GL19.1a

REPORT FOR ACTION

2019 Consulting Expenditures of City Divisions, Agencies and Corporations – Reasons for year over year fluctuations

Date: November 13, 2020
To: General Government and Licensing Committee
From: Controller
Wards: All

SUMMARY

At its meeting of October 5, 2020, the General Government and Licensing Committee (GGLC) was provided with information on consulting expenditures made by City divisions, Agencies and Corporations in 2019. The report contained a summary and details, by category and vendor, of operating and capital consulting expenditures for 2019, with 2018 comparatives, presented in a format directed by City of Toronto Council (Council). In 2019, City of Toronto divisions (Divisions), and City Agencies and Corporations (A&Cs) spent $37.7 million on consulting, for both operating and capital initiatives.

This report provides further information about consulting expenses over the past ten years and the reason why the amounts vary year over year.

Since 2010, total consulting expenditures ranged from a low of $11.2 million in 2014 to a high of $37.7 million in 2019; the City-wide average spent on consulting over the past ten years is $21.2 million. Consulting expenditures incurred for operating initiatives was lowest in 2015 at $3.4 million and highest in 2019 at $13.6 million; the average was $6.1 million. Likewise, consulting spent on capital projects was lowest in 2011 at $7.0 million and highest in 2016 at $27.2 million; the average over the past ten years was $15.0 million.

Consultants are used by Divisions and A&Cs for a number of reasons, which do not always present in comparable patterns or trends that clearly identify a normal use in any given year. As can be seen by the information in Appendix A, the entities with the highest use, as reported over the past ten years, have different total average levels of expenditures, together with very different initiatives for which those expenditures were incurred. There is a frequent correlation between the use of consultants and significant infrastructure investments and when new legislation/provincial regulation is introduced or amended (AODA, Value-Based Organizational Review, Construction Act

amendments etc.) regardless of the Division that is impacted by the Infrastructure investment or legislative change. It is clear that consultants are typically used when:

- A specialized skill set is required that aligns with best practice and the most up to date expertise, such as for a system implementation or a public safety review;
- The existing staff complement cannot absorb one-time special purpose or project work within existing capacity and hiring permanent staff with the required skills is not cost effective, such as for construction project design or specialized legal advice;
- An independent objective review is required and/or mandated by a funding agreement, and benefits from outside involvement or expertise, such as public engagement or a service delivery review; or
- Work needs to be completed quickly to meet a Council or legislative deadline, such as addressing the Province of Ontario Construction Act changes or the Eglinton East Extension project.

Each initiative that uses consultants has unique circumstances and requirements that are considered before determining the most cost effective way of completing the work. Through detailed planning processes and consideration of the above factors, Divisions and A&Cs determine when the use of consultants is justified. This use does not necessarily follow a pattern or trend year over year or in specific Divisions/A&Cs. As a result, the extent of consulting work will be dependent upon the City's annual requirements, as well as business needs in order to accommodate unanticipated requests or changes in the external environment to achieve overall operational and financial efficiencies.

RECOMMENDATIONS

The Controller recommends that the General Government and Licensing Committee receive this report for information.

FINANCIAL IMPACT

There are no financial implications arising from the recommendations made in this report for the current fiscal period. All of the City's expenditures were incurred in previous years and reported in prior fiscal periods for both financial reporting and budget variance purposes. In all cases, the use of consultants has been considered in all initiative and project planning, with investments in external experts providing future value.

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

DECISION HISTORY

At its meeting of December 4 to 6, 2001, Toronto City Council (Council), approved the following activities, as part of its adoption of Audit Committee Report No. 10, Clause 10 titled “Policy for the Selection and Hiring of Professional and Consulting Services, Use of Consultants and Expenditure Reduction Strategies, and Hiring of Professional and Consulting Services Review”:

- The development of a Purchasing Policy for the Selection and Hiring of Professional and Consulting Services; and

- A requirement that “(all) future reporting of consulting expenditures be based on actual expenditures incurred and not on the value of contracts awarded unless specifically requested by Council. In order to ensure that such reporting is accurate, all consulting costs reported to Council be reconciled to the City’s financial information system by each Department.”

The following is the link to the Council decision and staff report:
http://www.toronto.ca/legdocs/2001/agendas/council/cc011204/au10rpt/cl010.pdf

Subsequently, Council at its meeting held on June 18 to 20, 2002, adopted the following recommendation contained in a report dated May 31, 2002 from the Chief Administrative Officer, entitled “Corporate Accountability Framework – Implementation Plan and Status Update on the Use of Consultants” (re: Audit Committee Report No. 6, Clause 1):

“The [Chief Administrative Officer] and [Chief Financial Officer and Treasurer], in consultation with the City Auditor, provide an annual report commencing with the period ending December 31, 2002, on consulting expenditures that will include actual consulting expenditures for the previous year and the year prior (i.e., 2002 and 2001 actuals) organized by: department or local board, by the specific consulting categories, and by vendor.”
The following is the link to the Council decision and staff report:
http://www.toronto.ca/legdocs/2002/agendas/council/cc020618/au6rpt/cl001.pdf

At its meeting held on May 23 - 25, 2007, Council approved an amended policy for the Selection and Hiring of Professional and Consulting Services to reflect changes made to the City's administrative structure and amendments made to the City's Purchasing and Financial Control By-laws (re: GM4.8). Following is the link to the Council decision and staff report:
http://www.toronto.ca/legdocs/mmis/2007/cc/decisions/2007-05-23-cc08-dd.pdf

At its meeting held on October 5, 2020, GGLC postponed consideration of the 2019 Consulting Services Expenditures – City Divisions and Agencies and Corporations report, requesting that staff report back with a more fulsome explanation with the reason for the fluctuations in total consulting fees year to year. The following is the link to the GGLC decision and staff report:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.GL16.3

ISSUE BACKGROUND

On an annual basis, Accounting Services gathers information from Divisions and A&Cs on the consulting expenses incurred in the reporting period, based on criteria approved by Council and provides the listing to GGLC for information purposes. Each entity provides the required information, along with an explanation of the reason for the consulting expenditures incurred, such as the project, initiative or special purpose that needed the use of outside, specialized. Much like other organizations, each entity retains consultants where the most up to date, relevant skills are required, capacity is not available to complete a one-time initiative in a set period of time or it is not cost effective to maintain specialized skills in-house given infrequent use.

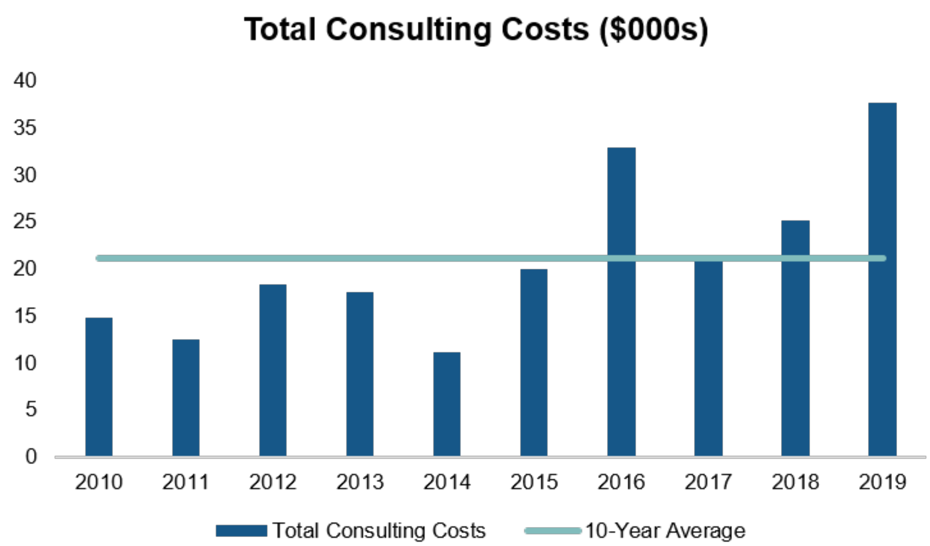
The 2019 report was provided to GGLC but consideration has been deferred to allow staff to return more fulsome information on why consulting expenditures fluctuate year over year.

COMMENTS

Over the past ten years, consulting expenditures have varied significantly from year to year, type (operating and capital) and by entity:

- The 2019 total of $37.7 million is the highest since 2010
- The lowest consulting expenditures occurred in 2015 at $3.4 million (operating) and in 2011 at $7.0 million (capital)
- The most money spent on consulting expenditures occurred in 2019 at $13.6 million (operating) and in 2016 at $27.2 million (capital)
- The ten year average in consulting spending is $21.1 million (Operating - $6.1 million; Capital - $15.0 million)

The City's total consulting costs over the past 10-year period is illustrated as follows:



There is no specific pattern or trend associated with the use of consultants at the City from year to year, and between divisions and A&Cs other than a correlation with significant infrastructure investments or when legislative changes have occurred. When reviewing consulting costs over the past 10-year period, abnormal increases noted largely stemmed from:

Operating charges:

- Initiatives to identify cost saving measures to address budget deficits without impacting service delivery, such as the City-wide provincially mandated Value Based Outcome Review which was funded by the Province;
- Need to understand impacts of new legislation issued, or programs mandated, by the Province of Ontario, for example, the Accessibility for Ontarians with Disabilities Act;
- Projects completed to achieve the City's strategic and corporate priorities, as directed by Council, such as the City-wide Real Estate Review; and
- Responses to residents or businesses' concerns and requests, such as the impact on construction to local businesses from the Eglinton Crosstown construction project.

Capital charges:
- Need to obtain external expertise to support the execution of major capital initiatives, such as the City's Union Station revitalization project;
- Development and implementation of new technologies or software in order to improve overall productivity, such as the acquisition and implementation of SAP's Cross Application Timesheet System or the Toronto Police Service's implementation of a new electronic records management system as part of the Integrated Records & Information System project; and
- The need to assess asset conditions, such as the TTC's use of consultants for the entity's capital asset management maintenance and procurement plan.

Appendix A provides detailed information about various Divisions and A&C's that have generated the majority of the reported consulting costs over the past ten years. The highlights are as follows:

Use of consultants for operating initiatives:
- The City Manager's Office, Community and Social Services, Corporate Services and Finance and Treasury have 10-year average spending on consultants that is significantly lower than $1.0 million, however, incurred significantly higher than average costs during years when City-wide reviews or initiatives were undertaken, such as the Core Services Review in 2011/2012, the Real Estate Review in 2016 and the Provincially mandated Value Based Outcome Review and Procurement category management in 2019.

- Although Infrastructure and Development Services' average operating spending on consultants is also lower than $1.0 million per year, the nature of their work requires more frequent use of consultants with specialized skills. The years 2013, 2016, 2017 and 2019 expenditures exceeded the ten year average because of special circumstances:
    - A review of the reasonability of Porter Airlines request to land aircraft at Billy Bishop Airport;
    - The review and implementation of construction best practices arising from Auditor General recommendations; and
    - The implementation of new legislative requirements brought about by the new Construction Act.

- The Toronto Police Services' average operating consulting expenditures are less than $1 million over the past 10 years. However, the Agency incurred higher than average expenditures in 2014, as well as significantly higher than average expenditures in 2018 and 2019, mainly due to service delivery modernization. Specifically, in recent years, the Agency completed the evaluation and implementation of changes to its work culture and human resource related strategies in response to the work of the Transformational Task Force.

- TTC's spending exceeds its 10-year operating consulting spending average of $1.4 million in a number of years, the most significant being 2010 when consulting costs were primarily incurred to support the Agency's efforts in assessing its occupational health strategy for purposes of improving its occupational injury rates, as well as addressing various safety concerns raised by the public.

Use of consultants for capital initiatives:

- The 10-year average spend on consultants for Divisions and A&Cs, with the highest spending, ranges from less than $0.1 million to $5.1 million; use of consultants ranges from communications for public engagement to multi-disciplinary engineers for significant, multi-year capital projects.

- The City Manager's Office's 10-year average for consulting costs is lower than $1 million. However, in 2017, the division's consulting costs were higher than normal due to technical expertise required to support major transportation projects, such as the Eglinton East light rail vehicle extension project.

- Corporate Services' average spend on consultants was the highest in 2015 when the service area started its acquisition and implementation of SAP's Cross Application Timesheet System.

- Finance & Treasury Services' costs exceeded the 10-year average spend in 2012 and 2013 in order to support the development of new software for financial planning, budgeting, and forecasting activities.

- Infrastructure & Development Services' consulting costs experienced a significant growth starting from 2015 to 2019 in order to investigate the impact of major transportation projects on traffic congestion patterns, as well as support the City's prioritization of key infrastructure projects.

- Toronto Police's average spend on consultants used for capital projects is significantly below $1 million over the past 10 years, except for 2013 when significant work occurred on the organization's records management project.

- The TTC's 10-year average was significantly impacted by spending that began in 2015, when the organization used external consultants with expertise in asset management and procurement, engineering and service delivery. Significant consulting costs were incurred in 2016 when the agency implemented a new financial system, SAP S4, which utilized both system and programming experts with up to date knowledge on this technology.

Based on information provided in Appendix A, it is clear that the outliers from average consulting costs are incurred in order to leverage unique, external expertise not available amongst internal personnel, as well as gain exposure to innovative tools that could be used to further strengthen internal and external services, especially when needed to quickly respond to changes in the external environment or address specific financial and/or operational challenges.

Consulting cost spending is variable, particularly costs associated with capital initiatives, and highly dependent on annual operational requirements. Legislative changes often create a short term limited need for specialised skills and expertise which City personnel do not possess. External consultants are, therefore, used to supplement City personnel's existing expertise, as well as providing support to large-scale projects, especially when activities are anticipated to have significant impacts on the public. Consulting services supplement critical skill sets and expertise that are needed for both operating and capital initiatives that vary from year to year or amongst divisions and A&Cs. For this reason, cost patterns and trends remain largely unpredictable.

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SIGNATURE

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ATTACHMENTS

Appendix A: Analysis of trends and patterns in City and A&Cs Consulting spending