



STAFF REPORT ACTION REQUIRED

Results of the Shared Services Study – City Agencies

Date:	May 10, 2013
To:	Executive Committee
From:	City Manager
Wards:	All

SUMMARY

This report responds to Council’s request for the City Manager to review opportunities for the City to share corporate support services with its agencies. The Auditor General has also put forward recommendations about improving shared services over the last ten years through value for money audits.

The City Manager identified eight corporate support services to review as a part of a Shared Service Study and retained third party consulting expertise, KPMG LLP (KPMG), to undertake this assignment. The corporate support services reviewed were: information technology, internal audit, insurance and risk management, legal services, human resources/labour relations, procurement and materials management, real estate and records management.

The study focused on the City’s six largest agencies with a view to expanding any resulting opportunities to additional City agencies as appropriate. The agencies included were: Exhibition Place, Toronto Parking Authority, Toronto Police Service, Toronto Public Health, Toronto Public Library, and Toronto Transit Commission.

The Shared Services Study confirmed that the City and its agencies are already sharing many corporate support services across a range of functions. KPMG put forward 20 opportunities to increase shared services by bringing together resources, functions, processes and skills to create economies of scale and increase standardization to yield a positive return on investment.

This report recommends the implementation of eighteen (18) opportunities and no further action on two (2) opportunities. Eleven (11) opportunities will be implemented in the shorter term and reported out as required. The remaining seven (7) KPMG opportunities are broad transformational directions that will require significant business process re-engineering, organizational change and information technology investment to

successfully implement. These opportunities are recommended for referral to the City Manager for further due diligence and planning, in consultation with City agencies with potential net financial benefits of about \$55 million.

A Shared Service Steering Committee will be established with membership from City and agency senior management to guide the next stages of shared services planning and implementation. The City Manager will report back to Executive Committee with a multi-year shared services implementation plan, after consideration by boards of affected agencies.

RECOMMENDATIONS

The City Manager recommends that City Council:

1. Authorize the City Manager and the City's Executive Director of Human Resources to lead the development of a labour relations and collective bargaining strategy for the City and its agencies going forward, in consultation with City agencies, and report the strategy to the City's Employee and Labour Relations Committee for approval in principle;
2. Following approval in principle of the strategy by the City's Employee and Labour Relations Committee, request the City Manager and the City's Executive Director of Human Resources to bring forward the strategy to the relevant agency boards, or the Labour Relations Committees of the boards under delegated authority, for their consideration and approval;
3. Refer the following shared service opportunities to the City Manager to commence implementation in 2014 and to report further as required:
 - a) Share generic training and learning functions;
 - b) Coordinate and standardize common health and safety functions;
 - c) Enhance the use of the City's Internal Audit Division for compliance, assurance and business risk consulting services by agencies that do not have their own audit resources;
 - d) Establish a Quality Assurance Centre of Excellence to leverage tools, templates and specialized skills, coordinate work plans and share best practices; and
 - e) Continue to rationalize the City stores and increase direct delivery of consumable goods and automate P2P (purchase to pay) processes.
4. Request the City Clerk to provide as a best practice, the City's online submission application for Freedom of Information requests to interested agencies when it becomes available;

5. Request the Chief Corporate Officer to work with the Chief Executive Officers of the Toronto Transit Commission and Toronto Parking Authority regarding the possibility of the City providing lessor services to their agencies;
6. Request the City Manager and Deputy City Manager and Chief Financial Officer, to work with the Chief Executive Officers of the Toronto Transit Commission and Toronto Parking Authority, to insure the Toronto Transit Commission and the Toronto Parking Authority under the City's insurance for non-specialized policies and exclusive of claims, where the City is able to provide similar coverage for a lower cost and report further as required;
7. Refer the following shared service opportunities to the City Manager for further due diligence and consultation with City agencies and report back to Executive Committee with a multi-year shared service implementation plan and after consideration by boards of affected City agencies:
 - a) share procurement of common goods and services and implement strategic sourcing;
 - b) standardize human resource information systems and share payroll and benefits administration;
 - c) share common information technology infrastructure with a focus on infrastructure management, data management and storage;
 - d) rationalize information technology applications;
 - e) coordinate real estate contract and vendor management through an information technology platform; and
 - f) establish a change management centre of excellence to support the implementation of shared services and other major City change initiatives.
8. Request the City Clerk, in consultation with the City Manager and the Chief Information Officer, to include in the Information Management Strategy for the City, a plan to transition to managing digital records and phased-in implementation to include City agencies; and
9. Request that this report be forwarded to the boards of the agencies included in the Shared Service Study for their consideration.

Financial Impact

KPMG quantified financial benefits for four opportunities that the City Manager is recommending for implementation. Their high-level estimate of potential cost savings for these opportunities ranges from \$58.8 to \$65.3 million per year with up-front investments of between \$3.5 and \$10.5 million. One of the four opportunities – to develop a City-wide labour relations and collective bargaining strategy – accounts for \$47 M of the potential cost savings.

KPMG categorized other opportunities by level of potential savings: high (more than \$1 million per year), medium (between \$100 thousand and \$1 million per year), and low (less than \$100 thousand per year).

Shared services should be value driven and it is important that any recommended opportunities be cost neutral for the City and its agencies and provide a return on investment.

Actual savings will be highly dependent on the viability of the opportunities as determined by further due diligence and cost validation, and implementation planning and timing. Financial impacts of shared services will be reported out through the 2014 and future year budget processes as required.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting of July 28, 2011, in consideration of EX8.1 Core Service Review, Executive Committee recommended that the City Manager review shared service models for communications, facilities management, fleet, real estate, information technology, legal services, human resources, and finance and administration for all City divisions and large City agencies, and incorporate as appropriate in the 2012 and 2013 budget process (EX8.1 Core Service Review).

At its meeting of September 26 and 27, 2011, in consideration of EX10.1 Core Service Review – Final Report to Executive Committee, Council approved recommendations for actions related to the opportunities identified by KPMG during the Core Service Review process. These actions included a request to the City Manager to review efficiency related opportunities that included shared services opportunities to determine whether and in what manner implementation is appropriate (EX10.1 Core Service Review – Final Report to Executive Committee).

At its meeting on April 10 and 11, 2012, in consideration of AU6.7 Previous Audit Reports – Common Themes and Issues, Council directed the City Manager to conduct a review giving consideration to the opportunities for consolidating services or a shared service approach in nine functional areas, including accounting, audit, financial information systems, fleet services, information technology, human resources, legal services, procurement and real estate management (AU6.7 Previous Audit Reports – Common Themes and Issues).

At its meeting on April 3 and 4, 2013, in consideration of AU10.12 Results Arising from the Shared Services Study Related to Internal Audit and Jurisdictional Research Respecting Funding Models for Accountability Functions, Council received a report for information on shared service opportunities related to internal audit and funding models for accountability functions. The report provides the City Manager's review and

assessment internal audit consolidation opportunities by the City and its agencies. The analysis for this functional area was accelerated ahead of this report in order to respond to Council's direction (AU10.12 Results Arising from the Shared Services Study Related to Internal Audit and Jurisdictional Research Respecting Funding Models for Accountability Functions).

ISSUE BACKGROUND

Shared services refer to the provision of corporate support services common to multiple organizations to reduce duplication, overlap and redundancy. Initially developed to serve private sector businesses, shared service models have been implemented successfully in public sector environments for the past 20 years.

Shared services are often described by organizations as a 'journey' that takes time, leadership, careful planning, strategic technology investments and good governance. Implementing shared services involves a multi-year and multi-phase approach in order to effect technology investments and business re-engineering across multiple organizations.

Shared services in other governments and organizations have demonstrated a positive return on investment. Efficiencies and cost savings are often seen to build over time as the delivery model matures and organizations leverage common technology infrastructure enabling expansion to additional services.

COMMENTS

1. Study Scope

The City Manager initiated a Shared Service Study to assess opportunities to share common corporate support services between the City and its six largest agencies.

To focus the study and contain costs, eight functions were identified as priority areas to evaluate for shared services including: (1) human resources/labour relations, (2) information technology, (3) insurance and risk management, (4) internal audit, (5) legal services, (6) purchasing and materials management, (7) records management and (8) real estate services. The City six largest agencies - Exhibition Place, Toronto Parking Authority, Toronto Police Service, Toronto Public Health, Toronto Public Library, and Toronto Transit Commission - were included in the study with a view to expanding opportunities to additional agencies as appropriate.

The study deliverables included:

- A literature and jurisdictional review of shared service approaches to identify leading practices and critical success factors;
- A current state assessment of each function and a review to assess and validate their immediate potential of providing shared service delivery;

- A business case for each shared service opportunity including benefits, limitations, risks, cost savings, and required investments;
- Future state operating models for shared services including structure, governance, mandate, operating costs and financing model, technology requirements, and performance standards; and
- An implementation plan for proposed future state operating models including a roadmap to move from the current to future state.

2 KPMG Study Methodology and Approach

KPMG’s assignment included significant engagement with both City divisions and agencies. The consultants sought input and validation of shared service opportunities through 67 individual interviews and 14 workshops. In addition to direct stakeholder engagement, the consultants reviewed wide-ranging documentation and information provided by divisions and agencies and conducted a jurisdictional review of leading practices in public sector entities to inform their findings.

Given the number of functional areas and organizations within the scope of this study, KPMG used selection criteria to identify shared service opportunities with the greatest potential for organizational success and value for the City including size and scope, proof of concept, appetite for change, cost savings, implementable, time horizon and service excellence.

For further information on the approach and methodology of the Shared Services Study see Section 1.2, pages 25 to 30 of the KPMG final report attached in Appendix C.

3. KPMG Review of Other Jurisdictions

KPMG reviewed 11 Canadian and American jurisdictions to better understand the successes, challenges and risks faced in the initiation, implementation and ongoing maintenance of shared services.

Lessons from the jurisdictional review suggest that implementation should be based on the capacity of the organization to handle change while maintaining service delivery, and up-front investments are required to achieve future savings. KPMG describes the process as a transformational path that involves a multi-year and multi-phased approach.

The jurisdictional review identified a number of critical enablers for the successful implementation of shared services including:

- Strong leadership to continually move forward implementation;
- Established governance structures;
- Sufficient resources;
- Change management;

- Structured communication plans; and
- Metrics to measure success.

KPMG suggests that jurisdictions had common successes through shared services that Toronto can expect to achieve including cost savings, operational efficiencies, improved service delivery, increased client satisfaction, improved governance and greater accountability.

For further information on the Review of Other Jurisdictions see pages 309 to 325 of the KPMG final report attached in Appendix C.

4. KPMG Key Study Findings

KPMG confirmed that the City and its agencies are already sharing services in many areas including insurance and risk management, internal audit, legal services, real estate services, common purchasing and records storage. Their findings validate that a high level of effort across the organization to coordinate corporate support services, reduce redundancies and realize cost efficiencies is already occurring but often in an ad hoc manner and on an informal basis. A summary of current shared services between the City and the six agencies included in the study is attached as Appendix A.

The consultants suggested improvements to current shared services between the City and its agencies through establishing formal governance structures to monitor shared service arrangements and establishing robust service level agreements including performance metrics and issue resolution mechanisms.

The City also has current shared service arrangements, outside of the scope of this study, with other City agencies, City corporations such as Toronto Community Housing, and participates on occasion in joint purchasing with school boards, post secondary institutions and other municipalities.

KPMG confirmed that there are additional opportunities to share services and put forward 20 opportunities for the City Manager's consideration. KPMG did not put forward any opportunities related to legal services and confirmed that there is little duplication or overlap in this function.

For further information about the findings and opportunities of the Shared Services Study see pages 31 to 88 of the KPMG final report attached in Appendix C.

5. City Manager's Review of the KPMG Opportunities

The City Manager has reviewed the KPMG opportunities in consultation with City agencies and sees tremendous opportunity for the City and its agencies to share these and other corporate support services to create economies of scale, pool resources and skills, leverage technology investments, and save money now and into the future.

The City Manager recommends the following disposition of the KPMG opportunities:

- Implement ten (10) opportunities and report further as required;
- Implement eight (8) opportunities pending further due diligence and planning and report back on a detailed shared service implementation plan;
- Take no further action on two (2) opportunities.

The KPMG opportunities and recommended disposition are summarized in Appendix B and discussed further below.

a. Implement and Report Further as Required

The following KPMG opportunities will be implemented and reported further as required:

- Develop a City-Wide Labour Relations and Collective Bargaining Strategy;
- Pool generic training and learning;
- Coordinate and standardize common health and safety functions;
- Expand the use of the City's Internal Audit Division for compliance, assurance and business risk consulting services to City agencies that do not have their own internal audit capacity;
- Continue to rationalize the City stores and increase direct delivery of products and automation of P2P (purchase to pay) processes;
- Establish a Quality Assurance Centre of Excellence to leverage tools, templates and specialized skills, coordinate work plans and share best practices;
- Provide the City's online submission application for Freedom of Information requests to interested agencies when it becomes available;
- Insure the Toronto Transit Commission and Toronto Parking Authority under the City's insurance for non-specialized policies and exclusive of claims, where the City is able to provide similar coverage for a lower cost; and
- Expand the City's provision of lessor activities to the Toronto Transit Commission and Toronto Parking Authority.

Develop and Implement a City-Wide Labour Relations and Collective Bargaining Strategy

KPMG has proposed the development of a labour relations and collective bargaining strategy on a go forward basis to enhance coordination and communications between with the City and its agencies. KPMG recommends that the strategy takes into account the City's current and future fiscal environment, macroeconomic trends and changes, workforce dynamics and other factors related to terms and conditions of employment

including compensation. They recommend that the strategy be developed in close collaboration with City agencies and be directed by the City's Employee and Labour Relations Committee. Under this model, City agencies will continue to be responsible for day-to-day labour relations activities including grievances.

The City Manager agrees with this opportunity and feels a labour relations and collective bargaining strategy will formalize the enhanced bargaining coordination and communications that the City and agencies have already developed over the last several years. For example, the City recently executed a Service Level Agreement with Exhibition Place to provide labour relation services, including bargaining, to their organization. The City also provides bargaining services to the Toronto Zoo.

A labour relations and collective bargaining strategy will also enable a more consistent and uniform approach to dealing with similar collective bargaining issues and may allow for improved management of operations and greater control of rising labour costs. The development and implementation of a labour relations and collective bargaining strategy will need to consider potential legal limitations and be adopted by agency boards.

KPMG has estimated that pursuing this opportunity may yield annual cost savings of \$47M. Their analysis is based on one percent of the City's annual salary and benefits costs. The City Manager agrees that there are potential cost savings but is of the opinion that cost savings will likely be lower than the KPMG estimates.

Pool generic training and learning

The City Manager concurs that that the City and its agencies should pool generic training and learning and coordinate common health and safety functions.

Expand the use of the City's Internal Audit Division

The City Manager reported out the results of the internal audit component of the Shared Service Study to Audit Committee and City Council. The report, *Results Arising from the Shared Services Study Related to Internal Audit and Jurisdictional Research Respecting Funding Models for Accountability Functions*, was considered by City Council at its meeting on April 3 and 4, 2013 and the report concurred with expanding the use of the Internal Audit Division for compliance, assurance and business risk consulting services to agencies that do not have this capacity.

Continue to rationalize the City stores and increase direct delivery of products and automation of P2P (purchase to pay) processes

The City Manager agrees with the KPMG opportunity to rationalize the City's stores and this approach is consistent with the recommendations arising out of the Auditor General's report, AU9.10 – City Stores: Maximizing Operating Capacity.

The Procurement and Materials Management Division is in the process of implementing the Auditor General recommendations to improve drop shipment and leverage direct delivery, develop an online inventory system and evaluate the use of scanning technology for improved efficiencies, and continual rationalization of the City stores. Three warehouses are scheduled for consolidation in late 2014.

Establish a Quality Assurance Centre of Excellence

A Quality Assurance Centre of Excellence (a Community of Practice) for quality assurance practitioners will be established to leverage tools, templates and specialized skills, coordinate work plans and share best practices.

KPMG also suggested that City and agency internal audit professionals should meet regularly to share work plans and leverage specialized audit skills and expertise. This working level collaboration with internal audit professionals has already begun.

Provide the City's online submission application for Freedom of Information requests to interested agencies when it becomes available

The City Clerk has a project currently underway, funded through the City's Capital Budget, to automate the City's submission of Freedom of Information requests from the public. KPMG has suggested that the City could extend this initiative to City agencies through a common information technology platform.

Given that some City agencies are considered separate institutions under the *Municipal Freedom of Information and Protection of Privacy Act*, a common information technology platform is not feasible under legislation. The City Clerk recommends that the City make the on-line automated request application available to City agencies as a best practice and to adapt for their use, rather than pursue a common information technology platform.

Insure the Toronto Transit Commission and Toronto Parking Authority under the City's insurance

The City Manager agrees that the Toronto Parking Authority and Toronto Transit Commission should be insured under the City's insurance where the City can provide similar terms at a lower cost, and for non-specialized policies and exclusive of claims. The City Manager, Deputy City Manager and Chief Executive Officer will work with senior agency staff to undertake a cost benefit analysis and report further as required.

Extend the City's provision of lessor activities to the Toronto Transit Commission and Toronto Parking Authority

The City's Real Estate Division currently provides a full suite of lessor services to the Toronto Police Service and Toronto Public Health and some specific lessor services to Toronto Public Library.

KPMG suggest that the City's Real Estate Division provide lessor services including negotiation and tenant management, leasing air rights, and lease administration to the Toronto Parking Authority and Toronto Transit Commission.

The specific operational requirements of both agencies including requirements for specialized lessor services will need to be considered before moving forward. The report recommends that the Chief Corporate Officer work with senior agency staff on the possibility of the City providing this service to these two agencies and report further as required.

b. Implement Pending Further Due Diligence and Planning

The following KPMG opportunities are recommended for implementation following further due diligence and planning and subject to approval of a multi-year implementation plan:

- Expand common procurement and implement strategic sourcing;
- Adopt standard human resource management information technology systems and build agency requirements into solution development;
- Implement shared payroll and benefits administration;
- Expedite the transition to digital records management;
- Implement common information technology infrastructure with a focus on data centres, infrastructure management and storage services;
- Rationalize and consolidate the City's use of information technology applications;
- Establish an information technology platform such as SAP Real Estate to maintain a database of vendor records and information about appraisals, tenant improvements and remediation; and
- Establish a change management centre of excellence to support the implementation of shared services and other major City initiatives.

The development of an implementation plan is discussed further in section 6 of this report.

c. No Further Action Required

The City Manager reviewed the KPMG opportunity to outsource the City's two records centres with the City Clerk and recommend that this not be pursued. Outsourcing the City's two records centres introduces an unnecessary risk to the City and the integrity of its public records for minimal projected cost savings. Toronto Public Health and the Toronto Police Service also raised concerns with this opportunity as they store their records at the City's two records centres including criminal and health records collected under the authority of the Criminal Code of Canada and the *Health Protection and Promotion Act*.

KPMG suggest that a Joint City and Agency Records Management Working Group be established to expand the City's records schema to other agencies and to a greater scope of record. Although KPMG recognized that records collaboration and consultation already exists between the City and its agencies, they believed that there were opportunities for even further standardization. The City Manager discussed this opportunity with both the City Clerk and City agencies and there is agreement that the level of remaining records schema standardization would result in an unnecessary draw on resources and not yield sufficient benefits.

The City Manager and City Clerk recommend that no further action be taken on these opportunities and believe that the City should focus its efforts on the transition to digital records. Transitioning the City and its agencies to digital records will require an assessment of record requirements and reduce reliance for paper based storage over the longer term.

6. Developing a Shared Service Implementation Plan

The KPMG opportunities referred for inclusion in an implementation plan are broad transformational directions that will require significant business process re-engineering, organizational change and information technology investment to successfully implement. Further due diligence and planning will be undertaken and a multi-year implementation plan will be developed.

The City Manager concurs with KPMG that the approach to shared services should be value-driven. KPMG suggests that next steps include a value proposition analysis for each opportunity to evaluate financial savings, service benefits, resource reallocations, and any other benefits over drawbacks, limitations and risks. The value proposition analysis also needs to confirm that moving to shared services will be cost neutral for the City and its agencies and provide a return on investment.

KPMG highlighted that agency engagement at the due diligence and implementation planning stage is critical and that decision-making structures should represent all partner interests to facilitate shared ownership and realize the maximum benefits of shared services. To guide planning and implementation, a Shared Service Steering Committee will be established with membership from City and agency senior management and work teams will be convened to undertake further analysis and operational planning.

KPMG identified dedicated resources as a key enabler for the successful implementation of shared services and proposed a Shared Service Secretariat be established to lead the City and agencies through the next stages of planning and implementation. They also recommend enhanced change management resources to support the shared services implementation and other major City initiatives.

The City Manager recognizes that resources to sustain and manage this change will be important. Dedicated resources will be identified for the initial stages of this work and budget impacts reported as required. Longer term resource requirements will be further

considered and addressed through the development of a multi-year shared service implementation plan.

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SIGNATURE

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City Manager

ATTACHMENTS

Appendix A: Summary of Current Shared Services
Appendix B: Disposition of KPMG Opportunities
Appendix C: KPMG Final Report