Attachment 1: Digital Modernization of Revenue Services – Final Report

City of Toronto

Digital Modernization of Revenue Services

Final Report – October 2021

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Context

The City of Toronto's recently established Corporate Strategic Plan contains two key corporate priorities: Financial Sustainability and A Well Run City. Both priorities are underpinned by a number of key strategic initiatives which this project is intended to advance. Enabling the Digital Modernization of Revenue Services and Customer Experience Transformation initiatives is expected to deliver meaningful benefits including:

The City is two years into its current corporate strategic plan and has major milestones targeted for the 18 to 24 months.

- A significant improvement in the productivity and effectiveness of the City's enterprise-wide revenue services performance. This is likely to be delivered through a combination of consolidating key revenue processes from their currently decentralized state, streamlining and standardizing processes, and enabling more consistent automation
- Rolling out a digital payments platform intended to reduce the overall cost of service on a per transaction basis while enhancing the customer experience and introducing new capabilities such as partial payments
- Improving the quality of the City's revenue and customer-related data, enabling more robust reporting and management of revenue-related operations
- The opportunity to manage growth in the demand for services, and associated staff effort needed to deliver and maintain service levels in growth scenarios
- Opportunities to transform the City's financial technology landscape in alignment with the City's Digital Infrastructure Plan (DIP) and associated principles

These initiatives come at a time of considerable change for the City, both internally and driven by external factors. COVID-19 has accelerated ongoing shifts in consumer behaviour toward the use of more digital payment methods and on-demand channels. Internally, a significant number of initiatives are underway which will intersect with the next steps of this project. Digitally enabling payments and consolidating and transforming the revenue services function are an important step in the City's continuing modernization journey.

A Modern Vision for Revenue Services across the City

Consolidating revenue services operations, primarily billing, collections, accounts receivable and cash management, is an opportunity for Revenue Services Division to take a leading role in maturing the S2C function across the City.

Transforming the Revenue Services operating model is deeply complementary with the resident- and business-facing enhancements being implemented as part of Digital Payments and the Customer Experience Transformation. Modernizing the customer-facing payments experience will help enable standardization of revenue processes.

Enterprise leadership

Drive revenue services technical excellence, risk management and continuous improvement

Customer service enhancements

Deliver a more integrated, consistent customer experience at and after the point of sale

Customer and revenue insights

Deliver integrated, enterprise wide customer and revenue insights, analytics and reporting

Productivity enhancements

Continually reduce the cost of service internally while delivering quality service to residents and businesses

Enabling partnerships with Divisions

Enable divisional service delivery through an efficient and trusted partnership

Driving this evolution by establishing a true enterprise Revenue Shared Services, supported with Centres of Excellence, will allow the City to not only improve and optimize, but also to sustain, the delivery model over time. Demand for services is only likely to increase post-pandemic, and the City's key means of managing that demand is through optimizing the use of existing resources.

Project Scope & Methodology

Below is an overview of the approach to conduct the review of the City's revenue services function and its associated digital modernization activities. The major focus of the review was to identify a future target operating model for a consolidated revenue services function and how that function could be modernized.

Context & Background

The City is in the process of deploying internal and external financial modernization tools, including a Digital Payments front end tool and launching an internal ERP transformation. Those two programs will substantially impact the performance of the service to cash process at the City.

- To support these efforts, EY evaluated services with a revenue component, identified where service to cash activities take place across the organization, developed target operating model options for a future consolidated revenue services function, and identified opportunities to drive increased value through the use of digital payments.

Research Scope & Process

1 Areas of evaluation included:

- Revenue-driven services
- Tools used in revenue processes
- Customer experience and interactions
- Service to cash process administration

2 Three sources of research and information were used to conduct this review

- Review of City's Website and other publicly available documentation
- Review of internal City documents
- Targeted Engagements with key City Staff

Outputs

Phase I: Current state assessment

Document the current state, including processes by in scope program and identify pain points, challenges, and opportunities to modernize revenue services functions.

Phase II: Future state needs

Identified future state needs from a digital modernization perspective for both internal users and customers

Phase III: Operating model options

Defined operating model options, and associated impacts, for a consolidated revenue services function

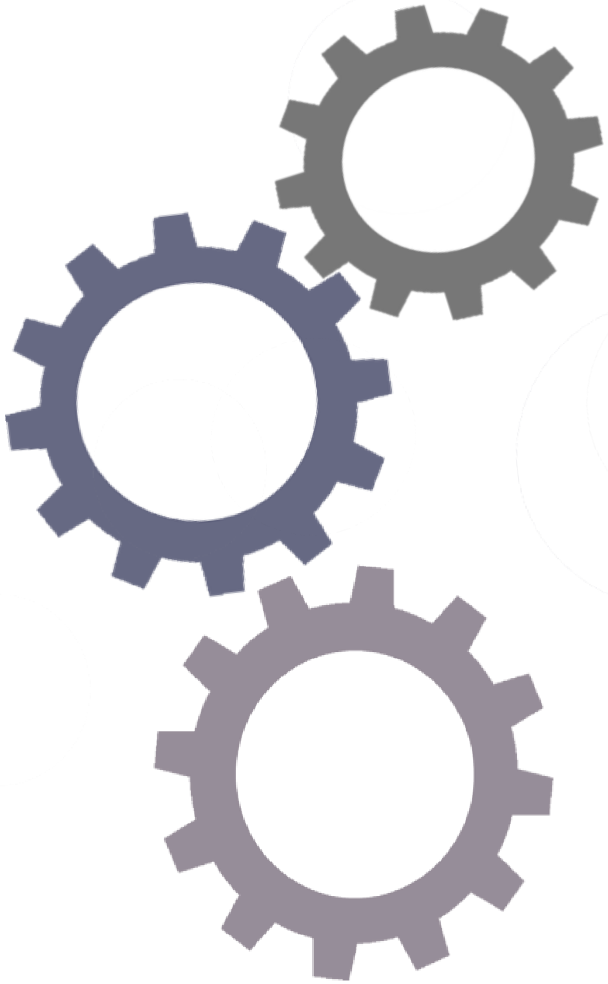
Phase IV: Business case development

Quantify, wherever possible, the potential reinvestment associated with the opportunities and prepare associated business cases and roadmaps for the City's consideration.

Key Findings and Recommendations

Key Findings

This report contains a number of recommendations designed to enable and optimize the consolidated enterprise-wide revenue services function



THE RECOMMENDATIONS, AS AN INTEGRATED PACKAGE, OFFER A CLEAR BASIS UPON WHICH THE CITY COULD DELIVER ENHANCEMENTS AND REALIZE PRODUCTIVITY ENHANCEMENTS

1. The recommendations are anticipated to deliver **meaningful productivity enhancements**, providing the City with **re-investment opportunities** to **manage growth in service demands,** particularly as activity resumes post-pandemic
   i. Acting on these opportunities is the lever the City can pull to manage service pressures including increasing demand and increasingly complex revenue-generating services

2. More than just enabling the City to control service pressures, these recommendations are intended to actively **improve the customer experience**, both for external customers (residents and businesses) and internal customers (revenue-generating divisions), while providing increased access to self-service tools and a more **modern payments experience**

3. The recommendations also support the City’s need to **drive increased process ownership, consistency, and standardization** across service to cash activities to drive increased transactional efficiency and enable the increased use of automation tools

4. Lastly, while this report recognizes the significant amount of change that divisions outside Finance and Treasury will go through in order to enable this future consolidated operating model, it also **clearly identifies the potential productivity enhancements** associated with undertaking that consolidation effort

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Current State of Service to Cash Process

Activities supporting the revenue generating services are fragmented across multiple divisions, with no centralized, enterprise division governing the end-to-end service to cash process across the City.

Legend
- Revenue Services
- Divisions
- Other Finance & Treasury

L2	1. Customer and Credit Management	2. Service Management	3. Generate Invoice	4. Accounts Receivable	5. Dispute Management	6. Cash Management	7. Policy management and Data Maintenance
L3	1.1 Demand management and planning	2.1 Service intake processing	3.1 Generate billing data	4.1 Recognize & AR	5.1 Identify and invoice dispute	6.1 Receive cash	7.1 Manage service master data
	1.2 Validate and new customer	2.2 Process sales	3.2 Transmit customer	4.2 Process refund credit	5.2 Manage & adjustments & deductions	6.2 Apply cash	7.2 Maintain & billing tables
	1.3 Analyze service and performance	2.3 Execute service delivery		4.3 Collect AR			7.3 Manage procedures
	1.4 Collect tax certification			4.4 Aging analysis			7.4 Maintain S2C reports
				4.5 Bad debt			

Future Vision: Modernizing how Services are Delivered

The City needs a new operating model to maximize the efficiency and effectiveness of revenue services operations enterprise wide

The objective

Define a **Target Operating Model (TOM)** for the end-to-end Service to cash processes that would allow to:

- Increase **productivity and effectiveness** through automation
- **Support decision making** and revenue growth of the Divisions through proactive information and insight
- Modernize processes, tools and practices in support of the City's **key corporate priorities**
- **Align with** the City's ongoing **Customer Experience Transformation**, broader **Digital Modernization**, and **Enterprise Architecture**

Design principles

Streamlined processes: Finance processes are streamlined to most efficiently and effectively meet the needs of the City

Common location: Common processes are performed from a common location

Empowered workforce: Staff are empowered to develop professionally and provide more strategic value across finance

Risk management: Effectively manage financial risks

Automation: Technology and automation are fully utilized and manual adjustments are minimized

Seamless experience: Contribute to the best possible end-customer experience

Options analysis

- Defined **target operating model options**, including a recommendation, based on service delivery model leading practices in order to **allocate roles & responsibilities** to either the Divisions, a Centre of Excellence or a Shared Services Center (SSC)
- **Gathered and analyzed FTEs** for the in scope activities to assess the remaining efforts in the divisions and the approximate size of the SSC
- **Defined typical profiles** and skills set for the SSC

Recommendation: Enterprise-wide Revenue Shared Service

Centralize the majority of revenue-related finance activities in a **Revenue Shared Services Centre (RSS)** supported by a **Centre of Excellence (CoE)**. The SSC will enable increased standardization of revenue processes while optimizing service delivery, while the CoE addresses technically complex activities and drives increased maturity.

Operating Model Description:

- **Centralize high volume and transactional** activities in a Revenue Shared Service (RSS), within Finance & Treasury
- Group transactional processes **requiring specialized skillsets into a Centre of Excellence** to develop internal expertise and enhance process governance and oversight
- **Significantly standardize and automate processes** to release efficiencies that will be redirected to high value-add activities
- **Implement robust governance** over service to cash processes led by RSS

Recommendation Rationale:

- **Many finance processes** related to revenue across City services are **transactional in nature** and can be consolidated and delivered in a more efficient method at scale
- Customer, Credit, Policy and Data management **require specialized skillsets**. Grouping those under a **CoE will enable higher degrees of maturity** and the development of enhanced governance and controls
- The value of RSS owning the service to cash process **is consistency of customer interaction** and an established point of authority and ownership; discrete activities may still be performed by, or require support from, divisions

Standardization	Centralization	Automation	Extended Automation	Channel Savings
Processes are standardized and drive more consistency of interaction	Economies of scale and relative specialization drive productivity enhancements	S4 HANA will enable increased standard process automation and technology integrations	Extended automation enabled by tools beyond S4 HANA	Higher cost channels or payment methods are replaced by lower cost options while maintain service accessibility

Opportunities for Improvement: Transform Phase

The following Transform phase opportunities establish a foundation for the TOM enablement and drive nearer-term benefit through incorporating new prioritization considerations in to the Digital Payments rollout

Prioritize cost savings in the Digital Payments rollout strategy

Incorporate **cost per transaction reduction as a prioritization factor** in the Digital Payments rollout, and reassess the roadmap accordingly.

Expected Benefits

1. **Direct cost savings** on a per-transaction basis
2. High potential savings: **$1.79M - $4.36M**

Align on the TOM integration strategy

Align on and communicate the strategy to **consolidate revenue services resources** together in the future state TOM

Expected Benefits

1. Centralization: **4-8% improvement**
2. Productivity gains: **$1.81M - $4.23M**

Define the service management framework for the TOM

Establish how the future state TOM is going to **serve divisional needs,** including associated **service levels and KPIs**

Expected Benefits

1. **Consistency** in internal and external **customer experience** and interactions across CoT

Implement central governance around customer master data

Improve governance and process around **customer master data enterprise wide** and enable future customer insights and reporting

Expected Benefits

1. **Integrated customer management** and enabler for the FSTP and Digital Payments integrations

Assess technology gaps against the City's enterprise architecture

Assess technology gaps against the **City's enterprise architecture framework** for opportunities to close them

Expected Benefits

1. Driving **additional benefits** post SAP S4 implementation with **further automation**

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Opportunities for Improvement: Run and Enhance Phases

Building off of the Transform phase, the Run phase will allow the City to implement the new operating model and start realizing benefits, while the Enhance phase will advance the City's innovation and partnership objectives

Define the CoT-wide process documentation strategy

Leveraging work already done and targeted for the FSTP transformation, build a **comprehensive enterprise-wide service** to cash process framework

Expected Benefits

1. Standardization: **3-8% improvement**
2. Productivity gains: **$1.61M- $3.43M**

Define and implement a comprehensive risk and controls matrix

Develop a robust service to cash specific risk and controls matrix to **enhance compliance** and reduce revenue-related risks

Expected Benefits

1. **Optimize management** of the City's **risk profile**

Conduct improvement projects to optimize global processes

Optimize enterprise-wide service to cash **processes** in alignment with the rollout of SAP S4

Expected Benefits

1. Automation: **5-9% improvement**
2. Productivity gains: **$1.41M- $3.02M**

Roll out additional automation opportunities

Launch **additional automation projects** to address gaps in the future state and **continually innovate** within revenue services

Expected Benefits

1. Automation: **3-5% improvement**
2. Productivity gains: **$233K- $698K**

Develop the Business partnering function within F&T

Refine how the shared service function **operates in partnership with**, and **enhances the maturity** of, divisional partners

Expected Benefits

1. Increase **Finance's value** in the business decision **support process**

Context for Productivity Enhancement Estimates

This report has identified ten (10) recommendations to improve the efficiency, effectiveness, and experience of the City's revenue services process and operations. Five were quantifiable based on the City's current data and information; while benefits are anticipated for the others, additional information is required to quantify them.

While each recommendation is different, and targets different components of existing revenue services operations, productivity enhancement estimates generally have the following characteristics:

1. Future state service to cash processes were mapped and assessed for opportunities to standardize, centralize, or automate process steps
2. Steps which could be standardized, centralized or automated were assessed for their significance in the process, and accompanying improvements were estimated
3. Automation opportunities were characterized in two ways: either the step could be addressed by the City's upcoming S4 HANA transformation, or it could have potential to be automated in alternative ways
4. Improvement percentages were then calculated against the known scope of the City's staff supporting the service to cash process
5. Lastly, from a channel cost perspective, known channel (online, phone, counter, mail) and payment method (cash, credit card, debit, EFT, wire transfer, cheque) costs were used to estimate a per-transaction cost; digital payment transaction costs were used to identify where potential cost savings exist

Benefits Case – Quantifiable Benefits

Benefits have been quantified over a multi-year period, with a combination of direct productivity gains and effort avoidance which can be re-invested in managing service pressures, including demand growth

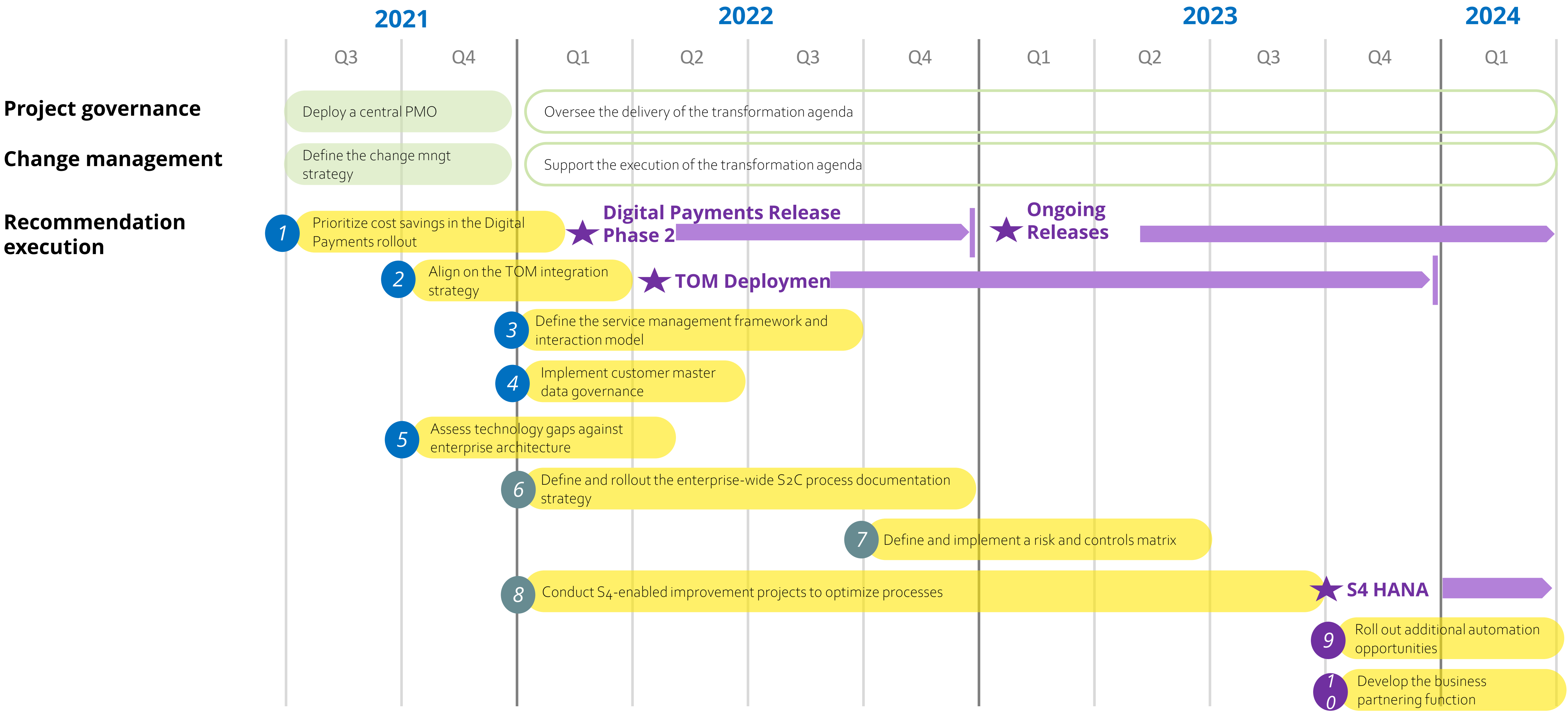
The opportunities below have been quantified using the following key considerations:

1. Productivity gains ramp up over a three (3) year window, with 20% of benefits being realized in the first (1) year post-implementation, 60% more in year two (2), and the final 20% in year three (3)
2. Productivity gains are one time savings
3. Effort avoidance represents the subsequent benefit of productivity gains which have been realized (ie. once a productivity gain has been realized, in subsequent years that effort is avoided); effort avoidance is calculated on a multi-year period
4. All totals are calculated over a five (5) year period from 2022-2026; benefits should continue accruing after this period
5. All benefits are calculated as of full implementation of each recommendation
6. A full set of assumptions and inputs can be found in the full report

Recommendation	Productivity Gains	Effort Avoidance	Multi-year Total
1. Prioritize cost savings in the Digital Payments	$ 596K – $ 1.45M	$ 1.19M – $ 2.91M	$ 1.79M – $ 4.36M
2. Align on the TOM integration strategy	$ 907K – $ 2.12K	$ 907K – $ 2.12K	$ 1.81M – $ 4.23M
6. Define the CoT-wide process documentation	$ 806K – $ 1.71M	$ 806K – $ 1.71M	$ 1.61M – $ 3.43M
8. Conduct improvement projects to optimize	$ 705K – $ 1.51M	$ 705K – $ 1.51M	$ 1.41M – $ 3.02M
9. Roll out additional automation opportunities	$ 186K – $ 559K	$ 47K – $ 140K	$ 233K – $ 698K
Totals	$ 3.2M – $ 7.35M	$ 3.66M – $ 8.39M	$ 6.85M – $ 15.7M

Note: Totals may not sum due to rounding

Revenue Services Modernization Roadmap



Report Summary

The recommendations previously described, if implemented, are likely to enable a more modern City, both from an internal service provision and external customer (resident and business) perspective. Internally, a modern, consolidated Revenue Shared Service enabled by accompanying Centres of Excellence is likely to drive substantial improvements in transactional process efficiency while delivering services at scale. These productivity gains can be reinvested to enable the City to maintain its robust service levels in the face of anticipated growth in the coming years. External customers meanwhile should be able to leverage more modern tools, and have a more consistent experience when engaging with the City.

Enterprise leadership

Customer service enhancements

Customer and revenue insights

Productivity enhancements

Enabling partnerships with Divisions

Advancing this portfolio of work, is the next step in continuing the City's Financial Sustainability journey. While there are many interdependencies with other initiatives the City is pursuing, implementing these opportunities should allow the City to maximize the benefits of these transformative programs.

Appendices

Appendix I: Data and Productivity Estimates Assumptions

Information around the assumptions made as part of our analysis regarding productivity gains, effort avoidance, cost savings and data validation

Core assumptions:

- City of Toronto employee data has been used to calculate benefits including efficiencies and effort avoidance (obtained from the City's People & Equity team in compliance with the CISO office)
- Operational data provided by the respective divisional teams has been used to calculate benefits including cost savings, efficiencies, and cost avoidance
- Calculations for benefits estimates, productivity gains, and cost and effort avoidance analysis have been performed using data provided by the City of Toronto team
- Inputs to the analysis are the sole responsibility of the management team and were reviewed with the City of Toronto's project team to validate all assumptions
- The analysis herein is in summary form. Selecting portions of this analysis without considering all of the factors and analyses considered, may create a misleading view of the output and results
- Calculations have been based on specific assumptions noted in Appendix 3 – Assumptions of the full report. Not every potential influence or factor has been considered including but not limited to negotiated changes with contractors and unions, inflation, the impact of overhead costs, and other similar environmental factors
- In all cases, the confidence interval associated with current state data allocations, improvement opportunities, and associated financial implications is +/- 25%.

Additional assumptions were taken into consideration when conducting this analysis and creating these recommendations

Appendix II: Acronym Glossary

The following is a glossary of the acronyms used throughout this document:

AR: Accounts Receivable

CoE: Centre of Excellence

CET: Customer Experience Transformation

FS: Financial Sustainability

F&T: Finance and Treasury

FSTP: Financial Systems Transformation Project

FTE: Full Time Equivalent

L1: Level 1 Process (Global)

L2: Level 2 Process (Business Process)

L3: Level 3 Process (Activity)

RSD: Revenue Services Division

RSS: Revenue Shared Service

SAP S4 HANA: SAP's most recent enterprise resource planning (ERP) platform

SSC: Shared Service Centre

S2C: Service to Cash

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