to the process that could often give someone an edge when, other things being equal, they're very similar in experience.

• (1125)

[Translation]

Mr. Ramez Ayoub: How many companies manage to get ranked or make an effort to get those points? Do you have any statistics on that?

[English]

Mr. Mike Pacholok: There are approximately 600 certified diverse suppliers across all of the supplier organizations. The one challenge, and it's why this is still in its infancy, is that we have to help the supplier councils convince more suppliers to get certified. The city does business with about 4,000 to 5,000 vendors, so 600 is still a small pool.

[Translation]

Mr. Ramez Ayoub: I also note that you can award contracts to some invited suppliers in the case of municipal orders of goods worth from \$3,000 to \$100,000. I assume that the invited suppliers are pre-selected? How did you get to those amounts?

[English]

Mr. Mike Pacholok: To clarify, under \$100,000, it's not uncontested; it's still a quoting system, so at least three people are competing for the work. The numbers that we landed on relate to the Canada free trade agreement, where for amounts of more than \$100,000, we would be looking to put it to an open market.

We may still establish a pre-qualified list, but that pre-qualified list would still go first to the open market for consideration.

[Translation]

Mr. Ramez Ayoub: How are the three businesses that bid selected? Arbitrarily? How do they know that they can bid?

[English]

Mr. Mike Pacholok: Well, in part this is where the diversifier list comes into play. Our staff will look at that list, find the diversifier that fits the goods or services they're looking to purchase, and contact them, as well as at least two others they might already know from past experience.

[Translation]

Mr. Ramez Ayoub: Thank you.

[English]

I don't have any more questions.

The Vice-Chair (Ms. Yasmin Ratansi): Thank you very much.

If anyone has any questions they want to submit to the clerk, that would be appreciated. Second, we will be coming back because we need to give drafting instructions to the analyst, so we'll be back right after the vote.

Thank you very much for being here. It's life in the federal lane.

Thank you for your help and your presentation.

Mr. Mike Pacholok: Thank you very much.

The Vice-Chair (Ms. Yasmin Ratansi): The meeting is suspended.

[Proceedings continue in camera]

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