



cutting through complexity™

City of Toronto
Core Service
Review Project

**Final Report
to the City Manager**

July 7, 2011

About the City of Toronto

The City of Toronto (the City) is Canada's largest metropolis, with one of the most diverse populations in the world. It has many attributes that create a unique municipal landscape. As per the City's data:

- Toronto's population is 2.7 million
- It is an economic, social, and cultural centre of the Toronto Census Metropolitan Area, with a population of 5.7 million
- 64% of the workforce in the City of Toronto has post-secondary education
- 50% of Toronto residents are foreign-born
- An average of 75,000 newcomers settled in GTA each year 2000-2005
- Toronto has 8% of Canada's population, 22% of all immigrants to Canada

Toronto has also been recognized globally across many dimensions:

- Toronto is the financial hub of Canada, which has the world's soundest banking system – World Economic Forum, 2009
- Toronto ranked in the top ten most economically powerful cities – Forbes 2009
- Toronto is 3rd among North American Financial Centres – Global Financial Centres Index 2011
- Toronto is 3rd in North America and 16th in the world for best quality of life – Mercer Human Resources 2010
- Toronto ranked 2nd behind New York City in an annual report on the top global 'Cities of Opportunity' – Pricewaterhouse Coopers

Project Background and Context

On April 12 and 13, 2011, City Council approved a report from the City Manager, and Deputy City Manager and Chief Financial Officer that outlined the Service Review Program, 2012 Budget Process, and Multi-Year Financial Planning Process. The report not only outlined the basis on which the Core Service Review will be conducted, but it also conveyed the need for such a review – namely to meet the difficult budget decisions facing the City in 2012 and years to come. The review was intended to critically assess what services the City offers, why it offers them, and to what level each service is provided. The same report identified scope, timing, and acceptance process of the Core Services Review.

As documented in a February 8, 2011 report from the City Manager to the Executive Committee, the budget pressure for the current fiscal year was estimated at \$774 million. This is a significant gap, which, if left unaddressed, will create increasingly challenging fiscal conditions in the future. The prospects for a material increase in revenues through economic expansion are not high – the post-recession recovery has been slow and the City’s unemployment rate remains historically elevated at 8.6% (May 2011). Moreover, recent election results show public interest in a fiscal sustainability agenda, with low support for increased taxes, user fees, and charges. Consequently, the City’s expenditure footprint needs to shrink in order to reduce and eventually eliminate the deficit. A Core Service Review is a tested mechanism in informing decisions on expenditure reductions.

Core Service Reviews have been used in the past by public sector organizations in Canada and internationally to address budgetary constraints. They help executives to understand whether services must be delivered due to legislative requirements, contractual agreements, or operational necessities (i.e., “must haves”). They also identify services, which, while important, are discretionary in nature, and are delivered to meet specific needs of residents, communities, and groups (i.e., “nice to haves”). In addition, such reviews often consider the levels, at which services are delivered and provide insights into cost reduction opportunities through service level adjustments. The April 12/13th City Manager’s report envisioned that a Core Service Review would generate these very insights to help the Council make difficult choices in returning Toronto to a fiscally sustainable path.

Core Service Review Project

Terms of Reference

In May of 2011, the City engaged KPMG LLP (KPMG) to conduct the Core Service Review. As per the City's Statement of Work, the purpose and intent of the review is as follows:

- The project purpose is to review and analyze all City of Toronto services, activities and service levels provided by divisions and agencies and to apply a core service filter to assist Council's decision-making. The filter identifies services that are not core, or that are provided at higher than standard service levels.
- The results of the Core Service Review, along with feedback and input from the public will be reported out through Standing Committees, the Executive Committee, and City Council.
- It is Council's responsibility to make final decisions about when services should exceed legislated or best practice standards, required service levels, and ultimately to determine which services are delivered.

In Scope

- Review and analysis the City's approximately 105 services.
- Review and analysis of approximately 50 services provided by the City's agencies, boards, and commissions.
- Research and analysis of several comparable municipalities and jurisdictions.

Out of Scope

- Detailed analysis of services to identify efficiency and effectiveness opportunities (these will be delivered through a separate Efficiency Review process).
- Detailed articulation of cost savings potential to be achieved through service changes.
- Management decisions on what actions to pursue with respect to City services.

Roles and Responsibilities

Projects of this nature require a very clear governance structure, unambiguous roles and responsibilities, and well-defined accountabilities. The following table outlines the roles of the City and KPMG:

Roles and Responsibilities	
City of Toronto	KPMG
<ul style="list-style-type: none"> • Provide an inventory of all services, service standards and service levels • Provide, validate, and ensure accuracy of all financial and budget data and all other available information related to particular services and activities • Provide relevant service-related policy directions, reports, and Council decisions • Provide any input gathered through the public engagement process (if available in time) • Review and validate factual information of service assessment • Present results of this report at Council's Standing Committees • Council to decide on changes to services provided 	<ul style="list-style-type: none"> • Conduct an assessment of all in-scope services provided by the City and its agencies, boards, and commissions • Conduct a jurisdictional review of comparable municipalities/jurisdictions • Apply a core service filter to determine the degree to which services are core and whether service levels are above standard • Identify options and opportunities to change services and service levels • Support the City at Council Committee presentations • Provide guidance, advice, and support to the City, as required

Work Program

KPMG developed a customized work program for the City to meet the objectives of the Core Service Review. The timing of the project spanned from May to July of 2011. The program consisted of four broad phases, aligned with project objective and deliverables. It is visually depicted below (although phases 2 and 3 are shown in sequential order, they were completed in parallel due to significant content dependencies):

1. Launch the project with City staff by clarifying expectations and developing a comprehensive work plan

3. Research comparable jurisdictions to identify benchmarks for core services and service levels



2. Analyze and assess all identified City services to determine the degree to which they are core

4. Rank City services on the basis of gathered evidence and analysis for decision making by Council's Standing Committees

Project Approach

To meet the objectives of this review, KPMG conducted an assessment of services delivered and service levels, and identified options and opportunities the City could potentially undertake to make changes to its suite of services. The approach is described below and on the following pages.

Service and Service Level Assessment

- Assessment involved evaluation of each service through a core ranking filter on a mandatory/discretionary continuum
- KPMG also compared current service levels against established service standards set by legislation, council, management, funding sources or industry best practices
- KPMG used four sources of input to perform the assessment (also detailed on the next two pages):
 1. Program maps and type profiles provided by the City. These were developed by the City as a result of its service mapping and cost allocation initiative, and included financial data submitted by programs and divisions
 2. Jurisdictional review of comparative cities and governmental bodies. These included municipal, regional, and provincial governments either of similar size and profile, or of similar approach to delivering specific services
 3. Input and validation from City of Toronto senior management. Numerous interviews and workshops were held with City representatives to gather and subsequently review and validate service assessment information
 4. KPMG experience, including global KPMG Specialist Panel. KPMG involved its own senior employees in other countries with specialized expertise related to a particular domain (e.g., law enforcement, transportation, etc.) to identify global trends and leading practices to inform analysis of services

Data Sources for the Service and Service Level Assessment

1. The City provided Program Maps and Type Profiles for each City defined program in the following classifications:

- Programs (e.g., Solid Waste Management) are made up of
- Services (e.g., Solid Waste Collection), which carry out
- Activities (e.g., Collect Multi-Residential) of various
- Types (e.g., Organics).

For the purposes of service level identification, information at the “Type” classification was analyzed and summarized to the “Activity” level, due to the fact that financial data was only provided at the “Activity” level and above. However, a large number of individual “Types” were also considered when options and opportunities were formulated

2. KPMG conducted a Jurisdictional Review that included:

- A review of available information on comparable cities and selected interviews with representatives of other jurisdictions
- Benchmarking services to those of comparable jurisdictions/organizations using readily accessible data, e.g., Ontario Municipal Benchmarking Initiative (OMBI) , Gartner, etc., where applicable

Data Sources for the Service and Service Level Assessment (continued)

3. Input and validation from City Senior Management

- Perspectives of City Manager, Deputy Managers, General Managers and other key staff has been incorporated into our analysis. Interactions included workshops, interviews, presentations, and individually received feedback

4. KPMG Experience

- KPMG team has used own judgment, based on experience with previous clients and other jurisdictions, to inform the analysis
- KPMG expert panel provided perspectives on leading practices within municipal, provincial and federal jurisdictions across the world

Jurisdictional Review

Jurisdictional review included an analysis of OMBI data for Ontario cities and research of jurisdictions, which are comparable to Toronto, were generally established and built out in the same timeframe, and with similar urban characteristics. Provincial and federal jurisdictions were reviewed for information primarily related to governance and administration of large public sector organizations. Note that all cities do not necessarily provide a good comparison for all services (e.g., snow and ice control). List of jurisdictions was validated with City management. Some additional jurisdictional information was provided by the City.

Cities

- Chicago, USA
- Philadelphia, USA
- Boston, USA
- Montreal, Canada
- Barcelona, Spain
- Melbourne, Australia

Governments

- Government of Canada
- Government of Ontario
- Government of Alberta
- Government of Saskatchewan

Options and Opportunity Identification

- Options and Opportunities were identified based on the service and service level assessment
- Services that were ranked closer to the “discretionary” side of the core/discretionary continuum were considered for opportunities for scaling down, divestiture, or elimination
- Services that appeared to have elevated service levels were considered for opportunities for service level reductions, alternate service delivery, or reengineering
- Other opportunities were also presented on the basis of jurisdictional review, City management input, and KPMG experience
- Risks and implications of each option were identified and validated with City Management
- While KPMG was not explicitly contracted to quantify the potential savings of each opportunity, a high-level classification of savings potential was nevertheless performed
- Potential timelines for implementation (when first financial impacts would begin to materialize), as well as barriers for implementation (conveying ease or difficulty in pursuing the option) were also identified

It is noted that decisions about the options and opportunities identified are the responsibility of City Council. Some may have negative effects in the community, and these have been identified to the extent possible. KPMG has made no effort to evaluate whether the negative impacts outweigh the savings possible.

Core Service Review Methodology

Methods and Artefacts

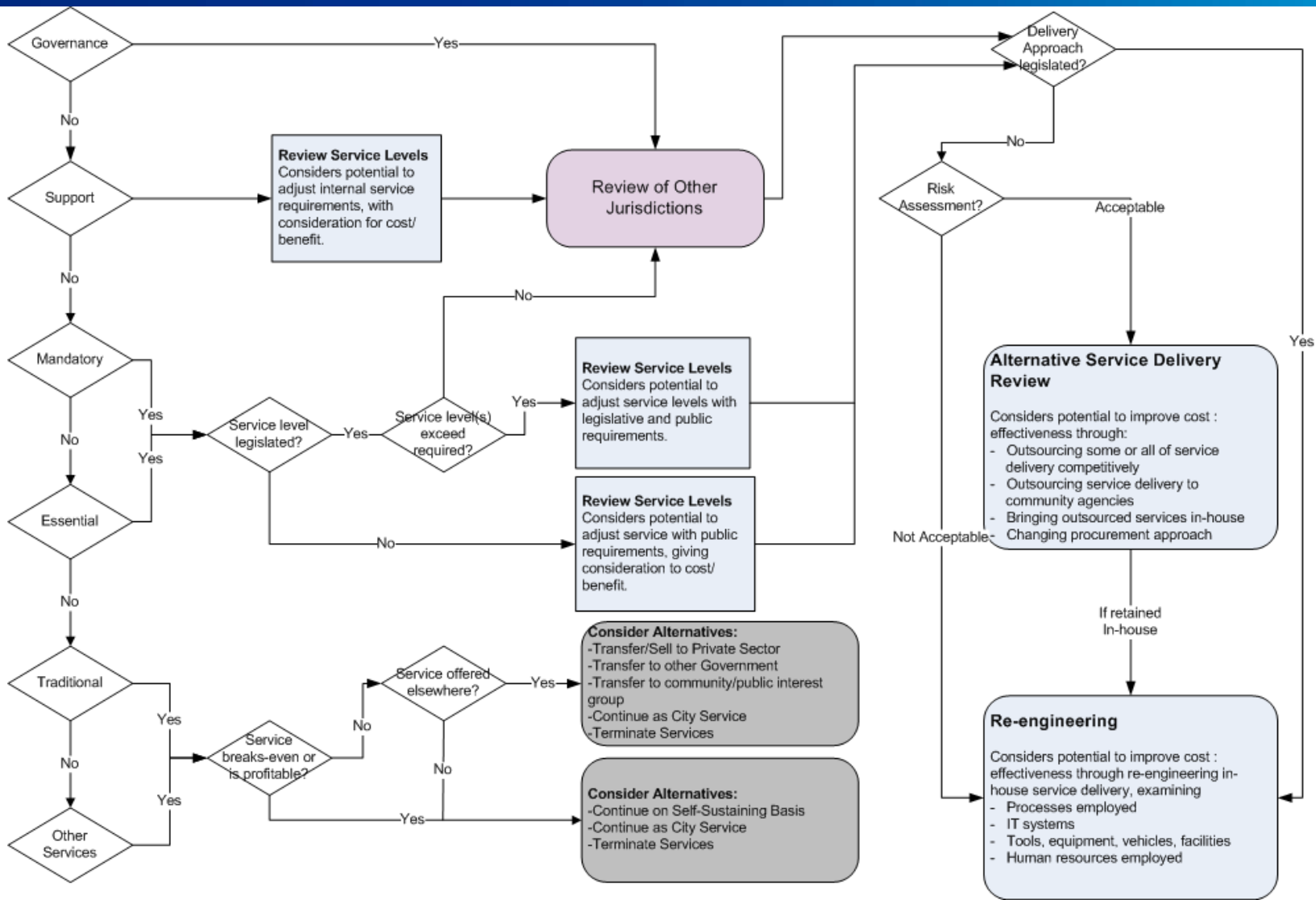
Core Service Reviews typically involve an assessment of a suite of services to understand to what degree they are core. Some organizations define this categorization as a simple binary choice – “core” vs. “non-core”. Others adopt a more descriptive approach of classifying services as “mandatory”, “critical”, “discretionary” (or other relevant terms pertinent to their industry, scope, and scale). KPMG experience suggests that a “core continuum” is a more useful assessment method, yielding better results and more informative products.

KPMG, with validation by the City, has developed a customized continuum for assessing core versus discretionary services. Along the continuum, there are four descriptive categories, which, when applied to a service formed the “Core Ranking” for that service. Services that were deemed to be classified between these four categorizations were given a fractional ranking (e.g., 3.5).

A core service filter, which is structured as a decision tree, was applied to each Service and each Activity within City Program Maps. The filter is depicted on the next page. It incorporates the following attributes:

- Core continuum categorization
- Service level and service standard
- Source of service standard
- Source of service funding
- Risk assessment
- Options and Opportunities

Core Service Review Methodology – Core Service Filter



Service Assessment Methodology

The “core continuum” was defined with the following categories:

- **Mandatory(1):** mandated or required by legislation from the federal or provincial government
- **Essential (2):** critical to the operation of the City. Without the service, the City would stop functioning
- **Traditional (3):** municipal service, provided by virtually all large municipalities for many years
- **Other (4):** service provided by the City to respond to particular community needs, based on a positive business case, or other specialized purposes

This ranking was provided at the “Activity” level, due to the fact that “Service” level items were broad ranging and commonly included activities with different rankings along the “core continuum”.

Activities that were deemed to be classified between these four categorizations were given a fractional ranking (e.g., 3.5).

Service Level Assessment Methodology

In order to assess service level performance, we used the following scale to compare the current service levels of City of Toronto activities with service level standards:

- Below Standard (B)
- At Standard (S), with S- and S+ indicating somewhat below or above standard
- Above Standard (A)

Service level “At Standard” is:

- Consistent with the level required by legislation, or where there is no legislation...
- Consistent with industry standards and practices, and where they are not clear...
- Consistent with business case analysis justification, and where that is not clear...
- Consistent with service levels in other municipalities, and where that is not clear...
- Consistent with reasonable expectations

A service level evaluation was averaged across the “Types” within an “Activity”. Where some “Types” are above standard, but others are not, this information was noted

A service may be noted as “Above Standard” because the service actually provided is above the service level target, or because the service level target is higher than the standard, as defined above

Supplementary Analysis

To facilitate the assessment, KPMG identified the origin of a service level standard and the role that the City plays in delivering an activity.

Service Level Standard Source:

- KPMG reviewed the degree to which the standard was **prescribed by legislation (L)** or **set by the Council (C), management (M), or funding agreement (F)**
- KPMG also reviewed the appropriateness of the standard with respect to industry benchmarks (IS), in cases where information was available

City Role:

- **Regulator (R)**: the City sets regulation / standards, but does not deliver the service
- **Funder (F)**: the City provides funding / grants for the service
- **Manager – contracted (Mc)**: the City retains services of external vendors and manages contract
- **Manager – partnership (Mp)**: the City partners with others to deliver the service
- **Service Manager (SM)**: the City is designated by the province as Service Manager and delivers service through a combination of D, F, Mc, Mp, but is not limited to one of these three roles
- **Delivery by City Staff (D)**: City staff deliver the service

Options and Opportunities Analysis

When formulating options, KPMG considered:

- The business case for the service
- Whether the service is, or could be, available from other providers
- Whether/how the service is provided in other jurisdictions
- Available indicators of community need
- The high level implications of reducing, eliminating or changing the service

KPMG used the following classification for opportunity types:

- **Non-Core Service Review (NCSR):** consider a range of options that could include divesting, transferring, discontinuing, or significantly altering the service
- **Strategic Service Review (SSR):** consider a range of options that would enable the program to achieve its outcomes with a different mix of services
- **Service Level Review (SLR):** consider a range of options to adjust service levels to standards, as well as adjust standards, if/when they are not legislatively set
- **Alternate Service Delivery Review (ASDR):** consider a range of options to outsource, in-source, or change a procurement approach for the service
- **Re-engineering (RE):** consider a range of options for improving efficiencies through redesigning business processes, tools, and key enablers

How to Read This Report

How to Read This Report – Structure

Report Structure

The rest of this report presents detailed results of the Core Service Review. It is structured to convey the following:

- **Part I: Project Background, Approach, and Methodology.** This section of the report outlines the context, within which the City is undertaking this initiative and presents the method applied by KPMG to deliver the scope of work required by the City.
- **Part II:**
 - **Summary of Service Assessments, Options and Opportunities by Council Committee.** This section of the report is intended to provide each Committee with a high-level snapshot of service rankings and service level, while highlighting key options and opportunities
 - **Detailed Service Profiles by Council Committee.** This section of the report presents the results of each service assessment, with details on jurisdictional comparators and respective options and opportunities. Each profile is typically two to three pages in length: first page containing rationale and visualization of the core service assessment, jurisdictional information, and opportunity summary; second and third pages containing detailed Activity ranking, budgetary information, and a detailed opportunity listing. To help the reader understand the structure, source, and layout of each Service Profile, a visual legend is included on the next page.

How to Read This Report – Service Profile Legend

Service Profile Page 1

Jurisdictional Examples
 Description of relevant information found as a result of the jurisdictional research. Where possible, benchmarks and leading practices are included. Information generated by KPMG.

Rationale for Assessment
 Narrative description of the reasons for core ranking and service level assessment. Contains pertinent information in support of the assessment. Information generated by KPMG

Visualization of Core and Service Level Assessment
 Pictorial representation of Activities for related service on the “core continuum” (left) and service level (top). It is a summary of table on the second page of the Service Profile. Size and colour of circles indicate gross budget and funding source, respectively. Information generated by KPMG and the City.

Service Characteristics
 Factual information on organizational hierarchy, service type (external, internal, governance), and budget. Information provided by the City

Standing Committee	
Licensing and Standards	
Cluster	
Cluster B	
Program	
Municipal Licensing and Standards	
Service Type	
External Service Delivery	
Service Budget (\$m)	
Gross	\$22.8
Net	\$20.2

Rationale for Core and Service Level Assessment

This is a traditional municipal service. Council mandated response times are generally not met, with a particular deficiency in respect to Heat and Vital Services property standards complaints.

Over 90% of property standards enforcement is funded from the tax base.

Jurisdictional Examples

OMBI data indicates that Toronto receives fewer complaints per capita than Hamilton and Ottawa, yet spends much more per capita on bylaw enforcement and takes longer to resolve complaints.



Key Opportunities

- The Property Standards and Maintenance Enforcement activities could be delivered on a city-wide basis.

Key Opportunities
 Narrative description of key opportunities related to this service. Information is drawn from a table on the second page of the Service profile. Information generated by KPMG

How to Read This Report – Service Profile Legend

Service Profile Page 2

Activity Detail

This table provides a detailed assessment of activities within the service. Activities provided by the City. Gross and net cost data provided by the City on the basis of an internal cost allocation survey. Core ranking assessed by KPMG. Service Level provided by the City and further assessed by KPMG (“Types” were aggregated into “Activities” for this analysis to come up with a Service Level assessment). Source of Standard provided by the City. City role identified by KPMG and validated by the City. Notes describe any pertinent information related to the activity, whether provided as feedback from the City or through the course of the assessment by KPMG. A separate legend for content within cells is provided as part of each Committee section of this report.

Options and Opportunities, Risks and Implications

This table provides a detailed list of opportunities that may potentially exist to change the service. Type identified by KPMG as part of core ranking filter. Options and Opportunities identified on the basis of core ranking, service levels, jurisdictional examples, and internal City feedback. Risks and implications formulated by KPMG, validated by the City. Potential savings derived from KPMG experience based on the type of opportunity. These should not be used as the basis for business cases, as further cost analysis and due diligence needs to be done. Timeframe indicates the earliest potential date for savings/benefits to begin to accrue. Barriers provide a high-level indication on the ease/difficulty of implementation. Timeframe and Barrier information provided by KPMG.

Activities								
Activity Name	Gross Cost (\$m)	Net (\$m)	% Net	Core Ranking	Service Level	Source of Standard	City Role	Notes
Property Standards and Maintenance Enforcement	14.61	13.42	92%	3	S-	C	R	
Parks By-Law Enforcement	1.61	1.61	100%	3	S	C	R	
Waste Enforcement	6.60	5.16	78%	3	S	C	R	

Options, Opportunities, Risks and Implications					
Type	Options and Opportunities	Risks and Implications	Potential Savings *	Timeframe **	Barriers
SSR	Consider the opportunity to deliver these services city-wide instead of district-based.	Division is currently district-based as it relates to Property Standards and Maintenance Enforcement. (Waste and Parks Enforcement are delivered through a city-wide model.) Delivery of services city-wide could allow for an increased span of control and more consistent service delivery – this could result in better processes and reduced cost.	\$	2013	Low

How to Read This Report – Service Profile Legend

Service Profile Terms and Acronyms

Core Ranking:

- 1 = Mandatory
- 2 = Essential
- 3 = Traditional
- 4 = Other Discretionary

Service Level:

- A = Above standard
- B = Below standard
- S = At standard
- S+ : Some service levels are higher
- S- : Some service levels are lower





Service Level Standard Category:

- L = Legislated
- C = Council Decision
- M = Management Directive
- IS = Institution / Association / Industry / Sector / Benchmark or Recommended “Best Practice”
- F = Funding Agreement / Grant Covenant

City Role:

- R = Regulator
- F = Funder
- Mc = Manager – contracted
- Mp = Manager – partnership
- Sm = Service Manager
- D = Delivery by City Staff

In the visualization box, the shade of RED reflects % of tax funding. (i.e. % of net to gross). Size of the circle reflects the relative size of the gross budget

-  Self Supporting Service (User fees or funding from other governments)
-  Less than 50%
-  50% - 90%
-  More than 90% tax supported

Type of Opportunity:

- NCSR = Non-Core Service Review
- SSR = Strategic Service Review
- SLR = Service Level Review
- ASDR = Alternate Service Delivery Review
- RE = Re-engineering

Potential Savings:

The estimated range of Potential Annual Savings (in percentages), in relation to the service or activity in which the opportunity may exist. It should be noted that this is a categorization approach, not a calculation of savings that could be achieved. Relying on these ranges to determine projected savings without further due diligence is not recommended.

- Low = up to 5% savings estimated range
- Medium = up to 20% savings estimated range
- High = over 20% savings estimated range

How to Read This Report – Considerations

Important Considerations

- The audience for this report is the City Manager, who has commissioned the Core Services Review on behalf of Council. Thus, the report has been produced for the sole purpose of review, validation, and refinement by the City Manager's Office (CMO) and those with explicit permission by the CMO. The CMO will use the information prepared by KPMG to develop its own recommendations to Executive Committees, which may or may not be consistent with what has been proposed by KPMG.
- Options and opportunities presented in this report should not be construed as recommendations; they are included solely for informed decision making by the CMO. Options are identified as things the City could consider doing, rather than advice to proceed. Furthermore, there are some alternatives are mutually exclusive, where proceeding with one option makes another option redundant.
- KPMG did not assess the effectiveness or efficiency of City services. Assessment of how services are delivered is envisioned to be conducted through separate efficiency reviews.

How to Read This Report – Considerations

Important Considerations (continued)

- KPMG did not conduct financial analyses of programs and services to identify potential savings. For each opportunity within a Program, Service, or Activity, the estimated range of Potential Annual Savings (in percentages) is based on realization benchmarks for the type of opportunity for change. Some incremental opportunities may generate up to 5%, others may be more substantial, yielding up to 20%, while a few may be transformative, resulting in over 20%. Actual annual savings are highly dependent on future City-driven decisions and activities, including the Council-selected service levels, adopted delivery models, procurement outcomes, ability to implement, and other factors. Assuming that the City can generate similar savings without conducting a more thorough business case and due diligence analysis would be erroneous. The actual annual savings percentages realized will vary from those presented, and such variance may be material. Since the City-provided Gross Budget and Net Budget figures are presented on a full-cost basis (i.e., expenditures include variable, fixed, and other allocated costs), it has been explicitly assumed that the City will be able to proportionately reduce its fixed and other allocated costs. If the City is unable to fully reduce its fixed and other allocated costs, the percentages will be further reduced. The one-time costs to implement were not within the scope of this study, and, therefore, not factored into the analysis.
- All media inquiries about the Core Services Review project and this report should be directed to the City Manager's Office.