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NOTE REGARDING NEXT STEPS AND IMPLEMENTATION

This Service Efficiency Study provides advice and recommendations to the City Manager and was conducted in consultation with the relevant Agencies. The Study identifies actions and directions that could result in more efficient and effective service delivery, organizational and operation arrangements and associated savings.

The City Manager will work closely with City and Agency senior management to determine which of the actions are feasible and can be implemented, implementation methods and timeframes, and estimated savings. In some cases, further study may be required; in other cases the actions may not be deemed feasible. Implementation will be conducted using various methods and may be reported through annual operating budget processes or in a report to Council or an applicable Board, where specific authorities are necessary. In all cases, implementation will comply with collective agreements, human resources policies and legal obligations.

Preliminary estimated savings have been identified in the study by year where possible. In some cases savings may be included in the 2014 or future years' budget submissions. Achievement of these savings is highly dependent on the viability of these actions as determined by City and Agency senior management, timeframes and other implementation considerations.



cutting through complexity

City of Toronto - Shared Services Efficiency Study

Final Report

Management Consulting

May 2013

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Executive Summary

This section of the report highlights the salient points of analysis and recommendations formed during the engagement.

The concept of sharing services across multiple organizations or functional units is relatively straightforward; individual agencies carry out a number of corporate support functions, which, when analyzed across multiple agencies and divisions, may exhibit duplication, overlap, and redundancy. Shared service structures aim to address these gaps and inefficiencies by bringing together resources, functions, processes, and skills from dispersed organizational units to create economies of scale, increase standardization, pool skill sets, and often generate critical mass required to yield a positive return on new investments.

Recognizing the potential for shared services in the City, both the Council's Executive Committee and the City's Auditor General formed directional recommendations to explore shared services. These recommendations formed the basis for a wide-ranging review to describe the manner in which the City and its agencies could share business support services. In May of 2012, the City issued a tender for consulting services to undertake such a review to a roster of qualified firms (REOI # 9144-11-7001). Through a competitive process, KPMG was selected as the successful vendor for this assignment.

The primary objective of the review was to identify opportunities for shared services across City divisions and agencies for common services and functions, with the aim of reducing costs, increasing service efficiency and effectiveness, and improving customer service.

The scope of the review included City divisions and six agencies: Exhibition Place (EP), Toronto Parking Authority (TPA), Toronto Police Services (TPS), Toronto Transit Commission (TTC), Toronto Public Health (TPH), and Toronto Public Library (TPL). The City identified the following eight functions as priority areas for shared services: human resources and labour relations, information technology, insurance and risk management, internal audit, legal services, purchasing and materials management, records management, and real estate.

This report represents the final deliverable of the engagement.

The scope of the review entailed analysis of seven organizations (agencies and the City) across eight business services functions. This presented a challenge, in which 56 possible permutations of shared service opportunities would need to be analyzed. To attain focus and allow for depth of analysis, a “top-down” approach to prioritization was employed based on what was most material, practical, and feasible.

The use of selection criteria assisted the Steering Committee to select service delivery models with the greatest potential for organizational success and the greatest value for the City of Toronto. Following the selection of opportunities by the Steering Committee, a tiered approach was utilized to determine the level of analysis to be applied to each opportunity. Opportunities were stratified as either Tier 1 or Tier 2.

- **Tier 1** opportunities received detailed analysis, including the development of a supporting business case and implementation plan to guide the realization of the opportunity
- **Tier 2** opportunities received a high-level description of the nature and scope of the opportunity, including key considerations for implementation

Executive Summary

Key Findings by Function

The findings and recommendations presented in the body of this report were informed by: documents and information forwarded by City divisions and agencies; interviews with over 67 individuals; 14 workshops with participants from across the City; a jurisdictional scan of leading practices in shared services in public sector entities; as well as the expertise and experiences of KPMG.

The table below and continued on the next pages describe the key findings and recommendations associated with each in-scope function. All agencies and divisions are included in the recommendations unless otherwise indicated.

Human Resources

Key Findings and Observations	Recommended Shared Service Opportunities For Consideration	
	Tier 1	Tier 2
<ul style="list-style-type: none"> ▪ The degree of collaboration and coordination among agency and City HR practitioners is perceived to be limited ▪ No apparent formal mechanisms currently exist to share knowledge, experience, and leading practices across the City and agencies ▪ Of all the functions in scope, HR arguably has the greatest degree of commonality of activities and processes, yet very little of it is seemingly harnessed 	<ol style="list-style-type: none"> 1. Labour Relations Strategy and Coordination – Development of a City-wide strategy for Labour Relations directed by Council's Labour Relations Committee and executed with support from a specialized, coordinated team. 2. Change Management Centre of Excellence – Implement a change management function within the Human Resources Division of the City to assist in the ongoing delivery of components of change. 	<ol style="list-style-type: none"> 3. Share Common Learning Functions – Training that is generic in nature could be provided as a shared service to the City and its agencies and coordinated through the City's Human Resources Division. 4. Common HR Information Systems – The City could adopt a leadership role in standardizing HR information systems across agencies, incorporating their needs into the development and implementation of common platforms and applications. 5. Consolidate Health & Safety Function – Consider implementing a shared services model for the provision of occupational health and safety services, to be led by the City's HR division. Site and organization specific processes would remain with respective agencies, as per provincial legislation. 6. Shared Payroll and Benefits Administration – The City's Pension, Payroll and Employee Benefits (PPEB) Division could become the provider of payroll and administration services for agencies when the maturity and capability of the organization is sufficient to do so.

Executive Summary

Key Findings by Function (continued)

Information Technology

Key Findings and Observations	Recommended Shared Service Opportunities For Consideration	
	Tier 1	Tier 2
<ul style="list-style-type: none"> Although the City has taken steps to consolidate and centrally provision nearly all core IT infrastructure services for City Divisions, the service delivery model is not a formalized shared service model. The main data centre location for the City is at capacity and the current data centre environment is dispersed, potentially creating implications on management costs and operations. 	7. Shared Service Delivery of Common IT Infrastructure Services - Create a technology infrastructure shared services unit under the Shared Services Division of the City Manager's Office that delivers core IT infrastructure services. The primary focus of the new Unit is to provide data centre, infrastructure management, and storage services. For participating City agencies, there are some exceptions as a result of specific security, privacy, or legislative requirements (i.e., portions of data centre, infrastructure management and storage for TPL, TTC, TPS and TPH).	8. Application Portfolio Rationalization - Establishment of a seconded project team with the objective of implementing an application rationalization program. The purpose of this team will be to design the future target state of the application landscape, and identify potential applications for consolidation.

Legal Services

Key Findings and Observations	Recommended Shared Service Opportunities For Consideration	
	Tier 1	Tier 2
<ul style="list-style-type: none"> Provides legal services in a number of areas to a number of agencies Issues of capacity and specialization often hinder collaboration and sharing of resources There is little overlap or duplication of activities between the City and agencies 	None.	None.

Purchasing and Materials Management

Key Findings and Observations	Recommended Shared Service Opportunities For Consideration	
	Tier 1	Tier 2
<ul style="list-style-type: none"> Procurement is pre-dominantly tactical, with limited formal emphasis on strategic sourcing and no apparent evidence of formalized category management Services provided by the City's Purchasing and Materials Management Division are primarily reactive Although there is some joint procurement and sharing of contracts across divisions and agencies for a few select commodities, these arrangements are infrequent and informal. 	9. Category Management as a Shared Service - The creation of a new procurement shared service unit under the Shared Services Division of the City Manager's Office. The mandate of this organization is to operate using category management and strategic sourcing approaches, acting as a procurement 'agent' for the City and agencies.	10. City Stores Rationalization - Rationalization of the corporate stores and reduction of consumable products moving through the stores by significantly increasing the proportion of direct delivered products and the automation of the P2P processes.

Insurance and Risk Management

Key Findings and Observations	Recommended Shared Service Opportunities For Consideration	
	Tier 1	Tier 2
<ul style="list-style-type: none"> The use of external insurance providers by TPA and TTC appear to be outliers with respect to models adopted by other agencies and divisions. In some cases, the arrangement is warranted and produces benefits for the City as a whole. The City does not have formal risk tolerance statements. 	None.	11. Common Insurance Procurement - TTC work with the City on the procurement of insurance products as well using the City's insurance for the coverage of non-specialized policies 12. Use of City Insurance by TPA - TPA adopt the City's insurance program provided the City can provide insurance on similar terms for a lower premium than TPA is currently incurring.

Real Estate Services

Key Findings and Observations	Recommended Shared Service Opportunities For Consideration	
	Tier 1	Tier 2
<ul style="list-style-type: none"> Instances of collaboration happen either on a highly tactical level or on a one-off basis, with limited City-agency long-term planning involved Vendor management and contract management practices appear to be inconsistent, with each organization adopting both formal and informal processes of evaluating and managing contractors There are several lessor functions scattered throughout organizations, however landlord negotiation and contracting activities are perceived to be non-core to the mandate of the reviewed agencies 	13. Rationalize Lessor Activities - Consolidate lessor activities across agencies (namely TTC and TPA) into the Leasing & Site Management Unit (L&SM) within Real Estate Services (RES). Examples of lessor activities include negotiations and tenant management, lease abstracting, and lease administration.	14. Coordinated Contract and Vendor Management - The City's RES will establish, own and manage an information system platform (e.g., SAP Real Estate Suite) in order to maintain a database of vendor records and share information regarding outsourced real estate services such as appraisals, tenant improvements and remediation.

Internal Audit

Key Findings and Observations	Recommended Shared Service Opportunities For Consideration	
	Tier 1	Tier 2
<ul style="list-style-type: none"> Some coordination takes place among audit professionals, but the nature and the scope of professional interaction is limited There is no evidence of leveraging of expertise across agencies to augment existing resources with knowledgeable and experienced professionals from sister organizations Consolidation of the function is perceived to be prohibitive and unnecessary due to the specific operational requirements of two of the larger agencies within scope, TPS and TTC. Moreover, there was little evidence that would suggest that such an arrangement would be beneficial to all participating organizations 	None.	<p>15. Quality Assurance Centre of Excellence - A formal collaborative structure (e.g., community of practice) is implemented and accessed by staff currently performing quality assurance functions across the City divisions.</p> <p>16. Use of the City's Internal Audit Division by agencies - In-scope agencies that currently do not have an internal audit function should utilize the City's Internal Audit division for their respective compliance, assurance and business risk consulting needs</p>

Records Management

Key Findings and Observations	Recommended Shared Service Opportunities For Consideration	
	Tier 1	Tier 2
<ul style="list-style-type: none"> Varying levels of maturity exist with respect to records management and records storage across the City While some agencies may model or base their policies and procedures on those of the City, there is no authoritative or consistent schema or system for records management among the agencies The City is operating between 95-98% capacity within its records centres The intake and submission process for access and privacy requests (i.e., Freedom of Information requests) for all organizations is antiquated, relying mostly on manual data entry activities 	17. Records Centre Alternate Service Delivery - The operation and management of the City's two records storage centres could be outsourced to a third party record storage service provider.	18. Formalize Records Management Collaboration - A Joint Working Group could be established to formalize a community of practice for records management practitioners across the City. 19. Expedite Transition to Digital Records - The City should expedite the transition to digital records and include the City agencies in its plan and actions. 20. Automate Freedom of Information (FOI) Submission and Intake Process - The City and its agencies could automate and digitize the submission and intake of FOI requests submitted by the public through the implementation of a common IT platform.

A number of observations and opportunities were identified which apply across all functions, and directly or indirectly enable shared services. Three such opportunities are described below.

Increase Collaboration Across Organizations

As part of this assignment, the project team on occasion brought together representatives performing common functions from across the City and its agencies for workshops, meetings, and interviews. Through this process, it became evident that, in general, the representatives from across the municipality were not familiar with each other. This subtle finding has major implications for the sharing of services across the City. The City and its agencies cannot venture to share services without first understanding the realm of possible opportunities, as well as how or where commonalities may exist.

The City and its agencies can achieve benefits and potentially operational savings by simply communicating more often and purposefully. Thus, it is recommended that the City and its agencies endeavor to increase working-level communication and collaboration across the municipality. Examples of such collaboration could include: establishing and maintaining a network of contacts; establishing working groups, committees or communities of practice which meet to achieve stipulated goals; and pooling resources to achieve a common objective.

Establishing a Shared Services Secretariat

The City is undergoing a significant program of change by implementing opportunities and recommendations, which were developed as part of the Core Service Review and Efficiency Studies conducted over the past two years. This shared service study has outlined a number of additional initiatives that will likely be rolled out in the near future. While the accountability for implementing other efficiency studies falls largely on the affected divisions, creation of shared services models does not lend itself well to any particular agency or division of the City. As a result, there appears to be an organizational gap with respect to the responsibility and accountability for carrying out recommendations from this shared service review.

As one of the most immediate action items, we recommend a creation of a Shared Service Secretariat (SSS) to lead the City of Toronto and its agencies through the next phases of shared service development (design, transition and run).

Implementation Approach and Governance

Throughout this review, stakeholders expressed concerns about the ability and authority of the City Manager to implement shared service models involving arms-length agencies. They pointed to the independent nature of agency organizations, their distinct mandate, Board governance structure, and even legislative acts. The autonomy of agencies' Boards makes imposed cooperation and collaboration in the form of shared services a challenging proposition.

There are two basic approaches to gain cooperation and collaboration of agencies in participating in a shared services arrangement. The City Manager can adopt:

- **Value-driven approach** – articulate a business case, which clearly demonstrates to the agencies the potential cost savings, service level improvements, productive resource reallocation, and other benefits, and the degree to which they overshadow drawbacks, limitations, and risks
- **Authority-driven approach** – obtain authority from the Council to impose shared service arrangements onto agencies, prescribing in the accountability framework how business services are to be delivered to the agencies

Business cases presented in this report afford an opportunity for the City and agencies to work together in achieving cost reductions and service improvements, if implemented correctly. We believe there is significant value to be gained from proceeding with shared services models we have put forward. As a result, we recommend that the City Manager adopt a value-driven approach, at least initially, to implement shared services across the City and agencies.

A large number of recommendations contained in this report are inherently beneficial, typically not requiring extensive analysis or a full business case (examples include increased collaboration, centres of excellence, leveraging existing training and health and safety functions, among others). These are likely to be readily adopted by agencies. For more complex recommendations, as part of the process of bringing agencies on board, the City needs to supply a basis of evidence in the form of a detailed business case that the shared service arrangement will be a beneficial one for the City and the sum of all participating agencies. Cost, performance, and productivity data could be used to support business case conclusions.

Executive Summary

Estimated Financial Impact

Legend

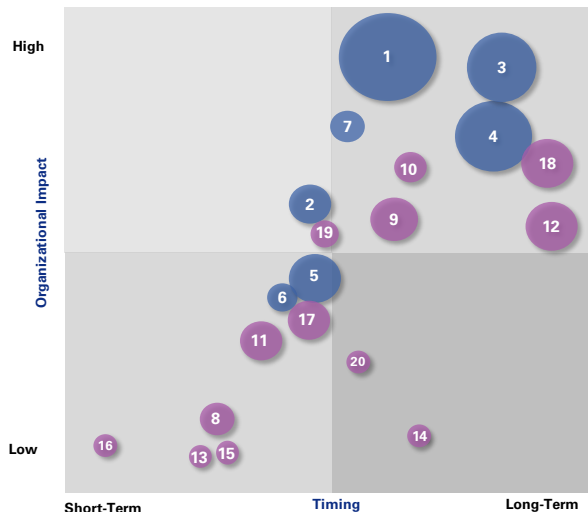
- Tier 1 Opportunities
- Tier 2 Opportunities
- Size of the ball indicates relative value of the model - illustrative
- # Corresponds to the opportunities below:

1. HR - Labour Relations Strategy
2. HR - Change Management Centre of Excellence
3. IT - Shared Service Delivery of Common IT Infrastructure Services
4. PMM - Category Management as a Shared Service Centre
5. PMM - Rationalization of City Stores
6. RE - Rationalize Lessor Activities
7. RM - Alternative Service Delivery of Records Storage Operations
8. HR - Sharing Common Learning Functions
9. HR - Shared Payroll and Benefits Administration
10. HR - Common HR Information Systems
11. HR - Consolidated OH&S function
12. IT - Application Portfolio Rationalization
13. IR - Use of City Insurance by TPA
14. IR - Common Insurance Procurement
15. IA - IAD is Used for Internal Audit by Applicable Agencies
16. IA - Quality Assurance Centre of Excellence
17. RE - Contract and Vendor Management
18. RM - Expedite Transition to Digital Records
19. RM - Automate the FOI Submission and Intake Process
20. RM - Formalize Records Management Collaboration

KPMG estimated savings and required investments for a number of shared service operating models. These are largely Tier 1 opportunities. Estimated figures are presented in the table below. Total estimated savings range from \$60.4 million to \$66.9 million for opportunities which were quantified.

Table 1 – Summary of Quantified Savings

Function	Opportunity Name	Initial Investment	Estimated Annual Operating Costs	Annual Estimated Benefits
HR	Labour Relations Strategy and Coordination	Not Quantified	\$150 - \$375k	\$47m
HR	Change Management Centre of Excellence	-	\$125 - \$375k	Not Quantified
IT	Shared Service Delivery of Common IT Infrastructure Services	\$3m to \$10m	Not Quantified	\$2m to \$8m
PMM	Category Management as a Shared Service	\$0.5m	-	\$10m
RM	Alternative Service Delivery of Records Storage Operations	\$213k	Not Quantified	\$175k to \$355k
RE	Rationalize Lessor Activities	-	\$49k	\$230k - \$530k



For other opportunities, where quantification of savings was more challenging, KPMG identified the potential category of savings. These categories are described in the body of the report and visually represented in the diagram at left.

Key Considerations for Implementation:

- Shared vision of the direction of prioritized initiatives and functional direction (Executive buy-in)
- Clear commitment to change for the approved initiatives and involvement of functional management in the next phase for approved projects
- Effective governance structure
- Change management skills
- Realistic time frames
- Detailed business cases
- Sufficient resources available for implementation
- Good communication
- Services are designed with “customer” focus and for improved services and outcomes
- Measurement of progress against objectives and benefit tracking

The implementation of the operating models and opportunities proposed within this report require consideration regarding the sequencing and dependencies with new or existing initiatives. For some operating models, it is important to note that the next stage of activities may not be implementation, but rather further analysis. Specifically, for Category Management of the Procurement Function, Shared Common IT-Infrastructure and Alternative Service Delivery of Storage Operations, we consider the next logical steps to focus on further developing the solution leading to an implementation plan. In contrast, the remaining Tier 1 opportunities may move into the next phase of implementation as outlined in the business cases.

The table below illustrates the proposed sequencing of tier 1 opportunities and the rationale for their respective positions. It is important that the first few initiatives establish early wins and successes and provide the foundation for remaining opportunities.

Table 2 – Proposed Sequencing of Implementation of Operating Models

Initiative	Sequencing	Timing of Initiation	Rationale
Shared Service Secretariat	1 (a)	Establish ASAP	Required to oversee suite of shared service opportunities
Change Management Centre of Excellence	1 (b)	Establish ASAP	Required to assist in change
Labour Relations Strategy	2	Tranche 1	Largest potential savings to be realized
Category Management of the Procurement Function	3 ¹	Tranche 1	Spend analysis is the fundamental next step, requiring significant effort.
Shared Services of Common IT Infrastructure	4 ²	Tranche 2	Detailed business case analysis is the fundamental next step, requiring significant effort and time.
Rationalization of City Stores	5	Tranche 2	Should be part of daily operations
Alternative Service Delivery of Records Storage Operations	6	Tranche 2	Next steps can be achieved through a structured RFI process
Rationalize Lessor Activities	7	Tranche 2	-

- (1) The Procurement Shared Services Unit will not be transitioned to its permanent governance structure under the Shared Services Division until year 3.
- (2) While the Technology Infrastructure Shared Services Unit will not be permanently established and delivering services to other agencies until years 2-3, detailed analysis and planning should begin immediately.

Acknowledgement

- It has been our privilege to have this opportunity to work with the City of Toronto and its agencies on this engagement and we look forward to maintaining our relationship.
- We thank the Shared Services Steering Committee as well as all Functional Leads and participants for their oversight, cooperation, participation, and frank and open input.

This report presents detailed results of the Shared Services Efficiency Review. It is structured to convey the following:

- **Part I: Key Findings** – This section of the report summarizes the key findings, observations, opportunities and recommended operating models, providing a high-level narrative of the detailed business cases and opportunities contained in Part II. This section of the report also includes analysis regarding the financial impact and implementation of the shared service operating models.
- **Part II: Detailed Operating Models** – This section of the report includes detailed operating models for all “Tier 1” shared service opportunities. The structure of each operating model follows:
 - An executive summary
 - A summary of the current state
 - An overview of the proposed operating model
 - Identification of the customers and service providers for the model
 - Governance framework
 - Analysis of the benefits and drawbacks of the model
 - Quantification of potential savings, where applicable

“Tier 1” operating models also include implementation considerations including the following components:

- A sample work plan and timelines for implementation
- Risk mitigation plan
- Identification and quantification of transition costs, where applicable and available
- Transition governance and resources
- Communication strategy

Part II also includes a detailed description of all “Tier 2” shared service opportunities, including:

- An overview of the proposed model, including rationale for its adoption
- Analysis of the benefits, drawbacks, & risks
- Key considerations for implementation

How To Read This Report

Important Considerations

The purpose of this document is to summarize the work completed over the course of this engagement relating to the identification and analysis of opportunities for shared services across the City of Toronto. This report constitutes the final deliverable for this project.

KPMG's role was to outline certain matters that came to our attention regarding opportunities for shared services, and to offer our comments and recommendations to The City of Toronto for consideration. These comments, by their nature, are critical in nature as they relate solely to opportunities for change or enhancement and will not address the many strong features of the City and its agencies.

Our procedures consisted primarily of inquiry, observation, comparison and analysis of City-provided information. Additional procedures included jurisdictional research, interviews with key stakeholders from within the City and across the agencies, as well as the leading practice knowledge and expertise of KPMG resources. Such work does not constitute an audit. Accordingly, we express no opinion on financial results, internal control or other information.

The audience for this report is the City Manager, who has commissioned the Shared Service Efficiency Study on behalf of Council. 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. Thus, the report may not be edited, distributed, published, made available or relied on by any other person without the express written permission by KPMG or City Manager's Office.

The CMO is responsible for the decisions to implement any options contemplated as a result of the Shared Service Efficiency Study and for considering their impact. Implementation of these opportunities may require the CMO to plan and test any changes to ensure that the City of Toronto will realize satisfactory results.

All media inquiries about the Shared Services Study project and this report should be directed to the City Manager's Office.

Limitations

- The main focus of this study was identifying opportunities for sharing services among City divisions and agencies. KPMG did not perform detailed assessment of the effectiveness or efficiency of City services.
- The financial analyses of costs or savings associated with shared service opportunities included in this report is estimated based on the data provided by the City and its agencies as well as external benchmarks and the experience of KPMG. These calculations should not be utilized for budgeting purposes. The actual annual savings percentages realized will vary from those presented, and such variance may be material. Actual annual savings are highly dependent on future City-driven decisions and activities.



1.0 Part 1: Key Findings

This section of the report summarizes the key findings, observations, opportunities and recommended operating models, providing a high-level narrative of the detailed business cases and opportunities contained in Part II. This section of the report also includes analysis regarding the financial impact and implementation of the shared service operating models.



1.1 Background and Context

This section of the report outlines the context, within which the City is undertaking this initiative.

In 2011, faced with significant budget challenges and supported by a new political direction, the City undertook a series of reviews aimed at identifying opportunities for delivering municipal services in a more sustainable, efficient and effective manner. Wide ranging in scope and nature, these reviews uncovered a number of areas, in which improved collaboration, coordination, and sharing of services could yield improvement in service levels and reduce service delivery costs. The Core Service Review, conducted by KPMG, specifically identified corporate support functions within the City and across agencies as candidates with high potential for shared service operating models.

This year, due to combination of cost savings and greater than expected revenues, the budget pressures have eased. However, the business case for more efficient, effective, and value-added shared service models across City agencies is as valid as it was a year ago. Taxpayers expect their government to operate in an efficient manner, and internal stakeholders (staff, management, etc.) expect service levels for corporate support services to stabilize or improve. Furthermore, credit rating agencies are seeking fiscal stability to maintain the City's credit rating. According to Moody's, "... [the agency expects] the City to gradually work towards a permanent solution to the existing operating budget pressures". Shared service structures, when implemented properly, could be required to meet these expectations.

With that backdrop, in considering KPMG's Core Service Review Final Report, the Executive Committee of the Council recommended that: *"the City Manager review opportunities identified in the KPMG report related to efficiencies through 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, including Toronto Library, Toronto Police, Toronto Transit Commission, Toronto Zoo, and other agencies as appropriate; and incorporate as appropriate in the 2012 and 2013 budget process".*

Independently, Toronto's Auditor General has also put forward suggestions for a shared service approach in nine service areas including accounting, audit, financial information systems, fleet services, information technology, human resources, legal services, procurement, and real estate management. His conclusions were based on previous audit results submitted to Council.

Collectively, these recommendations have formed the basis for a review, which described the manner in which the City and its agencies could share business support services with the objective of reducing costs, increasing service efficiency and effectiveness, and improving customer service. In May of 2012, the City issued a tender for consulting services to undertake such a review to a roster of qualified firms (REOI # 9144-11-7001). Through a competitive process, KPMG was selected as the successful vendor for this assignment.

The concept of sharing services across multiple organizations or functional units is relatively straightforward. Essentially, individual agencies carry out a number of corporate support functions, which, when analyzed across multiple agencies and divisions, may exhibit duplication, overlap, and redundancy. Furthermore, the fragmented nature of services often prevents efficiencies and expertise from being built up in individual organizations, leading to higher costs and potentially lower service levels.

Shared service structures aim to address these gaps and inefficiencies by bringing together resources, functions, processes, and skills from dispersed organizational units. These arrangements thus create economies of scale, increase standardization, pool skill sets, and often generate critical mass required to yield a positive return on new investments (i.e., information technology, process reengineering, automation, etc.). As a result, due to sharing of services, organizations are able to experience lower process costs, improved productivity, better quality of outputs, and ultimately enhanced internal customer satisfaction levels.

However, it is important to recognize that in reality, the nature, structure, and scope of shared service arrangements can vary dramatically, depending on a number of factors. These include the maturity of existing organizations, business objectives of each unit/agency, uniqueness of in-scope functions, readiness and capacity for change, and other organizational, technological, cultural, and financial considerations. As a consequence, exploration and development of shared service models need to take into account these often highly complex factors to arrive at a solution that creates value for all parties involved. Thus, from a practical perspective, creation of mutually beneficial structures for sharing of services is neither simple, nor straightforward. It requires significant analytical rigor, proofs of concept from prior cases, extensive stakeholder engagement, multiple validation stages, and thoughtful implementation planning. These were the project elements the City requested in its statement of work for this assignment.

In June of 2012, the City engaged KPMG to conduct a shared service review involving City divisions and the following six organizations:

- Exhibition Place (EP)
- Toronto Parking Authority (TPA)
- Toronto Police Service (TPS)
- Toronto Public Health (TPH)
- Toronto Public Library (TPL)
- Toronto Transit Commission (TTC)

The City identified the following eight functions as priorities for shared services:

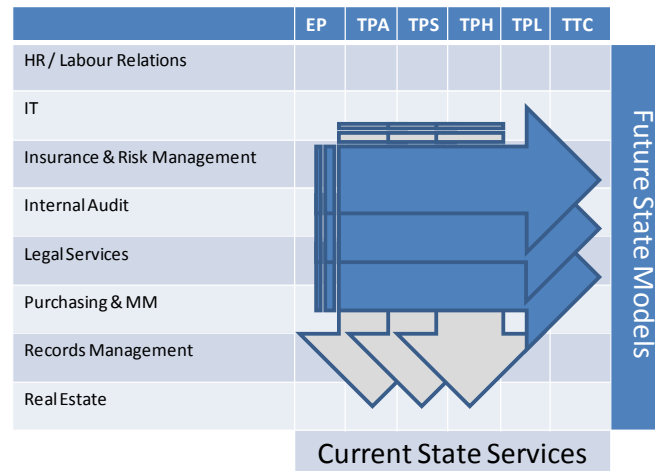
- Human Resources/Labour Relations (HR/LR)
- Information Technology (IT)
- Insurance and Risk Management (IRM)
- Internal Audit (IA)
- Legal Services (LS)
- Purchasing and Materials Management (PMM)
- Records Management (RM)
- Real Estate (RE)

Project goals included identifying, developing, and assessing opportunities to deliver corporate services in a more horizontal manner, in contrast to the fragmented state of delivery currently. This concept and the in-scope functions and agencies are demonstrated in the figure below.

As part of the project, the City required KPMG to validate priority areas, conduct jurisdictional research on leading practices and municipal comparators, assess current state of service delivery, propose operating models for future state shared services entities, and develop an implementation plan for each priority function.

Upon the completion of the project, the City expected to be presented with actionable plan of how to move forward in implementing shared services structures within the City and across the six agencies.

The next section of this report outlines our approach and methods employed in completing this assignment.





1.2 Approach and Methodology

This section of the report outlines the method applied by KPMG to deliver the scope of work required by the City.

As per the City's Statement of Work, the purpose and intent of the Shared Service Efficiency Study included:

- Identifying opportunities for shared services across City divisions and agencies for common services and functions, with the objective of reducing costs, increasing service efficiency and effectiveness, and improving customer service
- The results of the Shared Services Efficiency Study will be reported to the City Manager for decision making and potential escalation to City Council, where appropriate
- It is Council's responsibility to make final decisions about the implementation of shared service arrangements between the City and its agencies

The following list describes key consideration points and expectations which guided the execution of the study:

- The process was seen as fact-based, evidence-driven and objective
- The unique elements of each organization were considered and retained
- Agency and City stakeholders were involved in identification of options and development of models
- KPMG leveraged leading practices and industry benchmarks available at its disposal to contribute to the development of shared service models and standards
- Approach did not include a pre-defined solution
- The City Manager was provided with information that is in an "implementation-ready" state

The engagement concluded in February 2013, and resulted in the following deliverables:

- A Project Charter
- Identification of priority functions and opportunities for shared services
- Shared service operating models for priority functions, including supporting business cases and implementation plans
- A report describing leading practices in shared services in the public sector
- A final report summarizing the findings of the Shared Service Efficiency Study (this document)
- Presentations to the Shared Services Steering Committee, as required

Projects of this nature require a very clear governance structure, unambiguous roles and responsibilities, and well-defined accountabilities. The City Manager chaired a Steering Committee to oversee and guide the work of the Shared Services Efficiency Study. The Steering Committee was composed of the City Manager and the Deputy City Managers and was supported by the Director, Strategic & Corporate Policy Division and other key senior staff as required including Human Resources, Financial Planning, Executive Management, and Strategic Communications.

Throughout the engagement KPMG liaised with the City Manager's Office in order to access information and stakeholders, and to provide overall project management for the Study. The specific roles of the City Manager's Office and KPMG are listed below:

City Manager's Office	KPMG
<ul style="list-style-type: none"> ■ Provision of background documentation of relevance to the Efficiency Study ■ Provision of access to key informants for the purposes of gathering and analyzing data ■ Provide, validate, and verify accuracy of all financial and budget data and all other available information related to particular functions and entities ■ Project communications to stakeholders ■ Decisions regarding the implementation of operating models arising from this review 	<ul style="list-style-type: none"> ■ Identification of opportunities and potential models for shared services ■ Implementation planning for models with high potential ■ Conduct a jurisdictional review of shared services in other public sector entities ■ Provision of high-level costs savings resulting from implementing shared services ■ Support the City at Council Committee presentations, as needed

The engagement did not include the following activities, which were deemed to be out of scope for the Study:

- Identification or analysis of efficiency and effectiveness opportunities which do not relate to shared services
- Review or analysis of additional functions or organizations which were not identified in the Statement of Work
- Detailed articulation of cost savings potential to be achieved through shared service opportunities
- Management decisions on what actions to pursue with respect to shared services

To meet the objectives of this review, KPMG analyzed the scope and nature of services delivered under each of the in-scope functions and organizations, identified opportunities the City could potentially undertake to adopt shared services, and designed operating models to support the implementation of each opportunity. The Study consisted of six broad phases and is visually depicted below. Specific techniques and methods used in our analysis and formulation of opportunities are presented on the following pages.



The scope of the review entailed analysis of seven organizations (agencies and the City) across eight business services functions. This presented a challenge, in which 56 possible permutations of shared service opportunities would need to be analyzed. To attain focus and allow for depth of analysis, the team employed a “top-down” approach to prioritization based on what was most material, practical, and feasible.

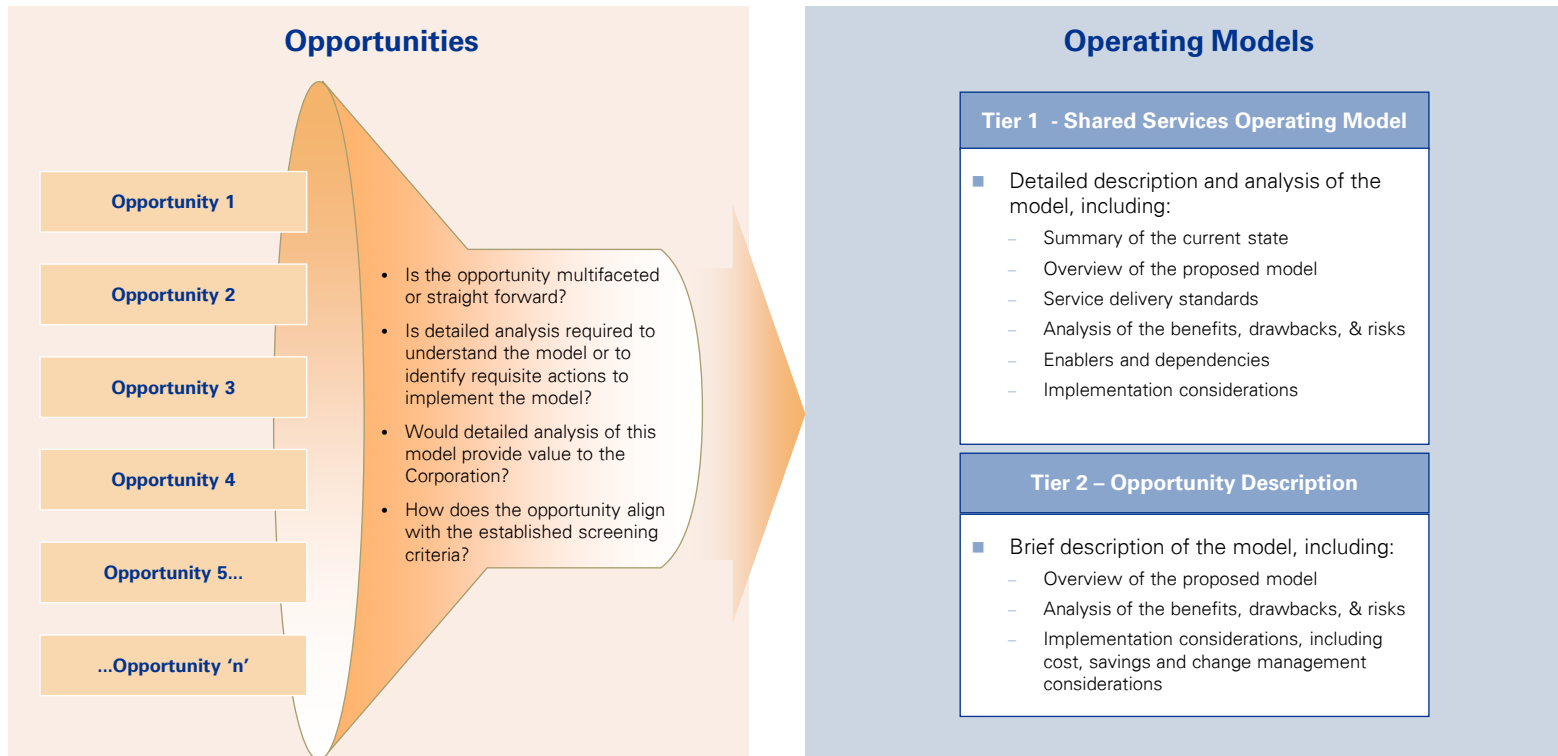
The use of selection criteria assisted the Steering Committee to select service delivery models with the greatest potential for organizational success and the greatest value for the City of Toronto. The selection criteria utilized to filter and choose the most feasible and valuable opportunities for examination are described in the table below.

Table 3 – Selection Criteria

Selection Criteria	Rationale and Desired Attributes
Size and scope	Reflects the degree of impact across the organizations. Service delivery models with larger footprints are preferred to those that affect a small number or scope of organizations and services.
Proof of concept	Service delivery models which have been demonstrated to be successful in our own organization and other jurisdictions will be preferred to those which have not.
Appetite for change	Service delivery models which result in minimal organizational resistance or which are accompanied by a strong desire for change are preferred.
Cost savings	Service delivery models which create the greatest cost savings (including the cost the implement) are preferred.
Implementable	Service delivery models which adversely affect or disconnect a service from its core business are not preferred. Moreover, services that are highly standardized across divisions or agencies are preferred.
Time horizon	Service delivery models which can be implemented in the short term will be preferred to those which require greater lengths of implementation timelines.
Service excellence	Operational service delivery attributes that are well-advanced and have the capacity to take on additional scope.

While some opportunities are straightforward and require minimal further analysis to be implemented, other opportunities are conceptual or complex in nature, and require detailed analysis and planning to guide their implementation. Thus, following the selection of opportunities by the Steering Committee, a tiered approach was utilized to determine the level of analysis to be applied to each opportunity. Opportunities were stratified as either Tier 1 or Tier 2.

- Tier 1 opportunities received detailed analysis, including the development of a supporting business case and implementation plan to guide the realization of the opportunity
- Tier 2 opportunities received a high-level description of the nature and scope of the opportunity, including key considerations for implementation



KPMG used four sources of input to perform the assessment:

- Background documentation, data, and financial information provided by the City and its agencies at the request of KPMG
- Jurisdictional review of public entities and government bodies who have undertaken shared service initiatives. These included municipal, regional, and provincial/state governments similar in size and profiles
- Input and validation from City of Toronto and agency staff, including senior management. Numerous interviews and workshops were held with City and agency representatives (see Appendix C for a list of engaged stakeholders) to identify and subsequently review shared service opportunities
- KPMG experience, including KPMG's Global Shared Service Centre of Excellence. KPMG involved its own senior employees with specialized expertise related to a particular function to identify opportunities and leading practices to inform analysis and development of opportunities



1.3 Findings & Opportunities

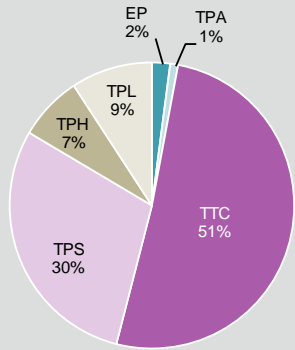
The following subsections of the report summarize the current state, observations, issues and recommended operating models for shared services. This section is organized by function.



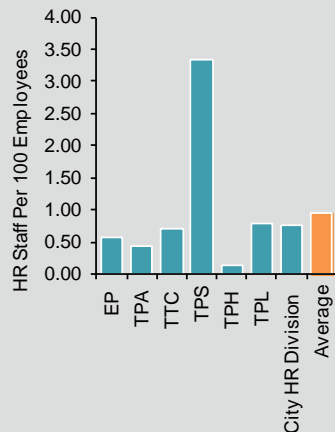
1.3.1 Human Resources/ Labour Relations

Findings and Opportunities

Agency Employees



HR/Employee Ratio



Current State

The City and every agency operate a Human Resource department to support, recruit, and develop their employees. While the names of HR functions vary across organizations, most provide a standard suite of services, including compensation and benefits, employment services, employee/labour relations, occupational health and safety, and learning and development. Specialized groups, such as HR information systems, internal investigations, critical incident reporting, among others, exist within larger organizations, warranted by either significant size of the entity or unique operational characteristics of an agency. Payroll and benefit administration functions typically are structured under Finance departments across agencies, and are thus considered outside of the HR realm. However, given strong dependencies between HR and Payroll, KPMG conducted a high-level assessment of opportunities related to payroll functions, with results presented in this report. HR staffing complement across agencies is presented in the table below.

As is the case with many of the functions analyzed in this study, the degree of collaboration and coordination among agency and City HR practitioners is limited. A large number of workshop participants did not know one another, signaling that this study was the first opportunity for them to meet. Furthermore, no formal mechanisms currently exist to share knowledge, experience, and leading practices across the City and agencies. However, a small number of recent isolated collaborative initiatives were cited as examples of coordinated HR management practices, including procurement of a common employee benefit service provider and adoption of some City HR policies (e.g., workplace violence policy) by agencies. Moreover, TPH, by virtue of its close working relationship with the City, appears to coordinate its HR activities with the City to a larger degree than other agencies.

Table 4 – Employee and HR Staff by Organization

Organization	HR Staff	Employees	HR staff/100 employees
EP	3	530	0.57
TPA	1	232	0.43
TTC	92	13,202	0.70
TPS*	255	7,636	3.34
TPH**	2.5	1,882	0.13
TPL	19	2,375	0.8
City HR Division	273	35,500	0.77
Total	512.5	61,357	0.71

Source: City of Toronto and agency data

*TPS HR group consists of 102 civilian and 153 uniform members

**TPS HR figures include non-traditional HR roles, including staff in the Toronto Police College (112 staff), Uniformed Background Investigators (21 staff) and staff planning and development related to international peacekeeping (10 staff). The removal of these 143 staff would result in an HR staff to 100 employee ratio of approximately 1.6.

**TPH receives its core HR services from the City's HR Division

Observations and Issues

Several observations were noted over the course of KPMG's review of the HR function across the City and its agencies.

Of all the functions in scope for this study, HR arguably has the greatest degree of commonality of activities and processes, yet very little of it is seemingly harnessed across the City. Historically, the in-scope organizations' HR functions developed as a collection of siloed departments, largely a reflection of the way these agencies are structured as independent organizations. The limited communication and coordination of activities that currently exist between the City and its Agencies by staff is fundamentally a result of how the City of Toronto was organized and how the governance structures were set up at amalgamation. The separation of operations and the independent governance models for the Agencies has created largely independent and siloed operations.

As a result, few instances of collaboration among HR executives, or sharing of activities, resources, tools, methods, or technology were noted among the organizations. While individual agencies may or may not be operating their respective HR functions optimally (efficiency of each function was not part of this review), opportunities exist to increase coordination and potentially reduce duplicative activities taking place when HR is viewed from a holistic City perspective.

For example, one such area of redundancy is generic training and development. The City and all of its agencies currently offer training opportunities to their employees in order to develop technical, management, and personal skills. While most of the training provided is specifically tailored to the needs of each organization and its people, a portion of the offered curriculum is generic in nature, including leadership skills, managerial competencies, behavioural traits, etc. Furthermore, some technical training is also widely applicable to many organizations, such as general computer use, Microsoft Office applications, trades, health and safety, and regulation/legislation related courses. Yet, most organizations perform this training on their own, with no coordination with the City or each other.

Another identified area of opportunity is HR systems and tools. Agencies' HR functions appear to utilize disparate information systems to enable and support their activities. Several systems currently exist, including employee records, recruitment management, learning management, virtual training, time and attendance, and payroll systems, each with its own license costs, maintenance costs, and upgrading/development costs.

Observations and Issues (cont.)

Illustrative of a lack of coordination is the Occupational Health and Safety (OHS) function. Under the Ontario Occupational Health and Safety Act (OHSA), organizations such as the City and its agencies must carry out a range of legal obligations related to employee well-being in the workplace. This entails protection of workers, provision of relevant information and support, development and implementation of policies and procedures, and executing programs that fall under the Act. Apart from a few recent examples of policy coordination, most OHS activities are performed in isolation by individual organizations, thereby potentially hindering a unified, streamlined, and efficient approach to management and implementation of occupational health and safety.

Although Payroll and Benefits Administration technically falls under finance and not under HR in most organizations, KPMG through interviews and workshops, identified a number of instances of potential inefficiency and fragmentation of payroll and benefits processing. These include different Time and Attendance and Payroll systems, manual processes, and varied payment arrangements. Performing duplicative payroll and benefit administration functions across multiple agencies could be costlier than operating them using a centralized or shared model.

KPMG has also noted a distinct capability and capacity gap related to Organizational Change Management across organizations. Given the degree of current and expected organizational change across a number of City divisions and agencies, insufficient and ineffective change management approaches undermine the success, adoption, and acceptance of most transformational initiatives. Moreover, the implementation of shared service opportunities identified in this report could be detrimentally affected if change management capacity and support are lacking.

Finally, one of the most material issues identified in the HR function analysis is a lack of coordination and harmony in the realm of Labour Relations. Currently, there is very limited degree of interaction between the City's Labour Relations group and their colleagues across agencies. Furthermore, the City does not have an overarching Labour Relations strategy that would aim to unify and direct the terms, conditions, and policies related to employment of City and agency staff, management, and executives. This notable gap has led to a widely divergent set of contracts and employment terms across the City and its agencies.

Six models for shared services were developed following the analysis of the current HR functions across the City and its agencies. They are listed on the following pages and largely reflect the issues identified as part of our review.

Cross Functional Opportunity: Collaboration

The most basic foundational element of shared services is improved collaboration, coordination, and information sharing. Given our observations on the limited interactions and professional relationships among functional colleagues across the City and agencies, we recommend establishing a formal mode of communication involving HR leads in participating organizations (Directors or Managers, as appropriate). This may take the form of an HR Working Group or a committee of HR representatives, with a mandate to share leading practices, discuss emerging issues and trends, identify opportunities for joint activities, and seek operational efficiencies. While the initial cost savings associated with this recommendation may be negligible, the long-term benefits of a coordinated approach to HR management will likely be significant.

Recommended Operating Model 1: Training

To address the potential duplication and redundancy associated with generic training across the agencies, we recommend that this activity be provided as a shared service to the City and its agencies in the future. Curriculum development and training activities could be carried out through the HR Division of the City, expanding its current scope to involve various agencies. Where economically sensible, the City would utilize its own training and educational workforce, while retaining the ability to supplement its own capacity with generic training contractors. The new shared service generic learning function could reduce the need to plan, coordinate and execute training activities that are not unique to their respective organizations. Moreover, with an expanded scope, the City could better deploy and utilize its staff trainers and negotiate better pricing for external generic learning contractors.

Recommended Operating Model 2: HR Systems

With disparate, aging, and non-integrated HR systems deployed across City agencies, an opportunity exists to create common platforms for HR management and adopt modern tools and practices to support the HR function. Thus, we recommend that the City adopt a leadership role in standardizing HR information systems across agencies, incorporating their needs into the development and implementation of common platforms and applications. As the City's own systems come up for renewal or upgrade (e.g., the Time and Attendance system, which is currently up for renewal), the City's HR and IT stakeholders could work closely with in-scope agencies to incorporate their requirements into a City-wide solution. A standardized set of HR information systems could allow for a common approach to HR management, eliminate the need to support several competing solutions in parallel, and potentially reduce IT operating costs for the participating organizations. It would also potentially enhance services to employees, as smaller agencies gain access to functionality they could not otherwise afford on their own.

Recommended Operating Model 3: Occupational Health and Safety

In order to reduce or eliminate potential duplicative activities related to occupational health and safety, we recommend implementing a shared services model for the provision of OHS services, to be led by the City's HR division. The services could entail development of health and safety (H&S) policies and procedures, interpreting and advising agencies on new legislation, and supporting agencies' HR departments in the implementation of H&S programs. Site and organization specific processes (posting of policies, joint H&S committees, supervisory duties) would remain with respective agencies, as per provincial legislation. By implementing a centralized common occupational health and safety function across the City, participating agencies can shift focus and resources to more specialized employee support functions, while still meeting the legislative requirements of the OHSA. Furthermore, such an arrangement could diminish the need to develop duplicative programs, policies, and procedures, thereby reducing costs and increasing standardization.

Recommended Operating Model 4: Payroll and Benefits Administration

Standardization and consolidation of payroll functions across agencies is typically one of the first candidates for a shared service arrangement. However, in the current state, no one organization (including the City's Payroll, Pension, and Employee Benefits Division - PPEB) has the capability, capacity, and technological means to provide transactional payroll processing to all in-scope agencies. However, PPEB is preparing for a technology-enabled transformation, which when implemented would significantly enhance the division's capacity to operate as a shared services organization. This journey is expected to take up to five years. We recommend that as a result of the envisioned transformation, the PPEB (or similar functional agency) become the provider of payroll and administration services for agencies. Hence, new business processes and technological supports need to be incorporated into the transformation plan to create and sustain such capacity. Such an arrangement could lower payroll costs, reduce errors and improve consistency and service levels for employees. It would also allow agencies to gain access to modern payroll and benefit systems and efficient processes.

In the 2Q12 edition of KPMG's global Sourcing Advisory Pulse survey the top challenges cited to service delivery improvements efforts such as **shared services** were retained organization, transition and outsourcing **governance challenges** and inadequate **change management capabilities**.

Recommended Operating Model 5: Change Management

Effective change management is a key element required for successful implementation of transformative initiatives. Consequently, we recommend establishing a change management function within the City to assist in the delivery of components of change. The group could provide advisory services regarding effective change management, and seek to develop a network of skilled change managers who guide their colleagues across the City and its agencies through the process of changing their ways of working. This change management function could provide oversight of all change initiatives planned and underway and verify each is delivered effectively through the application of consistent leading practice methodologies. In practical terms, the group could facilitate organizational change by owning and maintaining methodologies and toolsets; driving continuous improvement and learning; developing a community of change; providing advisory services and support to change agents; and managing an overall portfolio of change.

Recommended Operating Model 6: Labour Relations Strategy

The most structurally significant and economically material recommendation in this study is the development of a Labour Relations strategy and execution framework, encompassing the City and its agencies. In developing the strategy, the City could take into account its current fiscal environment, macroeconomic trends, workforce dynamics, and risk of labour disruption, among other factors. Using this information, the City Council (specifically the Committee on Labour Relations) would define the parameters for salary, benefits, pension contribution, and other elements related to employee compensation. The strategy is to be executed through a centralized team of Labour Relations specialists, tasked with assisting and guiding agencies in their collective bargaining efforts. This group will have the responsibility of working closely with City agencies in developing agency-specific tactics related to contract negotiations when contracts come up for bargaining. This group will not have the authority to impose contract terms on any given agency, as agencies are separate and distinct organizations, governed by their own Board of Directors and sometimes by a dedicated Act (e.g., TPA, TPL). However, the group will provide guidance, information, historical data, and context related to specific parameters contained in overall labour relations strategy. In implementing this model, the City will need to take into account requirements of provincial legislation governing such entities as the Toronto Police and the Toronto Public Library and adjust its labour relations approach to be in compliance with relevant statutes.



1.3.2 Information Technology

Findings and Opportunities

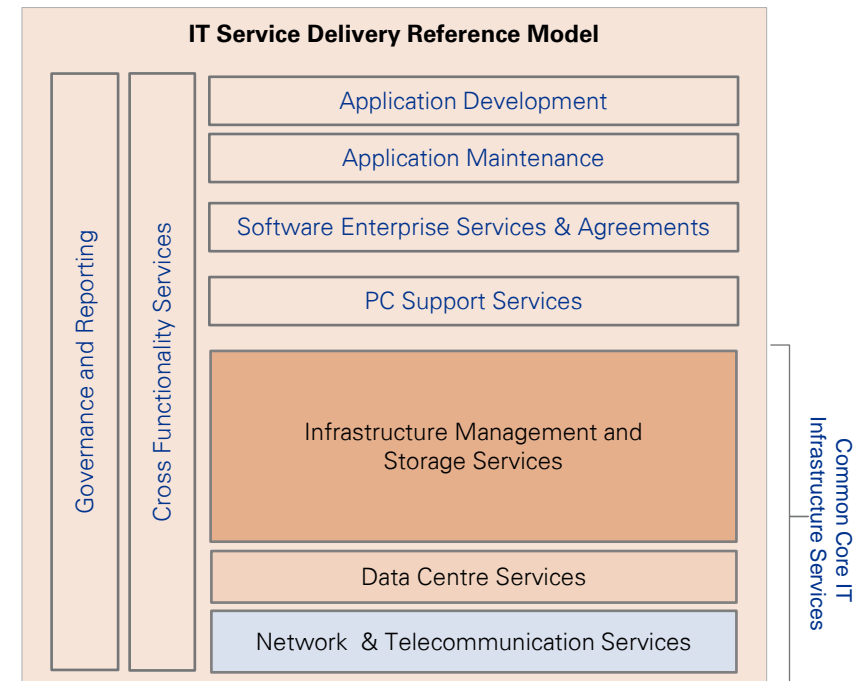
Introduction

As a result of the initial screening process, the primary focus of the shared service study of the IT function across City divisions and agencies was identified to be data centre operations, infrastructure management services and storage services. These service delivery areas are part of IT infrastructure technology services and are common across the different in-scope organizations. These areas are not considered to be core services and changing the delivery model should not adversely affect services in impacted organizations. Leading practices view these areas as ideal candidates for shared service delivery and the logical starting point for IT shared services. Furthermore, our experience in IT shared services suggests that once the common core IT infrastructure services (i.e., data centre, infrastructure management and storage) are organized as a shared service delivery model, there is the potential to attain economies of scale in future technology investments in these areas (see reference model figure below).

Current State

The current state described below relates to identified common IT infrastructure service delivery areas. For the City divisions, IT infrastructure services are currently provisioned primarily by the Technology & Infrastructure Services (TIS) group in the City I&T Division. There are an estimated 99 full-time equivalents (FTE) (from sub-groups within the TIS section) with an operating budget of approximately \$20m allocated to the delivery of these IT infrastructure services. This group is responsible for managing an infrastructure footprint of four data centre locations with approximately 1100 servers. Service level agreements are in place with all divisions and costs are recovered using an interdepartmental chargeback mechanism. In addition to the City divisions, this group also provisions IT infrastructure services for TPH.

Figure 1 – IT Service Delivery Reference Model



Current State (cont.)

Independent from the TIS group in the City I&T division, there are additional resources in 11 divisions delivering core IT infrastructure services. This decentralized service delivery model is a result of exceptions based on IT requirements that are specific to these divisions. An estimated 260 servers are housed and managed by these divisional IT resources.

Of the in-scope agencies, TTC and TPS have relatively large organizations provisioning data center, infrastructure management and storage services. TTC has its own IT infrastructure group, with 30 FTE and an operating budget of \$5m (excluding power and cooling costs) allocated to delivering common core IT infrastructure services, with an infrastructure footprint of 3 data centre locations and an estimated 150 servers. TPS also has its own group dedicated to provisioning core IT infrastructure services to the organization, with an estimated 27 FTE and an operating budget of approximately \$7M allocated to data centre, infrastructure management and storage services. TPL has its own small IT group that provisions core IT infrastructure services to the organization. EP has minimal requirements for data centre and infrastructure management services. TPA has a small IT department that is business oriented and focuses on the application portfolio; core IT infrastructure services are outsourced.

The total annual operating budget for delivery of data centre, infrastructure management and storage services across City divisions and agencies is estimated at \$37m. This amount represents the operating budget and not the total cost of ownership, which includes additional costs such as space, power, cooling and facility management. The total cost of ownership for the delivery of data centre, infrastructure management and storage services across City divisions and agencies is estimated at \$42m.

Issues and Observations

In our view, the current state delivery model is not optimized and presents an opportunity to evaluate shared services for common IT infrastructure services as an alternate service delivery model. A shared service delivery model is expected to help address some of the current challenges described below.

Although the City has taken steps to consolidate and centrally provision nearly all core IT infrastructure services for City divisions with established service level agreements and chargeback mechanisms, the service delivery model is not a formalized shared service model. Our experience suggests that organizing the delivery of core IT infrastructure services using a formalized shared service model is leading practice. Thus, there is an opportunity to change the service delivery model from centre-led to a true shared service model.

The main data centre location for the City is at capacity and the current data centre environment is dispersed, making it costly and difficult to manage. Based on analysis performed by the City I&T division, the strategic direction is to build a new data centre that will consolidate the computing facility locations across the City to a single primary location, with options to include other City organizations in the consolidated data centre. Feasibility studies are underway to evaluate this option, a high level business case has been outlined and the project is being considered for upcoming capital budgets.

Looking at the in-scope agencies, we observed that TTC and TPS both have dedicated FTE and non-FTE resources allocated to the delivery of core IT infrastructure services. Moreover, our analysis identified overlap in services provided by the IT infrastructure groups in TTC, TPS and the City I&T division. Service delivery involves similar resources; however, they operate independently and provision services separately. There is no formal strategic direction to pool resources for common service delivery areas across these groups and collaboration is informal and selective. Consolidating the operating budgets allocated to core IT infrastructure services across the City I&T division and the agencies, we estimate the budgeted spend to be \$37m, and the total cost of ownership to be \$42m. Given the importance of these core IT infrastructure services and the high cost to the City and agencies to deliver these services, we propose that the City consider unifying these costs under a single shared services unit.

Recommended Operating Model 1: Shared Services for Common IT Infrastructure Services

The proposed model is to create a technology infrastructure shared services unit under the Shared Services Division of the Deputy City Manager/CFO that delivers core IT infrastructure services. The primary focus of the new Unit is to provide data centre, infrastructure management, and storage services. All City divisions are in-scope for the proposed model. There are some exceptions for participating City agencies as a result of specific security, privacy, or legislative requirements (i.e., portions of data centre, infrastructure management and storage for TPL, TTC, TPS and TPH). The proposed shared service model is based on the following three key requirements:

1. The Unit is staffed by consolidating impacted IT resources from City I&T, divisional IT and in-scope agencies. The proposed model is based on the premise that the current service delivery model can be optimized by creating a common resource pool. This common resource pool will help enable leveraging of resources across City divisions and agencies to maximize IT operational effectiveness.
2. All physical IT data centre and infrastructure assets that will be managed by the proposed Unit are to be consolidated and housed by the Unit as a single organization. In order to meet the current and future capacity requirements for consolidated computing facilities, the City can either build a new data centre or procure co-location data centre facility services. As described on the previous page, the strategic direction of the City at the time of this report is to build a new facility. However, based on our experience, co-location may be a more cost effective method to consolidate technology infrastructure for the City, for the following reasons:
 - i. Allows for the participating organizations to manage their own infrastructure and maintain their established security and privacy requirements
 - ii. Facility providers offer participating organizations the opportunity to take advantage of modern, purpose-built, flexible, and scalable energy efficient data centre infrastructure
 - iii. Avoid large up-front capital costs and risks associated with building a new data center as well as ongoing investments required to keep the facility up-to-date
 - iv. Ability to procure co-location data centre facility services (both primary and secondary) to meet current and future computing facility needs for the City and in-scope agencies, with the potential to include other City organizations who may not otherwise participate in a consolidated facility
 - v. Enables the City to focus resources on core IT service delivery

Again, the proposed shared service model for technology infrastructure could work in either a City-owned facility or a co-located facility, however, it should be noted that the analysis that follows in Chapter 2 of the report is based on the assumption that a co-located facility. The construction of a City-owned facility would necessitate additional analysis and likely result in differing costs and savings.

Recommended Operating Model 1: Shared Services for Common IT Infrastructure Services

Key Requirements (continued)

3. The Unit is to be a new organization, operating under the Shared Services Division with functional reporting to a body comprised of representatives from participating organizations. Fair representation of all participating organizations is a critical success factor to help determine if requirements are accounted for in service level agreement mechanisms and project resources are available to meet demand. A well defined governance model with a transparent mandate and clearly defined roles and responsibilities is required to manage the quality and effectiveness of service delivery. While service delivery will be provisioned by groups in the Unit, participating organizations will own the service management relationship with their internal clients. This local service management layer will interact with a relationship management layer and other governance processes at all levels of the Unit.

High-Level Business Case

The total budgeted IT costs for data centre, infrastructure management and storage services across City divisions and agencies are estimated at ~ \$37m (FTE and non FTE). Unifying the costs to deliver the in-scope core IT infrastructure services under one shared service unit is expected to generate economies of scale and increase the overall maturity and discipline of core IT infrastructure service delivery. Based on our experience with similar shared service models, and industry benchmarks, the estimated savings potential ranges from between 5% to 20% of the addressable spend. Applying this benchmark budgeted cost estimates collected during the course of this study, and the calculated total cost of ownership, the estimated annual operational savings potential is between \$2m and \$8m. The estimated gross savings in total cost of ownership is expected to be ~\$2.9m in the first year after implementation is complete, increasing to ~\$7.4m in year 8. Incremental savings are expected to accrue in future years as the shared service unit continues to optimize operations.

The estimated investment required to implement the proposed model is approximately \$7m to \$10m over a period of three years. Taking into account the yearly savings in total cost of ownership and investment outlay of \$10m, we calculated the NPV to be \$1.35m over an 8 year period, using a cost of capital of 5%.

These savings are expected to be realized through efficiencies achieved from data centre consolidation and co-location, and optimizing pooled resources for infrastructure management. Consolidation of physical computing infrastructure and optimizing the resources required to manage that infrastructure will help enable the shared service unit to standardize and rationalize IT hardware equipment, IT software components and related maintenance costs. This, along with increased utilization and sharing of servers and storage devices, is expected to yield further financial benefits. Transitioning to a single shared service delivery model for data centre, infrastructure management, and storage services for City divisions and agencies will also help establish the foundations for consolidating IT demand and procurement spend across the divisions and agencies. Further savings are expected to be realized by leveraging consolidated external spend and third party IT contracts for enterprise software licensing, networking & telecommunications.

Approach to Implementation

Although shared services is a common strategy for optimizing service delivery of common IT infrastructure services, it is important to realize that shared service is a journey that requires vision, commitment and strong leadership. Establishing a well-defined shared service unit for the proposed services will require time, effort and commitment across the different stakeholders (City and agencies).

Prior to implementation, a detailed analysis of the current cost drivers and future infrastructure needs is required to build a detailed business case. This detailed business case is needed to demonstrate the specific financial savings, expected improvements in service delivery and associated costs at a more granular level. The detailed business case should re-evaluate the options to build a data centre versus procuring co-location facility services using an approach that considers the total cost of ownership, associated risks with each option, as well as the impact of a shared service delivery model on the business case.

Implementation and 'roll-out' of the new Unit will take approximately three years based on the proposed roadmap. The timeline assumes a phased implementation approach starting with consolidation of City I&T and divisions core IT infrastructure to a co-location facility (or newly built facility) and a re-organization of the FTE resources to staff the proposed Unit. The next phase includes the consolidation of common core IT infrastructure for agencies (specifically TPL, TTC, TPS) into the facility and the transitioning of the resources managing these assets into the new Unit. The proposed timing incorporates requirements for detailed design of the target operating model and addressing complex labor relations and HR issues.

Recommended Operating Model 2: Application Rationalization

As an extension to the proposed Infrastructure Shared Service Unit, we recommend the establishment of a seconded project team with the objective of implementing an application rationalization program. The purpose of this team will be to design the future state of the application landscape and identify potential applications for consolidation. This team may leverage and expand upon the rationalization exercise which began in September 2011 within the City to include agencies as well. It is expected that this team be comprised of representatives from organizations participating in the proposed shared service model and be governed by the same governance structure as the proposed Shared Service Unit.

Working in collaboration with infrastructure consolidation program, this team is expected to take advantage of centralized infrastructure once consolidation is complete and leverage this to identify opportunities for sharing applications, consolidating license agreements and driving towards standard systems. In the interim, it is suggested that working groups be formed to utilize and build upon the Business Capabilities Model developed by the City's Enterprise Architecture group to begin identifying and assessing domain areas of common business processes and the potential for standardizing applications. Some of these areas identified by stakeholders during the course of this study include: Time and Attendance; Geographical Information; Work Order Management; Capital Project Management; Financial Accounting; Learning Management; and Document Management.

Rationalizing applications and standardizing to shared applications where there are common business needs provides an opportunity to realize financial benefits through reduced costs for enterprise licensing and support. Further, this standardization of processes and applications is the foundation required to establish competency centers for functional areas and applications, which could result in potentially improved service delivery and staff development.



1.3.3 Insurance and Risk Management

Findings and Opportunities

Current State

The City's Insurance and Risk Management group, which resides within the Corporate Finance Division, currently manages and oversees the majority of City insurance policies. The City's insurance program is structured to cover any losses under \$5 million through its own financing scheme, an arrangement known as Self Insurance Retention (SIR). The funding for SIR is provided from the Insurance Reserve Fund, which is a pool of insurance premiums paid by City divisions and most agencies. The City's SIR provides coverage for Comprehensive General Liability, Public Official E&O, Automobile, and Garage Liability. Due to contractual and statutory insurance requirements, the SIR needs to be "fronted", or covered by a provincially authorized insurance company with liabilities being offset by an indemnity agreement from the City. This largely involves issuance of "pink slips" for City vehicles and other minor administrative needs. The City contracts for umbrella and excess liability policies to cover its potential losses that exceed \$5 million. These are structured in a layered form, all together totaling \$95 million. Hence, the City, through a combination of its own and contracted insurance, is covered up to \$100 million. Additionally, the City procures insurance policies related to: property, boiler and machinery, crime, aircraft, marine, fiduciary duty, and home day care. In total, the City's insurance expenditures amounted to \$5,394,212 in 2012/2013.

The City's insurance program covers four of the six agencies analyzed in this study: TPL, TPS, TPH, and EP. These agencies pay a premium to the City through an internal budget transfer, and, thus, their respective liabilities (including submission and investigation of claims, handling of payouts, risk management practices, etc.) are managed by the City. TPA and TTC maintain their own insurance policies. TPA contracts with external insurance providers for all of its coverage needs and incurs minimal effort in dealing with insurance related matters. Its deductible limit for General Liability is \$25,000.

In order to avoid fronting premiums to cover its revenue vehicles, the TTC has formed its own provincially approved insurance company, called TTC Insurance Company Limited (TTC ICL). TTC ICL is able to issue insurance "pink slips" for all revenue and non-revenue vehicles, thereby bypassing a need to indemnify another insurance company's coverage for a fee. For commercial general liability, TTC follows a similar structure to the one used by the City, with a \$5m deductible covered through an SIR arrangement and layered excess liability, totaling \$100 million. Other insurance policies, some of which are comparable to City categories, are used including: property (buildings, structures, and rolling stock), boiler and machinery, crime (including employee crime), automobile, and fiduciary duty, among others. TTC also procures specialized policies, which include: equipment, inventory, and special construction projects. TTC uses its own insurance broker (different from the City) to assist in indentifying and contracting appropriate insurers.

Observations and Issues

Several observations were noted over the course of KPMG's review of the Risk Management and Insurance function across the City and its agencies.

Most notably, the use of external insurance providers by TPA and TTC appear to be outliers with respect to models adopted by other agencies and divisions. In some cases this arrangement is warranted and produces benefits for the City as a whole. One such example is the use of TTC ICL for issuance of pink slips, which saves hundreds of thousands in fronting premiums. In other cases, the structure is a reflection of the historical approach to operating these organizations as independent stand-alone entities. While it allows for greater flexibility in selecting a broker and an insurer, a third party arrangement can also potentially be costlier than using the City's insurance program.

Through interviews and workshops, we have also noted that the City does not have formal risk appetite statements, which are a set of parameters that qualitatively and quantitatively convey the amount and nature of risks the organization is prepared to take on. This makes it difficult for management and external stakeholders to determine whether the current risk management practices are either in line or materially different from the City's explicit position on risk.

For more information on risk appetite statements see KPMG's publication:

<http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/Risk-appetite-O-200806.pdf>

Shared Services Opportunities

While technically not a shared service opportunity, there is a need for the City to establish a formalized risk appetite framework. Such a framework, which would be approved by the Council, would allow the City to prioritize risk management activities and focus on managing and mitigating those risks that are seen as critical to the organization. The parameters of a risk framework will be unique to the City, as its operating model is distinct from a private-sector entity or public-sector enterprise. However, they should include elements of financial risk (e.g., liability exposure, revenues, deficit targets), operational risk (e.g., service levels, standards), reputational risk (e.g., City's brand, debt ratings, stakeholder perceptions), employee risk (e.g., skills, capacity, compensation) and other relevant components.

With respect to shared services, the City and its agencies should consider adopting the operating models listed on the next page.

Recommended Operating Model 1: City / TTC Collaboration

We recommend that TTC work with the City on the procurement of insurance products (i.e., rationalizing broker services to the one offering best value), as well using the City's insurance for the coverage of non-specialized policies (potentially including Boiler and Machinery, Excess Liability, Body Injury and Property of Others). Specialized insurance for property (buildings, structures, tunnels, rolling stock) should be provisioned by a separate insurer, as the nature of the asset and risks is very distinct from those faced by the City. The City and TTC should work jointly to determine which specific policies should remain with TTC and its insurers and which should be transferred to the City through this arrangement. They should also define the exact coverage areas and required mutually beneficial terms. Based on identification of areas and terms, the City should develop a proposal to TTC to provide insurance coverage, and, upon agreement, underwrite the policies.

Recommended Operating Model 2: City / TPA Collaboration

While TPA's business model is operationally different and significantly more commercial in nature than the City's other divisions and agencies, the organization's risk profile appears to be consistent with what the City could cover through its own insurance. If the City can provide insurance on similar terms for a lower premium than TPA is currently incurring, we recommend the TPA adopt the City's insurance program. The payment would be made from TPA to the City through a budget transfer. Providing insurance services to TPA would not significantly alter the City's risk profile, and, therefore, the incremental premium is likely to be lower than what TPA is currently paying in the market. Benefits to the TPA would include lower insurance premiums, while the City is able to broaden its client portfolio, thereby pooling risks better.



1.3.4 Internal Audit

Findings and Opportunities

Current State

Formal Internal Audit (or similarly mandated) functions exist in four of the seven organizations reviewed as part of this study: TPS, TTC, TPA, and the City. Other organizations (TPH and EP) have previously relied on the City's Internal Audit resources to conduct required reviews. These agencies are billed through internal charges for the services provided by the City's IA Division. TPL does not have an Internal Audit function but have occasionally contracted external auditing resources to conduct ad hoc reviews (e.g., business expenses).

TPS Audit and Quality Assurance Unit, which houses 14 employees (including five uniformed officers), carries out a variety of auditing functions, some of which are mandated by the Police Services Act. These include standards regulation compliance audits, risk based operational and financial audits, program reviews, and special projects, among others. The unit functionally reports to the Chief of Police, with administrative reporting relationship to the Administrative Command.

TTC Internal Audit group is comprised of ten people, including five auditors, three audit managers, a Director (currently filled with an Acting role) and an Administrative Assistant. In the past year, the group has undergone an internal reorganization, which resulted in staff figures being reduced from approximately 20 positions to the current complement. Typical audits conducted by the group include major construction projects (e.g., Toronto York Spadina Extension, Union Station), operations (e.g., subway cars, plants, infrastructure), internal processes (procurement, contract management, attendance management), and other capital and controls audits.

TPA has one Internal Auditor and four Audit Clerks, who primarily develop Standard Operating Procedures and subsequently conduct operational audits to determine compliance with those procedures. Group members also maintain inventory of keys for meters on the street and test meters to verify they are functioning properly.

The Internal Audit Division of the City is comprised of seven audit professionals (three management and four staff) and one administrative assistant. The group reports directly to the CMO and works closely with cluster heads and divisional managers. The majority of the work performed entails operational audits, very few financial audits, and some special projects and advisory services. In addition to serving City divisions, the IA group also provides services to TPH and EP, and in the past has conducted audits for the CNE. Remuneration for this work is provided through an inter-departmental charge to the serviced agencies.

Current State (cont.)

In addition to the formal IA function, several City divisions have quality assurance groups that perform quality reviews, procedural compliance reviews, and internal investigations. For example, Employment and Social Services; Children Services; Shelter, Support and Housing Administration Division; and Toronto Water divisions, among others, have similarly mandated quality functions. Stakeholders from these organizations point out that the nature of work performed aligns closer to the “continuous improvement” and “customer service” initiatives rather than internal audit activities, suggesting that alignment with the IA group is limited.

Observations and Issues

Several observations were noted over the course of KPMG’s review of the IA function across the City and its agencies. While some coordination takes place among IA professionals, the nature, scope and formality of professional interaction is limited. For example, several functional leads participate in industry associations and seminars, where they discuss ongoing and emerging issues, audit protocols, and leading practices. However, there is no formal collaborative group within the City and among agencies to bring internal auditors together on a regular basis. Furthermore, there is little evidence of leveraging of expertise across agencies to augment existing resources with knowledgeable and experienced professionals from sister organizations.

Quality assurance groups within the City also appear to operate on a highly siloed and fragmented basis. Their processes, procedures, and protocols vary significantly due to different levels of functions’ organizational maturities and lack of cross-pollination of expertise and leading practices among colleagues.

In organizations without a formal Internal Audit or Quality Assurance functions, the expertise required to conduct independent operational, organizational, or financial reviews may be lacking. Executives in these agencies often bring in external auditors, which in some circumstances may be costlier than engaging the City’s Internal Audit division, especially if the latter have capacity to conduct the reviews.

Shared Service Opportunities

As part of the analysis, KPMG explored the possibility of consolidating Internal Audit and Quality Assurance functions across all agencies and divisions of the City. However, there was little evidence that would suggest that such an arrangement would be beneficial to all participating organizations. TPS quality assurance function is mandated by the Police Services Act (PSA), while the value of other Internal Audit and Quality Assurance functions (e.g., TTC, TPH) lies in the knowledge of organization's specific operations, policies and procedures, as well as in the direct relationship with the agency executives. Pooling all internal audit resources into one entity would likely disrupt these relationships and distance auditing professionals from each entity's operations. We believe that the benefits from such an arrangement would not be substantial. Our view is that collaborative structures and formalized coordination mechanisms would be of greater value to the City with minimal required investments. Two models featuring such collaborative structures have been proposed and are detailed below.

Recommended Operating Model 1: Quality Assurance Center of Excellence

We believe that the City's Quality Assurance professionals would benefit from a formal collaborative structure. Consequently, we recommend establishing a Quality Assurance Centre of Excellence (CoE) to be accessed by staff currently performing quality assurance functions across the City divisions. The CoE is a community of practice which meets at defined times (e.g., quarterly) with commitment from existing staff and the objective of increasing the maturity of quality assurance within the City by promoting collaboration and offering standards, methodologies, tools, and knowledge repositories for the members. This proposed model seeks to enhance standardization of quality assurance within the City, thereby improving service delivery levels and compliance. A variation of this model sees the CoE expanded in scope to include broader internal audit functions, as well as extending membership to other organizations and agencies.

Recommended Operating Model 2: Use of IA Resources by Agencies

To better use existing capabilities and save fees paid to external professional services firms, we recommend that in-scope agencies that currently do not have an internal audit function should utilize the City's Internal Audit division for their respective compliance, assurance and business risk consulting needs. Agencies that are potential customers of this model include TPL, TPH, and EP, which do not possess extensive internal audit capabilities. While it is understood that the IA division is currently being utilized by some of the organizations listed above, this is not the case for all agencies and the City is not used exclusively in all cases. It is proposed that IA services be charged back to the agencies based on the time and effort required for the services rendered. In proposing this model, we assume that the IA division has the capacity required to assist agencies to identify and address their audit requirements, while reducing organizational risk and increasing service levels.

Additional Model for Consideration: Internal Audit Working Group

Currently, some internal audit professionals across the City meet through external forums to share their experiences and learn about internal audit leading practices. We believe that an internal working group focused on internal audit may be of additional value to the City, as it would provide the City and its agencies an opportunity for all internal audit leads to share lessons learned and leading practices, collaborate, and optimize their use of resources. Moreover, such a forum could lead to strengthened working relationships across the City and a cross-pollination of skills and knowledge. The working group structure and frequency of interactions should be determined by the internal audit professionals in the City and agencies.



1.3.5 Legal Services

Findings and Opportunities

Current State

The City's Legal Services Division is tasked with supporting all divisions and some agencies with the provision of legal advice, support, and guidance. Comprised of 287 staff and similar to a full-service law firm, the division handles multiple areas of law, including: municipal, real estate, planning and development, and employment. Other functions include litigation, prosecution, council liaison, Transit Plan, and library services. Consistent with industry practices, the legal division often charges its internal clients on an hourly basis for legal advice.

A number of agencies in the scope of this review utilize the services of the Legal Services Division for various needs. TPH relies on the City's Legal division for all of its legal services and needs.

TPA occasionally contracts the City for legal advice related to real estate transactions. However the majority of legal services are provided to the TPA by specialized external law firms.

TPL uses the City legal services for real estate and municipal law. Employment services, including labour relations are handled using external legal resources, as appropriate.

EP relies on the City to provide the majority of its legal services, with employment services being the exception. EP uses external law firm for employment and labour relations support.

For TPS, the City provides legal services for contracts, claims, employment law and real estate law. TPS performs the remaining services in house, including supporting the Board, the Chief, Command, and members of the force with provision of legal advice. The TPS Legal Department is comprised of 10 people, including one Lead Council, one Legal Council, coordinators, clerks and assistants.

TTC uses the Legal Services Division of the City for real estate services. The rest of legal support is provided through an internal Legal group at TTC. The group is comprised of 34 individuals, including 18 lawyers, 12 legal assistants, one prosecutor, one articling student, and two court advocates. The group's primary area of focus is representing the commission in legal claims brought forward against the organization. These include personal injury and property cases.

Observations and Issues

KPMG observed that issues of capacity and specialization often hinder collaboration and sharing of resources. The City's legal team reportedly experiences high workloads and their capacity to take on additional services without additional staff may be limited. The agencies, on the other hand, often cite the need for specialized expertise, which may not be readily available in the City's legal division, prompting them to select an external law firm. With the TTC Legal group's focus on injury and property claims against the Commission, there is little overlap or duplication of activities between it and the City. Moreover, since TPS is governed by its own provincial act, having an in-house legal group appears to be reasonable.

As a consequence, KPMG did not identify any specific shared services models within this function. However, as is the case with most of the other functions, we recommend that the heads of Legal groups in each organization meet regularly to discuss the needs of each organization, emerging issues affecting the City as a whole, and share ideas on optimal service delivery of legal services across the City.

It is worth noting that given that this was not an in-depth legal services sourcing study, KPMG did not examine the benefits of procuring external legal resources as opposed to keeping legal staff in-house. Internal studies conducted by the City suggest the latter to be more cost effective.



1.3.6 Purchasing and Materials Management

Findings and Opportunities

Current State

The current state of purchasing for the City is organized in a hybrid centre-led model. The City's Purchasing and Materials Management Division (PMMD) employs 79 FTEs and has an estimated gross budget of \$7.1m. The PMMD leads policy compliance, business process management and oversight of operational procedures for all City divisions. In addition, key service delivery activities for the PMMD include administering the RFP process and managing the purchase order (PO) and blanket contract process for higher value purchases. Service level agreements between PMMD and most of the customer divisions are currently in place, augmented with agreed upon delivery mechanisms. Lower value purchases (typically under \$50K) are managed directly by the divisions. An estimated \$1.1b of external procurement spend (consolidated across City divisions) is managed by the PMMD.

The PMMD also has a formal agreement to provide operational procurement services and support to Toronto Public Health, who have approximately 4.4 FTEs performing purchasing activities and whose main tasks are managing lower value purchases and partnering with the City for higher value purchases. The total annual procurement spend for TPH is estimated at \$27m. While much of TPH's procured goods and services are common among other City divisions and agencies, they also procure medical and dental equipment and supplies unique to TPH. Furthermore, the PMMD provides similar services to EP through a contract. EP has 3 in house FTEs and annual procurement spend estimated at \$21m. The other in-scope agencies, namely TTC, TPS, TPL and TPA, have their own independent purchasing organizations, policy and systems.

TPS has five dedicated staff in Purchasing Support Services - specifications and bid documents are prepared by the business units, with Purchasing Support Services guiding the process to verify compliance with policies and procedures. The total annual procurement spend is estimated at \$100m. Of this amount, annual operational spend is estimated at \$60m and annual capital spend is estimated at \$40m. An estimated 60% - 70% of the annual spend is police-specific.

TTC has 59 staff involved in the delivery of procurement services at the TTC. These people are directly involved in the buying of goods and services (i.e., the full pre-award cycle from specification preparation through tendering process and award) plus post-award contract administration. These resources are also involved in ensuring commercial compliance, contract management, coordination and payment processing (to some extent). The TTC has its own policies, procedures and systems for procurement. The total annual procurement spend is estimated at \$260 m – of this amount, annual operational spend is estimated at \$98m and annual capital spend is estimated at \$162m.

Current State (cont.)

TPL have 3 staff performing procurement services and the agency has their own processes, policies and system for purchasing. Key activities performed by the TPL Procurement Group include ensuring the competitive process is compliant with policy, ensuring proper documentation for non-competitive procurement, and administering the purchasing card process. The total annual procurement spend is estimated at \$44m – of this amount, annual operational spend is estimated at \$20m and annual capital spend is estimated at \$24m. Library collection procurement is performed by a different group in the TPL.

Based on information provided, TPA does not have any dedicated purchasing staff - RFP issuance and purchasing process and procedures are performed by business units. TPA has its own purchasing by-law and is not subject to the City's thresholds. Based on interviews and information provided, the estimated annual operational procurement spend is \$20m.

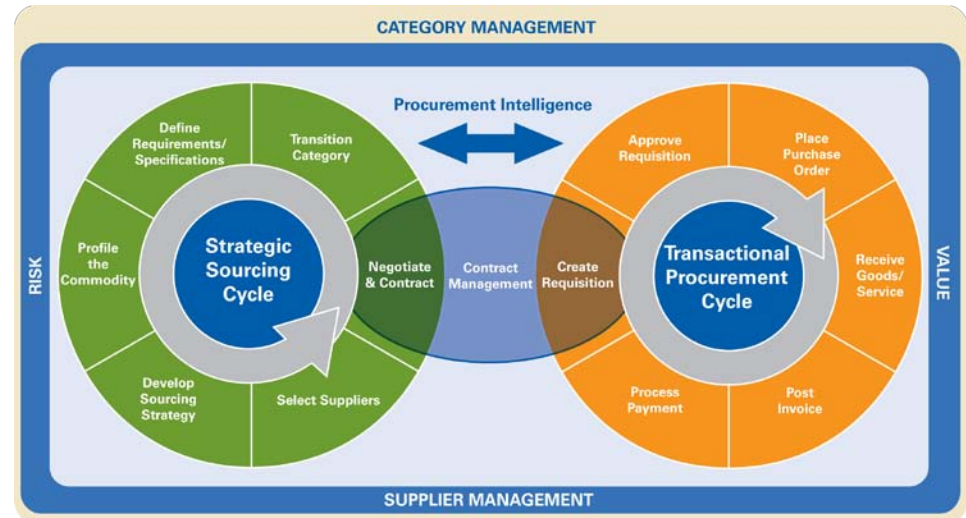
The total estimated spend consolidated across City divisions and in-scope agencies is approximately \$1.6b. City divisions comprise the majority of this spend (69%), followed by Toronto Transit Commission (17%) and the Toronto Police Service (8%).

Observations and Issues

Identification of possible opportunities for shared services in purchasing and materials management typically involves an assessment of two core procurement processes (see figure below).

Classically, shared service opportunities exist in operational procurement and are geared at increasing process efficiency. Using shared service delivery models, such as centralization, organizations look to generate savings by achieving reductions in transactional costs. In the vast majority of cases, realizing these savings involves a significant degree of change, impacting people, systems and processes. Our assessment of the current state service delivery structure, input from stakeholders, past experience, and review of

Figure 2 – Procurement Service Delivery Reference Model



leading practices suggest that implementing shared services models that centralize transactional activities across the City and agencies could incur significant implementation costs associated with aligning IT systems and procurement processes. As a result, we did not focus on identifying opportunities in this realm of procurement.

On the other hand, shared service opportunities in strategic sourcing are geared toward achieving better pricing for goods and services, resulting in cost savings and better management of organizational expenditures. Achieving these savings involves changes to the approach, mindset and focus of procurement resources. There are fewer system implications and smaller investments required to achieve savings in the strategic sourcing cycle compared to the operational procurement cycle. Further, our experience with similar clients shows that the savings potential and achievability is greater in the strategic sourcing cycle.

* Category management

is defined as “organizing the resources of the procurement team in such a way as to focus externally onto the supply markets of an organization (as against having a focus on the internal customers or on internal Procurement departmental functions) in order to fully leverage purchasing decisions” (The Chartered Institute of Purchasing and Supply).

Observations and Issues (cont.)

Analysis of the strategic sourcing cycle across the City and in-scope agencies suggests that procurement is predominantly tactical, with little formal emphasis on strategic sourcing and no evidence of category management*. Sourcing is contract-based rather than category based and volumes across agencies and divisions are not leveraged formally. Services provided by the PMMD to divisions are primarily reactive to requests for procurement and strategic sourcing is limited to establishing blanket contracts. Although there is some joint procurement and sharing of contracts across divisions and agencies for a few select commodities, these arrangements are infrequent and mostly not formalized. Furthermore, formal, structured processes to consolidate common spend across divisions and agencies are lacking.

This observed gap presents a significant opportunity for the City and the in-scope agencies to drive savings by (1) consolidating common procurement spend across City divisions and agencies, (2) adopting a structured approach called “category management” to managing these common categories of consolidated procurement spend. As a result, this functional analysis focused on identifying and evaluating opportunities based on this capability gap in the strategic sourcing cycle. Focusing on this dimension of procurement is in line with industry leading practices and KPMG experience - KPMG’s recent global survey of procurement functions “The Power of Procurement” found a direct link between an ability to achieve greater cost savings and an overall maturity in category management, strategic sourcing and supplier relationship management. Those organizations that reported either ‘excellence’ or ‘leading’ maturity in these areas tended to deliver a higher percentage of savings than their less mature peers.

A range of model options to deliver these two requirements were considered. The general feeling amongst key stakeholders was that a procurement consortium was a feasible solution. Consortia are structured with staff from existing organizations and therefore any work related to a consortium is additional to the staff’s regular scope of activities. This implies that consortium priorities are not always the highest among participating organizations, typically resulting in delays and slow response times. Decisions are usually made by a committee of participants from diverse organizations and can often be challenging and time consuming. Furthermore, because all (or most) organizations must agree on the categories in scope, typically the less complex and lower value categories are managed, therefore limiting the potential savings opportunities. While a consortium could be implemented with a relatively low degree of resistance, such a model will not deliver significant cost savings to the City. Instead, to attain sustainable cost savings and make better purchasing decisions, we recommend implementing a shared service procurement model, employing category management and strategic sourcing approaches. Unlike a consortium, a shared service unit has the benefit of clear lines of governance and responsibility, while being focused, responsive, and agile. In the next section, we describe this model.

Recommended Operating Model 1: Category Management as a Shared Service

The proposed shared service model involves the creation of a new Procurement Shared Services Unit ("the Unit") to operate using category management and strategic sourcing approaches, acting as a procurement 'agent' for the City and agencies.

A key requirement of the proposed model is to re-organize a portion of City's Purchasing and Materials Management Division's resources into a unit on the basis of category management. The proposed Procurement Shared Services Unit is expected to be made up of a team of Senior Category Managers, who report to an overall Senior Manager of the Unit. Each Senior Category Manager will be responsible for a portfolio of spend categories and have a team of 'Strategic Sourcing Consultants' and analysts to support them. The Category Managers would be required to manage all aspects of one or more spend categories. Category Managers take a proactive approach to managing their respective commodity categories through the use of supplier and market knowledge, established industry relationships, and continuous competitive pressure. Their key activities typically include consolidating procurement spend across all organizations to verify a coordinated approach to market and undertaking portfolio analysis to establish the best strategy for managing the category.

Consolidation of spend is a necessary requirement for the proposed model, supported by stratification of commodity categories into three segments. The segmentation is based on whether these categories are procured by all (or nearly all) divisions and in-scope agencies (segment A), potentially several organizations (segment B), or only one organization (segment C). The shared service entity should only manage a portfolio of categories of spend in which it can provide tangible value to participating organizations. As such, we recommend that the Procurement Shared Services Unit provide procurement services across categories of spend that are common or purchased by two or more organizations (primarily Segments A and B). An initial high level review of spend categories that are common to more than one division and/or agency suggests that the amount of spend managed by the Unit would be approximately \$350m (of which 80% represents procurement spend by City divisions).

Such consolidation of spend categories would allow the City to structure preferential contracts with vendors due to greater scale, more stable and predictable purchasing patterns, and better relationships with suppliers. However, spend rationalization will not result in a "one size fits all" contract. Instead, the Unit should agree upon the structure of 'core' contracts, allowing for variations for a particular division or agency; similarly there could be more than one contract and vendor.

Recommended Operating Model 1: Procurement Shared Services Unit (cont.)

In the short-term, the Unit will sit within the PMMD, but ultimately transition permanently to the Shared Services Division under the Deputy City Manager/CFO. In both scenarios, the Unit will also be governed functionally by an independent body made up of representatives from participating organizations. Payment for services could be commensurate with the proportion of organizational spend managed or through a similarly structured compensation scheme. Mechanisms should be established for agencies to opt in or out, but these should be relatively strict, and should include the need to specify the commercial or service related reasons for opting out, with approval by the governing committee. Vendors will be less inclined to give the best value to the Unit if they believe they can contract directly with the agencies. Furthermore, participant withdrawals could diminish economies of scale and undermine the purpose of the Unit as a whole. Conversely, agencies need to be able to instill competitive pressures into the operations of the Unit to ensure that they are receiving the best value. The threat of losing customers (and associated funding and spend volume) should drive the Unit to continuously innovate and generate additional savings for the City.

The consolidated spend across divisions and in-scope agencies is \$1.6b, of which approximately \$500m is common among several organizations. Industry benchmarks suggest that a transition to a procurement shared service Unit could, on average, yield annual savings of 3.4% of total spend. Allowing for the fact that the Unit will have a range of diverse organizations to service and that some portion of the spend is already under contract, the estimated forecast for savings potential in the City's scenario is estimated at 2%. These savings are expected primarily in third party spend reduction coming from retendering, negotiation, substitution of goods/services, improved specifications and demand management.

Implementation Considerations

We propose an implementation roadmap of two years, with an estimated investment of \$0.5m. In order to achieve the desired future state, we propose a two-step approach.

Phase 1 is to develop and implement category management disciplines within the City's PMMD. This division would be re-organized and re-trained to manage procurement spend on a category basis. The implementation of category management, which includes the implementation of strategic sourcing and contract management, is expected to deliver the maximum value for all City divisions. This can be achieved relatively rapidly, without the need to gain agreement from each of the agencies or to establish governance arrangements. The next step for phase 1 is to develop a detailed business case and implementation plans to allow the City to invest in transforming the current organization.

Phase 2 involves establishing the Procurement Shared Services Unit - this process is expected to start in parallel with Phase 1, commencing with spend consolidation, contract analysis and agreement on the segmentation of spend categories. At the same time the governance arrangements for the Unit would be developed and agreed upon with each of the agencies. As the target operating model for the Unit is developed, it is envisaged that the City's PMMD would demonstrate the value of category management and strategic sourcing to agencies. Once the necessary governance arrangements had been agreed upon, the Unit would be established on a phased basis by migrating staff and spend from both the City and the agencies into the Procurement Shared Services Unit in a series of 'waves'. The Unit will need to develop processes that comply with the City's and the agencies internal procedures, and which are also flexible and allow the Unit to maximize savings. The majority of staff required to populate the unit are likely to come from the City of Toronto's PMMD and it will be important to ensure they take equal account of all the different agencies and divisions requirements.

Recommended Operating Model 2: City Stores Rationalization

The basis of the operating model for City Stores and PMMD consists of two parts:

- The rationalization of the corporate stores; the reduction of consumable products moving through the stores by significantly increasing the proportion of direct delivered products; and the automation of the P2P processes for these direct delivered products; and
- Utilizing the PMMD resources to manage divisional equipment and spares stocks held in depot and yards by introducing PMMDs stock management systems and disciplines.

The TTC and TPS have already moved the majority of their corporate consumables to direct delivery and they have focused their supply chain resources on managing the high value stocks that have a direct impact on frontline services – thus ensuring their supply chain resources are adding the maximum value. The City could pursue a similar approach.

The main benefits likely to be realized are reduced stock of corporate commodities and hence reduced stock spoilage, stock shrinkage, and redundant stock. In addition, the City may improve stock profiles of divisional equipment and spares, resulting in reduced downtime (improved service availability).



1.3.7 Records Management

Findings and Opportunities

Current State

Within the City, approximately 96 FTEs form the complement of Corporate Information Management Services (CIMS), the corporate lead for records management. CIMS performs such activities as the development and implementation of policies and procedures, overseeing access and privacy requests, performing archival services, administering legislated requirements, and driving the implementation of eRecords. One of the responsibilities of CIMS includes records storage. The City currently owns and operates two records storage facilities housing over 379,000 boxes.

Two directives receiving significant time, effort and focus from CIMS include the promotion of open government and open data, and a shift towards electronic records. Increasingly the City is moving towards digital records and the establishment of a single authoritative source for records. The City has a Digital Records Strategy to move the City towards digital records through the implementation of stepwise initiatives (e.g., digital image library). The City utilizes a web-based document management system called LiveLink, with over 900 users. In the future, CIMS intends to implement an Electronic Document and Records Management System (EDRMS) system within the City of Toronto.

The scope and definition of records management across the City and its agencies varies depending on the nature of the organization performing the activity. For some organizations, records management is mainly focused around financial, administrative, tax, and personnel records. Other agencies have unique needs and operational requirements with implications for records management. For example, Exhibition Place has a dedicated archivist to manage records of historical significance. Toronto Public Health and Toronto Police Services have business-driven operational records, such as personal health records, criminal records and physical evidence, which are managed in a highly prescribed manner based on legislation.

The degree of collaboration between the City and agencies also varies. In many instances, City agencies are utilizing or modeling their respective records classification and retention schedules or policies after those of CIMS. In addition, some organizations such as TTC and TPH, receive dedicated records management personnel and services from CIMS. Moreover, multiples agencies are currently storing records within the City's records centres (agency records storage makes up approximately 14% of records within the records centres). In other agencies, records management is unstructured and informal, with no dedicated records management personnel, no formal policies, and records stored in available office space.

Observations and Issues

Several observations were noted over the course of KPMG's review of the records management function across the City and its agencies.

First, as previously mentioned, varying levels of maturity exist with respect to records management and records storage across the City. Moreover, while some agencies may model or base their policies and procedures on those of the City, there is no apparent authoritative or consistent schema or system for records management among the agencies. These observations may have implications on operational risk management, the ability of the organizations to share and access information, records storage, and overall organizational efficiency and effectiveness.

Another notable observation pertains to the capacity of the City's records centres. Currently, the City is operating between 95-98% capacity within its records centres. While the capacity level is becoming increasingly stable as more records are stored electronically, the City has very little capacity to take on additional customers within their current facilities.

Lastly, it was observed that the intake and submission process for access and privacy requests (i.e., Freedom of Information requests) for all organizations presents an opportunity for improved efficiency, as it currently relies mostly on manual data entry activities.

As a result of our analysis, four opportunities for shared services were developed following analysis of the current records management functions across the City and its agencies. They are described on the following pages.

Recommended Operating Model 1: Records Centre Alternate Service Delivery

Currently, 16 people are employed at the two storage centres operated by the City. These individuals perform such activities as filing, retrieval and destruction. We believe that records storage operations could be more efficiently delivered by a specialized records storage operations provider, and that the City's role is better focused on strategic policy development and implementation.

Thus, an operating model was proposed which sees the operation and management of the City's two records storage centres outsourced to a third party record storage service provider. Specifically, the third party would perform records retrieval, transportation, and destruction, as instructed by the owners' (e.g., City, agency, etc.) schedules and maintain an inventory of stored records. CIMS will manage the third party procurement on behalf of the agencies based on defined requirements and perform ongoing vendor contract management, while day-to-day storage requirements and transactions would take place directly between the customer and the third party.

While it is proposed that custody and proprietary control of the facilities be retained by the City, it is also plausible that at least one of the facilities could be sold and third party facilities utilized.

Recommended Operating Model 2: Formalized Collaboration

Opportunities exist to formalize working relationships between organizations in order to approach records management in a consistent manner, determine a standard service level across the City, reduce corporate risk, and to learn from the experience and lessons of others. As a result, we recommend that a Joint Working Group be established to formalize a community of practice for records management practitioners across the City. While it is understood that some agencies have already adopted or replicated, to some degree, the City's records classification, standards, taxonomy, and retention schedules, and that collaboration and consultation between the City and agencies exist at an individual level, the proposed Working Group is specifically focused on formalizing these relationships and expanding the records schema to other agencies and to a greater scope of records. Moreover, the Working Group would operate on an ongoing basis, beyond the implementation of a common records schema to achieve other objectives and promote the profile of records management across the City.

Recommended Operating Model 3: Digital Records

The City's storage facilities are currently operating at greater than 95% capacity, with duplicate records existing in both physical and digital formats. It is inefficient to convert digital information to paper to store and manage it. Moreover, the current operating model will become increasingly impractical as the City becomes more reliant on digital technologies. Transitioning to a predominantly digital records environment means that records can be easily identified and located but also that they are trustworthy, authoritative, and able to withstand scrutiny. While it is understood that the City has a Digital Records Strategy which will be implemented in a stepwise fashion in the long-term, it is recommended that the City expedite the transition to digital records and include the City agencies in its plan and actions. To the extent possible, this model would see all information that is created in digital form, also stored in a digital form. Moreover, this model is focused on creating a cultural shift in the operations and manner of business conducted by the City.

Recommended Operating Model 4: Automation of FOI Submission and Intake

The six organizations in-scope for this review cumulatively process approximately 8,000 Freedom of Information (FOI) requests per year, with the majority (65%) being submitted to TPS. The submission and intake processes are manual, and often involve redundant activities such as entry, verification and validation of data. Automation of the submission and intake process would ultimately lend itself to increased standardization, decreased manual processing and improved service to the public. Moreover, automation is aligned with the City's Open Government agenda. Thus, it is proposed that the City and its agencies automate and digitize the submission and intake of FOI requests submitted by the public through the implementation of a common IT platform. In the proposed model, the public would submit FOI requests and payment using an online form which would automatically direct the request to the appropriate entity. Each agency would have their own intake and submission back-office interface. Information collected from the request would be automatically entered into a database owned by each entity, therefore eliminating the need for manual entry. Hardcopy applications and cash payments would continue to be accepted, in order to ensure that the process is accessible to all applicants. Moreover, applicants who are unsure as to which agency to direct their request would continue to submit their requests through the current process.



1.3.8 Real Estate Services

Findings and Opportunities

Current State

Real estate functions across the City are largely concentrated within the Real Estate Services Division (RES); however, some agencies have their own respective real estate resources, notably TTC, TPA, TPL and EP. The City's RES has the responsibility of managing municipal real estate assets (including acquisition, appraisal, leasing, administration, and disposal), expropriating land, securing leased space, and developing properties for City uses. It is important to note that handling of surplus properties, which includes third party development, disposition, and repurposing, is done by a separate organization, Build Toronto. To enable its service delivery model, RES relies on a technological platform specifically tailored to a municipal real estate function. This platform is considered to be robust and fully capable of supporting the City's real estate management requirements.

The RES division currently provides a full suite of services to TPH and TPS. Stakeholder interviews indicated that the nature and quality of services received from the RES division by these two organizations appear to meet their respective needs.

TTC Property Development department is comprised of nine individuals, with a focus on the capital program, development, and leasing. Its responsibilities include coordination of development activities, technical reviews related to development applications in proximity to the subway, management of property and development agreements, and management of retail leases on TTC property, among others.

TPA real estate function exists to support the organization's business model of developing and operating parking facilities across the City. Three individuals that make up this group have the responsibility for property acquisition, development, sale of air rights, retail leasing, and third-party operation management, among other duties.

EP does not have full time resources dedicated to the real estate function. Due to the non-dynamic nature of EP's real estate portfolio, property acquisition, disposal, and development activities are minimal. However, a portion of a manager's time is dedicated to leasing and tenant management activities. This includes administering leases with approximately 15 tenants and securing tenants for properties when they become available.

TPL has a dedicated resource (one Manager-level person) handling real estate services for the organization. The function's main objective is to manage leases, in which TPL rents space from other landlords, as well as deal with tenants who lease space from TPL. The Library has entered into an arrangement with the City's RES group to provide advice on leasing and negotiate tenant agreements. For a fee (inter-departmental charge), RES supplies market information on rates, conducts appraisals, and negotiates with landlords in securing TPL leases.

Observations and Issues

Some collaboration exists among the real estate professionals in the City. Much of it involves participation in the Property Management Committee (PMC) process, where tactics on handling individual properties are discussed. This often involves the discussion of use of specific properties by the City and agencies, as well as potential transfer of surplus properties to Build Toronto. According to stakeholders, the work of this committee is largely transactional in nature, focusing on specific sites and properties, rather than an overall strategy for real estate in the City. Additional examples of collaboration were cited in instances where property use had the potential to impact more than one organization (e.g., a new subway entrance adjacent to City property). Thus, it appears that instances of collaboration happen either on a highly tactical level or on a one-off basis, with limited City-agency long-term planning involved. This also suggests that property portfolio management occurs in a fragmented way, where each organization has a view of their respective properties, but no one entity handles the entire portfolio of real estate assets for the City as a whole.

It was also observed that in procuring external services (e.g., appraisers, brokers, etc.), the City and agencies do not collaborate sufficiently. Vendor management and contract management practices appear to be inconsistent, with each organization adopting both formal and informal processes of evaluating and managing their respective contractors.

Finally, there appear to be several lessor functions (i.e., the process of leasing City-owned space to tenants) scattered throughout organizations. The City, TTC, TPL, and TPA are involved in this activity, with the RES having the largest group dedicated to this activity. While we did not measure the effectiveness of these individual functions as part of this study, we perceive landlord negotiation and contracting activities to be non-core to the mandate of the reviewed agencies. Yet, we observed that only the TPL contracts the City to perform tenant negotiations on their behalf. TTC and TPA perform lessor activities on their own as part of their real estate / development function.

Shared Services Opportunities

Our observations and related analysis led to a formulation of several recommendations and operating models across the Real Estate function in the City and agencies. We believe RES and agencies that have significant property holdings need to collaborate better on a City-wide portfolio basis. This could be achieved through broadening of the PMC mandate to include a more strategic view of the City's real estate with a medium to long-term perspective. Practically, this would entail centralizing property data into a single database and allowing the City and agencies access to information about asset classes, locations, and uses. Once this is accomplished, more informed decisions could be made on how assets should be utilized, managed, and potentially redeployed for the benefit of the City as a whole, as well as individual agencies. In addition, two operating models for sharing real estate services are proposed (described on the next page).

Recommended Operating Model 1: Lessor Activities

As previously mentioned, we believe there is an opportunity to consolidate lessor activities across agencies into one organization (examples of lessor activities include negotiations and tenant management, lease abstracting, and lease administration). Consequently, we recommend transferring these responsibilities from individual agencies (namely TTC and TPA) into the Leasing & Site Management Unit (L&SM) within RES. This unit currently administers lessor activities, as well as financial and landlord/tenant functions for over 1500 City leases - a figure representing more than ten times the volume of leases currently administered by the collective in-scope agencies. We believe that RES would be able to absorb these activities with very few, if any, new incremental resources. This proposed model will improve consistency of lessor processes across the corporation, reduce risk, and likely increase revenues. It would also allow the agencies to focus more on their core business and real estate needs. Although the L&SM would administer the leasing of City-owned property, the revenue generated from such leases would flow back to the respective organizations.

A variation of the proposed model could be considered, which involves formally offering the services of the Leasing & Site Management group to other agencies to be used optionally, at their discretion.


Recommended Operating Model 2: Vendor and Contract Management

To address current inconsistent approaches to vendor and contract management related to outsourced real estate services, we recommend that performance information regarding specific suppliers and contracts (e.g., appraisers, surveyors, etc) be shared across the City and its agencies in a formalized manner. The City's RES would establish, own and manage an information system platform (e.g., SAP Real Estate Suite) in order to maintain a database of vendor records, such as lists of reputable vendors and vendor performance assessments. Effective execution of this model hinges on collaboration with the real estate functions across agencies to develop a common approach and leading practices to vendor management. In some instances, RES could also provide vendor and contract management services to applicable agencies, including developing requests for services documentation and negotiating specifications on behalf of the agency.



1.4 Cross-Functional Recommendations

This section of the report describes a set of recommendations which span across all functions and whose implementation impacts the implementation of shared services directly or indirectly.



1.4.1 Increased Collaboration Across Organizations

Cross Functional
Recommendation

Cross-Functional Recommendations

Increased Collaboration Across Organizations

Current Challenges

As part of this assignment, the project team on occasion brought together representatives performing common functions from across the City and its agencies for workshops, meetings, and interviews. Through this process, it became evident that, in general, the representatives from across the municipality were not familiar with each other. While some individuals were acquainted, most were unclear as to the role and scope of services provided by their sister agencies.

This subtle finding has major implications for the sharing of services across the City. The City and its agencies cannot venture to share services without first understanding the realm of possible opportunities, as well as how or where commonalities may exist.

The detailed recommendations that follow in the body of this report are focused on specific operating models and mechanisms to share services, but in many cases the City and its agencies can achieve benefits and potentially operational savings by simply communicating more often and purposefully. Thus, it is recommended that the City and its agencies endeavor to increase working-level communication and collaboration across the municipality.

Guiding Principles for Collaboration

This recommendation is grounded in the assumption that collaboration and communication is generally a 'good thing', and a virtue of public sector organizations. However, consideration must be taken to ensure that collaboration is taking place at the right level, at the right time, with the right participants, and with strategic objectives in mind. In other words, care should be taken to design collaboration mechanisms which prevent "meeting for the sake of meeting". The following guiding principles may be considered when seeking to increase collaboration:

- Identify a legitimate basis for collaboration
- Assess the capacity of the organizations to collaborate
- Articulate a clear collaborative purpose
- Build up trust among collaborators
- Select appropriate collaborative relationships and a pathway for collaboration

Mechanisms to Collaborate

This recommendation may be achieved through a number of mechanisms, including establishing new collaborative bodies or expanding and strengthening existing ones; different degrees of collaboration are required for different purposes. The following list describes a continuum of common collaborative mechanisms which may be considered for implementation across the City:

- Establishing and maintaining a network of loose contacts - For example, having a clear understanding of who your peer colleagues are at other agencies and communicating with them on an ad hoc or as needed basis
- Establishing and maintaining a network of structured contacts - For example, holding annual meetings or conferences with colleagues peers from sister agencies
- Establishing working groups, committees or communities of practice which meet to achieve stipulated goals - For example, sharing information or jointly planning a project and implementing it
- Pooling resources to achieve a common objective - For example, establishing shared service operating models

Benefits of Collaboration

By increasing collaboration across the City, the following benefits are likely to be realized:

- Increased understanding and knowledge of peers and services in sister agencies
- Reduced difficulties associated with a fragmented approach to service delivery and increased standardization or harmonization across services
- Potential to achieve the same ends more efficiently by working together, rather than separately
- Increased focus on operating as “One City”

While multiple examples of mechanisms to increase collaboration exist, the following pages highlight specific examples within the Real Estate and Human Resources functions.

Example of Enhanced Collaboration: Real Estate

While real estate services may be considered “core” to the business of select City agencies, strategic decisions regarding management and planning for the corporate real estate portfolio must still be made with oversight from the City’s RES and general consensus from all relevant agencies.

It is understood that the Property Management Committee (PMC) exists to set priorities and strategies for the management of City properties in order to meet corporate goals, and that multiple agencies are represented on the Committee. It is also understood that in 2008, City Council directed the Chief Corporate Officer (“CCO”) to develop a City-wide real estate strategy for all divisions of the City and its agencies, boards and commissions. In addition, the City Real Estate Strategy Team (CREST) includes representatives from Legal, Real Estate Services (RES), Finance and Build Toronto and exists to provide input into real estate strategy issues, review properties for declaration of surplus, and monitor the strategic real estate program. While CREST developed principles of a real estate strategy, at the time of this shared service study, no evidence of a City-wide real estate strategy existed.

Interviews and workshops with real estate professionals from across the City revealed a general agreement that more collaboration and coordination is required for effective management of real estate across the City. Moreover, a 2011 Service Efficiency Study of the Facilities Management (FM) and Real Estate (RE) function revealed that a single, cross-organization FM & RE strategy is not followed or defined. Currently, divisions appear to develop/drive their own RE strategies with some input from RE Services, but they are mainly used as the executor of divisional strategy. Furthermore, anecdotal evidence from interviewees indicates that PMC is not operating as it was intended, as it has become a reactive body, rather than a strategic body. Lastly, there is a perception among agencies that their voices are not heard or equal to that of the City at the PMC table – a perception that hinders collaborative efforts. Negative effects translating from a lack of strategic leadership can range from unnecessary costs stemming from ineffective use of the real estate footprint, to lost revenue, loss of productivity, missed business goals and dissatisfied customers.

Thus, to increase strategic collaboration and enable strategic City-wide portfolio management across the City it is recommended that a two-tier committee structure be adopted by PMC. Specifically, the members and directives of CREST should be formalized under the Terms of Reference of PMC to set clear real estate priorities and strategies to be followed by all agencies and divisions. The second tier of the PMC structure will maintain membership from across City agencies and continue to focus on disposals, acquisitions and leasing, and potentially expand to include additional real estate functions as applicable.

Example of Enhanced Collaboration: Human Resources

Human Resources contains multiple activities, processes and outputs which are not only common, but also generic and observed across the City and multiple agencies. Examples of such functions include occupational health and safety, and organizational development and training, among others. Moreover, Human Resources is also a function where the outcomes and levels of customer service produced by each organization should be comparable and organizations should strive to achieve common standards. Overall, Human Resources is a function that lends itself to the sharing of services, and where meeting on a regular basis could help to drive the realization of collaborative opportunities.

Greater collaboration could be achieved through a number of mechanisms. For example, human resources leaders from the City and its agencies could meet on a regular basis to:

- Discuss human resource issues and concerns impacting their organizations
- Share lessons learned and the status of transformational initiatives taking place within their organization
- Discuss and set strategic human resource directives and objectives

In addition, working groups or subcommittees could be established among staff to discuss or drive key transformational opportunities that may involve multiple organizations (e.g. the implementation of HR information systems).



1.4.2 Shared Services Secretariat

Cross-Functional
Recommendations

“Many organizations achieve short-term success from “quick-hit” wins (i.e., one-time cost reductions....) but then struggle to continually improve operations and drive down costs, and stagnate over time from an improvement standpoint. Finally, there is the challenge of defining a continual improvements road map, and completing goals and levels with the associated benefits and costs to achieve, and the metrics to define achievement.”

KPMG Sourcing Advisory
3Q12 Global Pulse Survey

Current Challenges

The City is undergoing a significant program of change by implementing opportunities and recommendations, which were developed as part of the Core Service Review and Efficiency Studies conducted over the past two years. This shared service study has outlined a number of additional initiatives that will likely be rolled out in the near future. While the accountability for implementing other efficiency studies falls largely on the affected divisions, creation of shared services models does not lend itself well to any particular agency or division of the City. As a result, there appears to be an organizational gap with respect to the responsibility and accountability of carrying out recommendations from this shared service review.

Recommendation

As one of the most immediate action items, we recommend a creation of a Shared Service Secretariat (SSS) to lead the City of Toronto and its agencies through the next phases of shared service development (design, transition and run). For the various initiatives under consideration, it is important that dedicated individuals be assigned the accountabilities to program manage the prioritization, approval, sequencing, and business case tracking of Tier 1 and Tier 2 initiatives. Additionally the Secretariat would be responsible for identifying impediments/road blocks for successful realization of the goals and benefits of each authorized initiative. In contrast to the Shared Services Division described later in the report pertaining specifically to IT and Procurement shared service initiatives, the SSS is a *temporary* body which will support the organizations through the implementation of the discrete recommendations contained within this report.

Recommendation (continued)

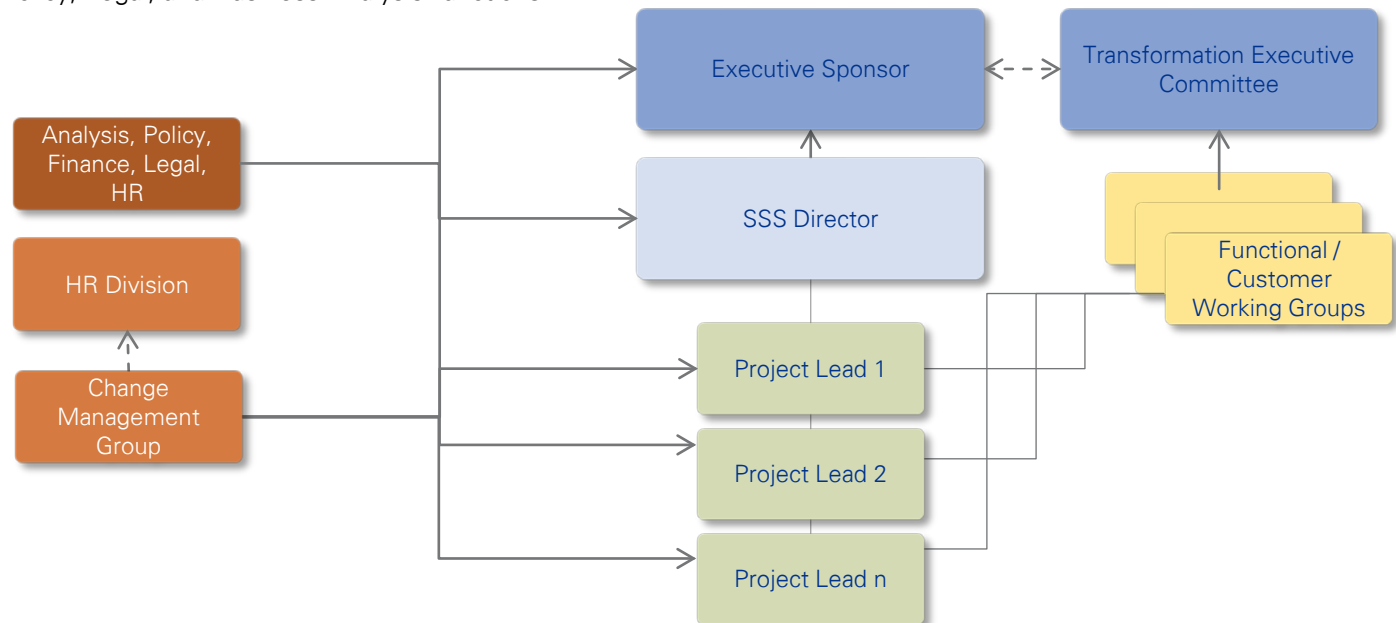
Thus, the creation of an SSS will facilitate focused attention on prioritized and approved projects ensuring projects are resourced, tracked and reviewed on a timely basis to achieve the goals set by the appropriate governance committee. The importance of building and tracking each initiative while defining a continual improvement roadmap and corresponding goals will be an offset to initiative stagnation, which can happen over time and is more likely occur when projects are run “off the side of one’s desk”. The purpose of the Secretariat is as follows:

- Be the program office for fast tracking key projects identified and prioritized for the evolution of shared services within the City of Toronto
- Provide governance including scope management, schedule management, budget management, quality management, resource management, communication and change management, and risk management for the projects approved by the City Manager and Executive Board of the Secretariat
- Ensure a common methodology is applied for all projects
- Escalate any unresolved issues through to the governance committee structure (refer to description on governance)
- Report on project milestones to the governance committee structure

Governance and Reporting Relationships

For every prioritized opportunity, a few key elements need to be in place prior to “project initiation”. In conjunction with the establishment of the SSS, a robust governance structure needs to be designed and launched. A vehicle for executive decision making and communication needs to be established and transparent to City and agency leadership. The governance structure will set the direction for service delivery models and facilitate the alignment of that direction with all City departments and agencies. The governance structure should be transparent with clear lines of accountabilities and responsibilities and have operational, functional, and strategic alignment.

A proposed governance structure is depicted below. Descriptions of key roles and responsibilities are provided on the following page. In addition to the core constituents of the Secretariat’s governance, the SSS will need to work closely with the HR division, specifically the Change Management group (see recommendations in the HR/Labour Relations function analysis). Furthermore, in order to address a number of corporate issues that will likely arise during transformation, the SSS will need to be supported by the City’s existing business services groups, including Finance, Policy, Legal, and Business Analysis functions.




SSS Focus:

- Link the findings of this study to a multiyear vision and strategy for services
- For each initiative, verify a organizational plan is developed including succession plan development, key resource development, and definition of staff skills
- Continue to explore service delivery alternatives and where applicable implement
- Support and evolve a governance structure comprised of customer representation, functional leadership and service leadership
- Drive and promote standardizations and a service environment that is reliable, efficient and effective
- Continually engage key stakeholders to ensure there is agreement on the goals and benefits, costs and timeframes to achieve success

Table 5 – Shared Service Secretariat Roles & Responsibilities

Governance Body	Constituency	Objectives / Responsibilities
Executive Sponsor	<ul style="list-style-type: none"> • City Manager 	<ul style="list-style-type: none"> • Vision and goals • Governance and decision model • Rules of engagement (including funding & pricing) • Executive alignment
Transformation Executive Committee	<ul style="list-style-type: none"> • City Manager • Deputy City Manager • Agency CAOs 	<ul style="list-style-type: none"> • Objectives and scope • Implementation strategy • Division alignment • Program resources • Communication plan and delivery • HR plan • Adoption of policy/process exceptions
Functional Customer Working Groups	<ul style="list-style-type: none"> • Agency and City Functional Leads 	<ul style="list-style-type: none"> • Setting strategic direction and planning for each work stream • Approve target operating models presented by project streams • Inputs on metrics and performance targets • Migration and change management planning input
Project Streams	<ul style="list-style-type: none"> • Project Managers or • Functional Experts 	<ul style="list-style-type: none"> • Team charter and deliverables • Developing the service offering • Project management and control • Business requirements and input on process design (leveraging functional SME's) • Practice sharing

* The proposed governance structure should be aligned to existing committees/structure where applicable



1.4.3 Implementation Approach and Governance

Cross Functional
Recommendation

Cross-Functional Recommendations

Approach to Implementing Shared Services

Current Challenges

Throughout this review, a large number of interviewed stakeholders have expressed concerns about the ability and authority of the City Manager to implement shared service models involving arms-length agencies. They point to the independent nature of agency organizations, their distinct mandate, Board governance structure, and even legislative acts that often govern them, such as Police Services Act (TPS), Public Libraries Act (TPL), and Health Protection and Promotion Act (TPH). These regulatory and legislative frameworks often define how decisions are made in these organizations by specific governing bodies to achieve particular outcomes. As a result, the entities' respective Boards act as the ultimate point of authority with respect to organizational structure, core and supporting processes, and people-related matters.

The autonomy of agencies' Boards makes imposed cooperation and collaboration in the form of shared services a challenging proposition. Every entity is acting in its own interest rather than in the interest of the City as a whole, which is a natural outcome of the existing governance framework. However, shared services models by definition aim to create an environment where the sum of the whole (the City overall) is greater than the sum of individual parts (City divisions and agencies). While certain entities may experience an increase in costs, others will likely achieve greater savings. Similarly, while some organizations may experience service level reductions, more will see their services improve. This holistic view to delivering business support services is currently obstructed by the perspectives of individual organizations. Furthermore, there is currently no clear authority in place to pursue or enforce shared service efforts on a City-wide basis.

Although Boards of Directors govern the execution and provide oversight of respective agencies, the funding to operate their organizations in part or in whole is provided by the City Council, channeled through the City executive. As a result, the Council and the administration have a duty to pay for the services of the agencies, while having little or no influence in the way the funds are spent (other than through contribution and intervention at the Board level). This poses a challenge for the City, as opportunities to implement shared services typically require executive sponsorship and authority to change the status quo, which is lacking in the current governance framework.

Cross-Functional Recommendations

Approach to Implementing Shared Services

Approach to Implementing Shared Services

There are two basic approaches to gain cooperation and collaboration of agencies in participating in a shared services arrangement. The City Manager can adopt:

- **Value-driven approach** – articulate a business case, which clearly demonstrates to the agencies the potential cost savings, service level improvements, productive resource reallocation, and other benefits, and the degree to which they overshadow drawbacks, limitations, and risks
- **Authority-driven approach** – obtain authority from the Council to impose shared service arrangements onto agencies, prescribing in the accountability framework how business services are to be delivered to the agencies

Recommendation

Business cases presented in this report afford an opportunity for the City and agencies to work together in achieving cost reductions and service improvements, if implemented correctly. We believe there is significant value to be gained from proceeding with shared services models we have put forward. As a result, we recommend that the City Manager adopt a **value-driven approach**, at least initially, to implement shared services across the City and agencies. This will likely entail:

- Working closely with the affected agencies to incorporate their perspective and needs for a shared service arrangement within each function
- Convincing agency executives and senior managers that this is the right direction for the City as a whole
- Structuring shared services models as internal businesses – driven by customer needs and focused on cost optimization and performance excellence
- Employing change management practices to reduce impact on employees and lessen disruption to the business

A large number of recommendations contained in this report are inherently beneficial, typically not requiring extensive analysis or a full business case (examples include increased collaboration, centres of excellence, leveraging existing training and OHS functions, among others). These are likely to be readily adopted by agencies. For more complex recommendations, as part of the process of bringing agencies on board, the City needs to supply a basis of evidence in the form of a detailed business case that the shared service arrangement will be a beneficial one for the City and the sum of all participating agencies. Cost, performance, and productivity data could be used to support business case conclusions.

Cross-Functional Recommendations

Approach to Implementing Shared Services

Recommendation (cont.)

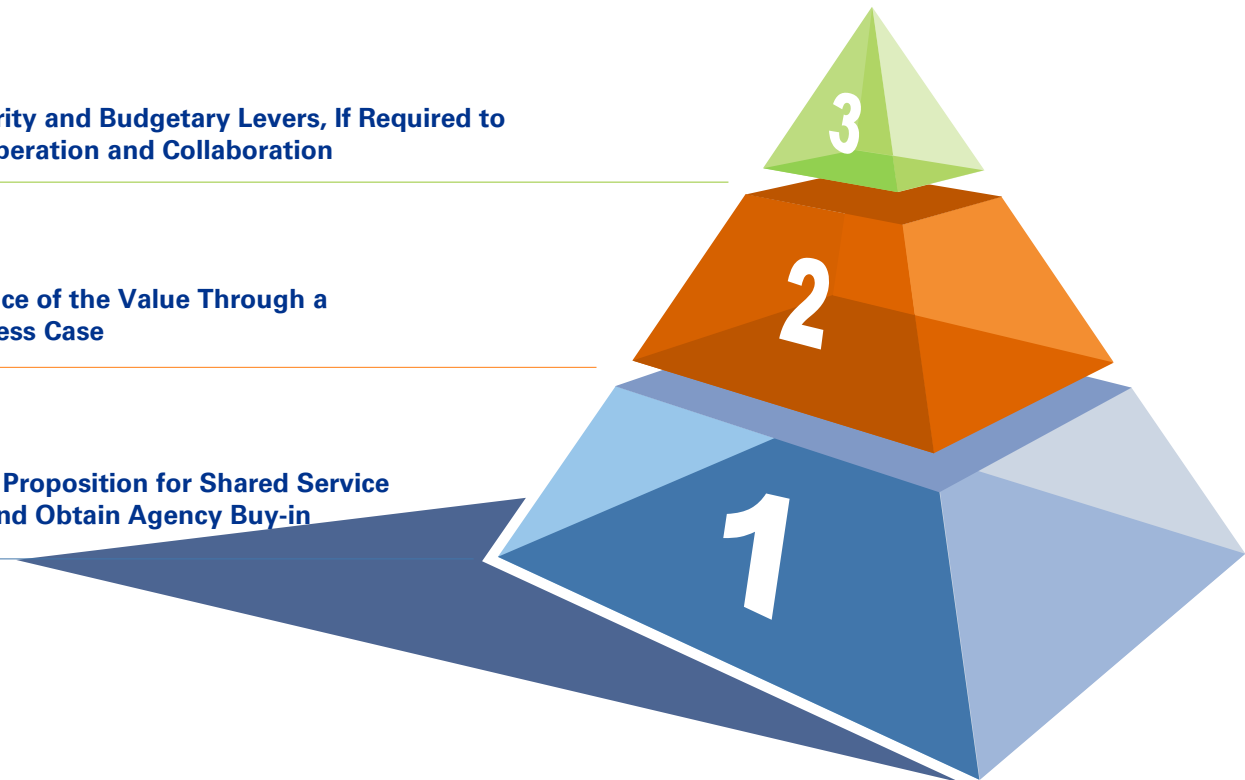
Finally, if response to a positive business case from agencies is non-constructive, the City Manager could use budgetary and council authority tools to force collaboration among the City and agencies. Such an approach will likely result in friction between the agencies, Council, and the CMO, as the independence of agencies would be put in question. Resistance from agencies is anticipated in this situation and proceeding with this option should be employed as a last resort.

Visually, the recommended strategy is depicted below.

Employ Authority and Budgetary Levers, If Required to Stimulate Cooperation and Collaboration

Provide Evidence of the Value Through a Detailed Business Case

Develop Value Proposition for Shared Service Participation and Obtain Agency Buy-in





1.5 Implementation Strategy

This section of the report highlights the key considerations and potential sequencing of implementation of the proposed operating models.

Key Considerations for Implementation

- Shared vision of the direction of prioritized initiatives and functional direction (Executive buy-in)
- Clear commitment to change for the approved initiatives and involvement of functional management in the next phase for approved projects
- Effective governance structure
- Change management skills
- Realistic time frames
- Detailed business cases
- Sufficient resources available for implementation
- Good communication
- Services are designed with “customer” focus and for improved services and outcomes
- Measurement of progress against objectives and benefit tracking

In a recent study of Shared Service Organizations the top reasons for Internal Shared Service success were due to 1) executive support for the vision and goals followed by 2) service quality of the shared services operations. Other success factors cited were: the shared service organization perceived and designed and run as a business; customer centricity, enabling IT systems; competitive with third party service providers and charge back structure. Listed below and on the following pages are a few key design considerations for implementation.

Design for Sustainability

One of the most critical elements for the success of the prioritized and approved initiatives is that the activities not be seen as a centralization exercise or a “one-time” cost reduction exercise. Centralization may bring short-term benefits; however, real and sustainable gain will be achieved through the building and measurement of continuous improvement and transformation goals within the projects and within the functions.

Business case/benefits tracking methodology should be established from the outset for every initiative along with service improvement goals/standards. Additionally, a mechanism for ongoing investment particularly in the shared services opportunities will be required to continually evolve and mature the shared service organization.

In any organizational redesign it is also important to ensure career paths and employment growth opportunities are part of the implementation plan. Attracting and retaining skilled and experience personal will be essential for the maturity of the functions and the success of the shared services initiatives.

Alignment to Shared Vision for the Functions and Quality of Services

In each shared service organization there will be a need for clearly defined commitments from the purchasers of services and service delivery standards from the provider of services. Prior to the formation of any new service delivery model, there needs to be agreement between the providers and the purchasers of the overall solution. In particular, when a new service delivery model is being contemplated, clear hand-offs between the purchasers of services and service provider including activities remaining within departments and agencies (retained functions) and the service delivery organization.

Realistic Business Case

For each initiative the business cases should include the “cost to achieve”, governance and retained organization costs. In some of the more complex recommendations (e.g., IT infrastructure and Category Management), the immediate next steps would be to capture additional detailed data requirements to further evolve the opportunities.

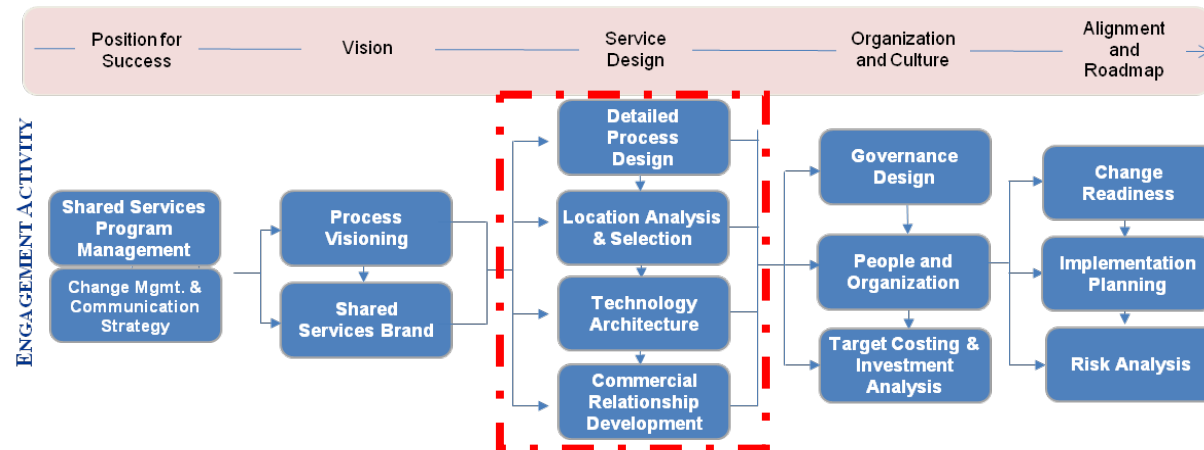
Implementation Strategy and Plan

Segmentation of Business Cases and Next Steps

The implementation of the operating models and opportunities proposed within this report require consideration regarding the sequencing and dependencies with new or existing initiatives. For some operating models, it is important to note that the next stage of activities may not be implementation, but rather further analysis. Specifically, for Category Management of the Procurement Function, Shared Common IT-Infrastructure and Alternative Service Delivery of Storage Operations, we consider the next logical steps to focus on further developing the solution leading to an implementation plan.

The diagram below illustrates the logical next steps for each Tier 1 opportunity.

Figure 3 – Select Tier 1 Opportunity Implementation Activities



For both Procurement Category Management and IT-Common Infrastructure models we consider the next logical steps to focus on further developing out the solution leading to an implementation plan.

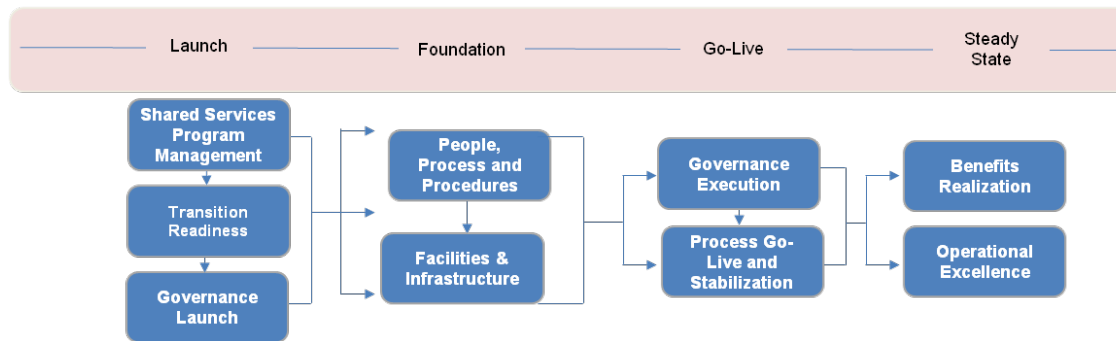
Implementation Strategy and Plan

Segmentation of Business Cases and Next Steps (cont.)

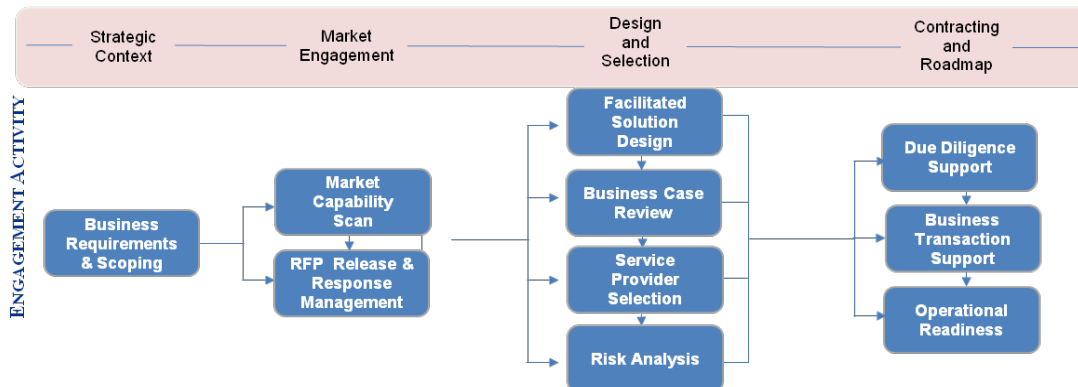
For other Tier 1 and 2 initiatives (e.g., Change Management Centre of Excellence, Rationalization of City Stores, etc.), the initiatives can move into the next phase of implementation as outlined in the business cases.

The diagram below illustrates the logical next steps for the remaining Tier 1 opportunities.

Figures 4 & 5 – Tier 1 Opportunity Implementation Activities



The exception to the process above is the Alternative Service Delivery Model for Records Storage, for which next steps are highlighted below.



Implementation Strategy and Plan

Sequencing of Implementation for Tier 1 Opportunities

The table below illustrates the proposed sequencing of tier 1 opportunities and the rationale for their respective positions. It is important that the first few initiatives establish early wins and successes and provide the foundation for remaining opportunities.

Table 2 – Proposed Sequencing of Implementation of Operating Models

Initiative	Sequencing	Timing of Initiation	Rationale
Shared Service Secretariat	1 (a)	Establish ASAP	Required to oversee suite of shared service opportunities
Change Management Centre of Excellence	1 (b)	Establish ASAP	Required to assist in change
Labour Relations Strategy	2	Tranche 1	Largest potential savings to be realized
Category Management of the Procurement Function	3 ¹	Tranche 1	Spend analysis is the fundamental next step, requiring significant effort.
Shared Services of Common IT Infrastructure	4 ²	Tranche 2	Detailed business case analysis is the fundamental next step, requiring significant effort and time.
Rationalization of City Stores	5	Tranche 2	Should be part of daily operations
Alternative Service Delivery of Records Storage Operations	6	Tranche 2	Next steps can be achieved through a structured RFI process
Rationalize Lessor Activities	7	Tranche 2	-

- (1) It is anticipated that the Procurement Shared Services Unit will not be transitioned to its long-term, permanent governance structure under the Shared Services Division until year 3. It is thought that this transition will also coordinate with the readiness of the IT Infrastructure Shared Services Unit to begin delivering services.
- (2) While the Technology Infrastructure Shared Services Unit will not be permanently established and delivering services to other agencies until years 2-3, detailed analysis and planning should begin immediately.



1.6 Financial Impact

This section of the report summarizes the estimated financial benefit associated with the proposed operating models, where available.

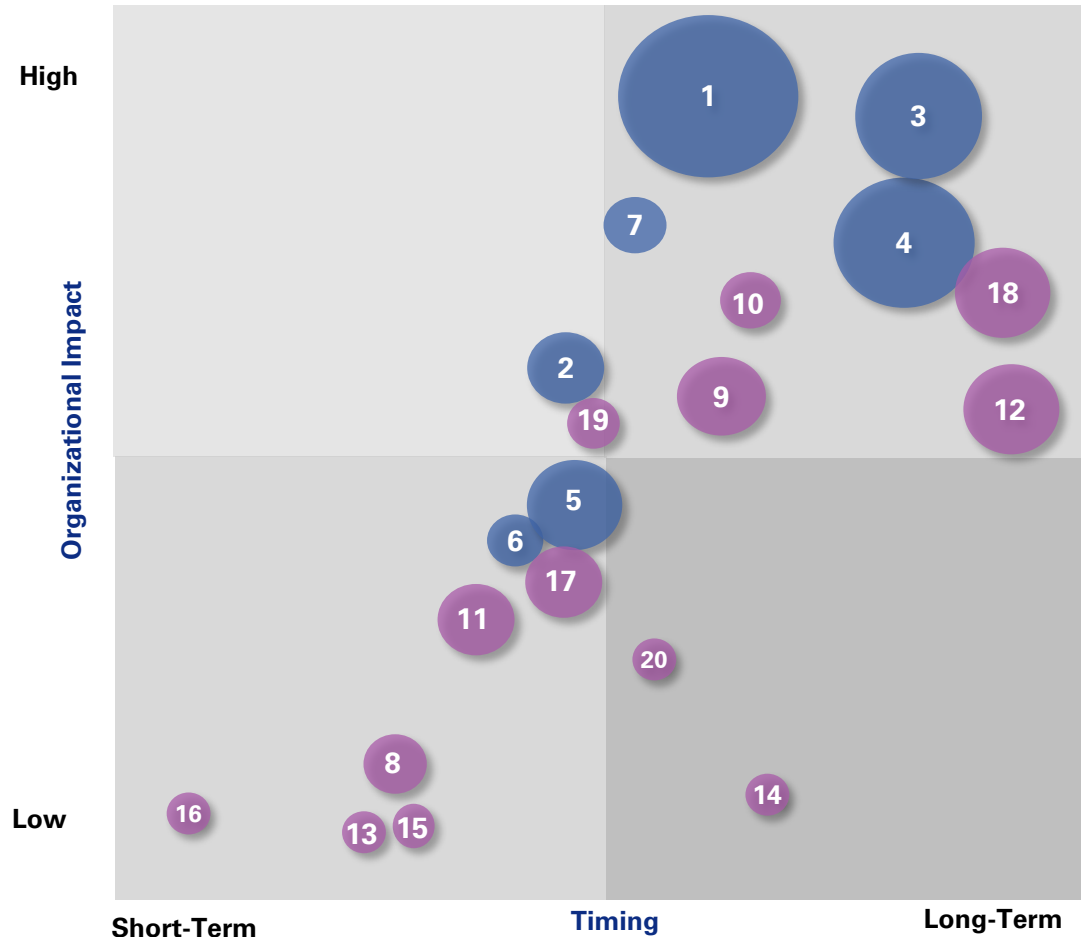
Legend

- Tier 1 Opportunities
- Tier 2 Opportunities
- Size of the ball indicates relative value of the model - illustrative
- # Corresponds to the opportunities below:

1. HR - Labour Relations Strategy
2. HR - Change Management Centre of Excellence
3. IT - Shared Service Delivery of Common IT Infrastructure Services
4. PMM - Category Management as a Shared Service Centre
5. PMM - Rationalization of City Stores
6. RE - Rationalize Lessor Activities
7. RM - Alternative Service Delivery of Records Storage Operations
8. HR - Sharing Common Learning Functions
9. HR - Shared Payroll and Benefits Administration
10. HR - Common HR Information Systems
11. HR - Consolidated OH&S function
12. IT - Application Portfolio Rationalization
13. IR - Use of City Insurance by TPA
14. IR - Common Insurance Procurement
15. IA - IAD is Used for Internal Audit by Applicable Agencies
16. IA - Quality Assurance Centre of Excellence
17. RE - Contract and Vendor Management
18. RM - Expedite Transition to Digital Records
19. RM - Automate the FOI Submission and Intake Process
20. RM - Formalize Records Management Collaboration

KPMG organized operating models on the basis of timing (x axis), organizational impact (y axis), and savings potential (size of the circle). These three dimensions are visualized on the figure below.

Figure 6 – Estimated Value, Timing and Impact of Operating Models



Financial Impact Investment and Savings Projections

KPMG estimated savings and required investments for a number of shared service operating models. These are largely Tier 1 opportunities. Estimated figures are presented in the table below. For other opportunities, where quantification of savings was more challenging, KPMG identified the potential category of savings.

**Table 1 – Summary of
Estimated Quantified Savings**

Quantified Opportunities				
Function	Opportunity Name	Initial Investment	Annual Operating Costs	Annual Estimated Benefits
HR	Labour Relations Strategy and Coordination	Not Quantified	\$150 - \$375k	\$47m
HR	Change Management Centre of Excellence	-	\$125 - \$375k	Not Quantified
IT	Shared Service Delivery of Common IT Infrastructure Services	\$3m to \$10m	Not Quantified	\$2m to \$8m
PMM	Category Management as a Shared Service	\$0.5m	-	\$10m
RM	Alternative Service Delivery of Records Storage Operations	\$213k	Not Quantified	\$175k to \$355k
RE	Rationalize Lessor Activities	-	\$49k	\$230k - \$530k

**Table 6 – Summary of Non-Quantifiable
Savings**

Opportunities Not Quantified			
Function	Opportunity Name	Savings Potential	Comments
HR	Shared Payroll and Benefits Administration	High	Savings from process improvement
IT	Application Portfolio Rationalization	High	Savings from common systems
PMM	Rationalization of City Stores	High	Savings from Real Estate sale/repurpose
RM	Expedite transition to Digital Records	High	Process/supply savings
HR	Sharing common learning functions	Medium	Savings from better utilization of resources
IR	Use of City Insurance by TPA	Medium	Premium savings
RM	Automate FOI Intake and Submission Process	Medium	Process cost savings
HR	Common HR Information Systems	Medium	Software and support cost savings
IR	Common Insurance Procurement	Medium	Broker and premium rate savings
RE	Contract and Vendor Management	Medium	Better decision making/cost avoidance
HR	Consolidated H&S function	Low	Better utilization of resources
IA	Quality Assurance Centre of Excellence	Low	Better decision making/cost avoidance
IA	IA Used as Primary Source for Internal Audit by Applicable Agencies	Low	Better use of existing capacity
RM	Formalize records management collaboration	Low	Cost avoidance from fragmented taxonomy

Savings potential:

High:	> \$1M annually
Medium:	Between \$100K and \$1M annually
Low:	<\$100K annually



2.0 Part 2: Detailed Operating Models

Part II of the report includes the detailed description of the operating models and associated analysis. This section has been organized by the tiered categorization of the operating model and the function.

2.1 Tier 1 Operating Models

This section of the report describes the detailed operating models proposed for adoption which were categorized as “Tier 1”. The section is organized by function and by operating model. A similar structure and headings are applied to each operating model.

Human Resources & Labour Relations

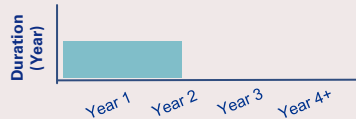
Labour Relations Strategy & Coordination

Financial Impact

- This model may require investment in the form of formalizing and augmenting LR function staff
- For each 1% of salary and benefits savings achieved, the City would save approximately \$47M

Timing

- Development of strategy could commence in 2013, with benefits accruing over the next 3-5 years



Benefits

- Consistent approach to collective bargaining across City and agencies
- Compensation savings in times of constraint; sharing of revenues in times of prosperity
- Clear and unambiguous parameters for structuring upcoming labour contracts
- Dedicated LR support team

Drawbacks and Risks

- Some loss of independence for agencies in bargaining with local units
- Increased risk of labour disruption if member compensation is dramatically affected
- Legal basis for such an approach could be challenged, including claims of "one employer" from Unions.

Description

This option involves the development of an overall strategy for labour relations, which would extend to the City and its agencies. In developing the strategy, the City could take into account its current fiscal environment, macroeconomic trends, workforce dynamics, and risk of labour disruption and using this information define parameters for salary, benefits, pension contribution, and other elements related to employee compensation.

The strategy is to be executed through a centralized team of Labour Relations specialists, tasked with assisting and guiding agencies in their collective bargaining efforts. This group will have the responsibility of working closely with City agencies in developing agency-specific tactics related to contract negotiations when contracts come up for bargaining. This group will not have the authority to impose contract terms on any given agency, as agencies are separate and distinct organizations governed by their own Board of Directors and sometimes by a dedicated Act (e.g., TPS, TPL).

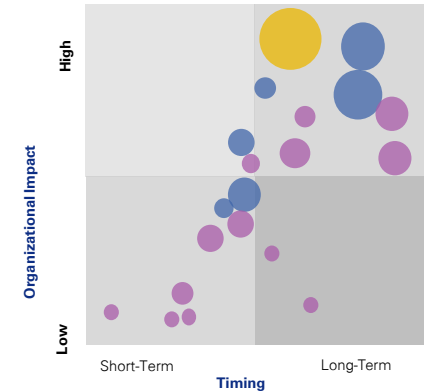
However, the group will provide guidance, information, historical data, and context related to specific parameters contained in overall labour relations strategy.

Rationale/Benefit

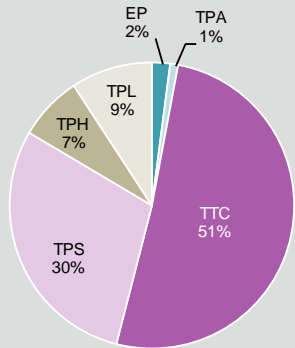
Development and implementation of a labour relations strategy would allow the City to institute a consistent and uniform approach to bargaining across City divisions and agencies, which would allow greater control of labour costs during times of fiscal constraint and the ability to share revenues in a coordinated way in times of economic prosperity. Moreover, a dedicated labour relations team will bring information sharing, consistency and leading practices to the current patchwork of negotiations processes and standards that exist across agencies.

Key Considerations

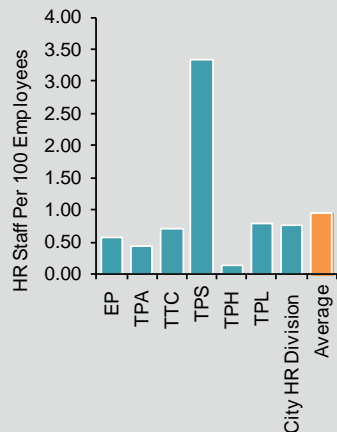
In order to implement this model, attention should be paid to maintaining a productive working relationship between City employees and management. Articulating the rationale for strategic direction and being transparent about the analysis that was employed in developing the strategy would likely contribute to the eventual acceptance of employment terms and reduce the risk of potential labour disruptions.



Agency Employees



HR/Employee Ratio



Current State

The City and every agency operate a Human Resource department to support, recruit, and develop their employees. While the names of HR functions vary across organizations, most provide a standard suite of services, including compensation and benefits, employment services, employee/labour relations, occupational health and safety, and learning and development. Specialized groups, such as HR information systems, internal investigations, critical incident reporting, among others, exist within larger organizations, warranted by either significant size of the entity or unique operational characteristics of an agency. Payroll and benefit administration functions typically are structured under Finance departments across agencies, and are thus considered outside of the HR realm. However, given strong dependencies between HR and Payroll, KPMG conducted a high-level assessment of opportunities related to payroll functions, with results presented in this report. HR staffing complement across agencies is presented in the table below.

As is the case with majority of functions analyzed in this study, the degree of collaboration and coordination among agency and City HR practitioners is very limited. A large number of workshop participants did not know one another, signaling that this study was the first opportunity for them to meet. Furthermore, no formal mechanisms currently exist to share knowledge, experience, and leading practices across the City and agencies. However, a small number of recent isolated collaborative initiatives were cited as examples of coordinated HR management practices, including procurement of a common employee benefit service provider and adoption of some City HR policies (e.g., workplace violence policy) by agencies. Moreover, TPH, by virtue of its close working relationship with the City, appears to coordinate its HR activities with the City to a larger degree than other agencies.

Table 4 – Employee and HR Staff by Organization

Organization	HR Staff	Employees	HR staff/100 employees
EP	3	530	0.57
TPA	1	232	0.43
TTC	92	13,202	0.70
TPS*	255	7,636	3.34
TPH**	2.5	1,882	0.13
TPL	19	2,375	0.8
City HR Division	273	35,500	0.77
Total	512.5	61,357	0.71

Source: City of Toronto and agency data

*TPS HR group consists of 102 civilian and 153 uniform members

**TPS HR figures include non-traditional HR roles, including staff in the Toronto Police College (112 staff), Uniformed Background Investigators (21 staff) and staff planning and development related to international peacekeeping (10 staff). The removal of these 143 staff would result in an HR staff to 100 employee ratio of approximately 1.6.

**TPH receives its core HR services from the City's HR Division

Organization	Current State Service Delivery
The City	<ul style="list-style-type: none"> • One of the four program areas within the Human Resources Division is Employee & Labour Relations, which manages the labour relations environment including collective agreement negotiation and administration, and liaisons with City unions. • Of the 31 employees within the program area, 11 are dedicated specifically to “employee and labour relations negotiations”. • The City performs labour and employee relations tasks with four unions: Cupe 79, Locals 416, 2998 and 3888. • While the City has no coordinated control over the bargaining strategy of agencies, progress is being made in the area of coordinated communication.
EP	<ul style="list-style-type: none"> • 3 FTEs form the HR complement of EP: 1 Director of HR, Security & OH&S, and 2 HR consultants. • The Director of HR was specifically hired for his expertise in labour relations. • The total budget for the HR service in 2011 was \$354,700. • Exhibition Place has 8 collective agreements, 4 of which are unique to the organization. • In 2011, 39 union grievances were filed with Exhibition Place.
TPA	<ul style="list-style-type: none"> • The Director of HR and Payroll manages all labour relations activities on behalf of TPA, with assistance from external legal counsel. • TPA is perceived to have a good relationship with the Union and expressed concern that any change to the current state could deteriorate the relationship. • TPA’s collective agreement is perceived to differ from the City in a number of ways (e.g., contract dates, benefit levels, etc.) • TPA averages approximately 5-7 grievances per month.

*Data and information is sourced from individual agency background documents. While some agencies provided figures in FTEs, others provided a head count of employees.

Organization	Current State Service Delivery
TPH	<ul style="list-style-type: none"> The City's Employee & Labour Relations Unit administers labour relations and some grievance activities on behalf of TPH. TPH pays a corporate overhead charge of \$166,557 per year for these services. The Step 2 grievance process was recently downloaded from the City to TPH Management due to capacity issues within the City. The Manager, People Services coordinates the activities associated with this stage on behalf of TPH Management. TPH receives an average of approximately 10 grievances per month.
TPL	<ul style="list-style-type: none"> 19 FTEs form the HR complement of TPL. There are two (2) FTE dedicated to labour relations work. The two (2) FTE do not represent individual positions, but are an aggregate of the HR resources dedicated to labour relations. Labour Relations is distributed across a number of positions in HR, including the Director, Managers, Consultants and Assistants. In 2010, TPL participated in 90 grievance hearings. In 2011, 34 grievances were filed.
TPS	<ul style="list-style-type: none"> Labour relations activities are governed by the Police Services Act and fall under the jurisdiction of the Board; the board, not the Service, is the legal party responsible for collective agreements and bargaining. The Labour Relations Unit of TPS is composed of 1 Labour Relations Manager, 3 LBR Analysts and 1 Clerk, and are responsible for all aspects of the bargaining and negotiations process concerning salary, benefits and employee working conditions; grievance management; managing all employment related Human Rights Tribunal of Ontario (HRTO) cases; as well as administration, interpretation and development of collective agreements with the Senior Officers and the six units of the Toronto Police Association. In 2011, 29 new grievances were initiated by the Toronto Police Association, of which 24 were concluded.
TTC	<ul style="list-style-type: none"> TTC's Employee Relations Unit is composed of 8 FTEs and is responsible to negotiate and administer collective agreements, provide support to management for grievance and disciplinary issues and cases, and manage all incoming grievances at Step 3 of the grievance process.

*Data and information is sourced from individual agency background documents. While some agencies provided figures in FTEs, others provided a head count of employees.

Type of Service:

- Labour Relations

In-Scope:

- Development of a Labour Relations Strategy
- Contract Negotiations
- All City agencies

Out of Scope:

- Grievances
- Employee contract ownership

Value Proposition:

- A City-wide strategy for Labour Relations, executed with support from a specialized, coordinated team will result in increased consistency and control.

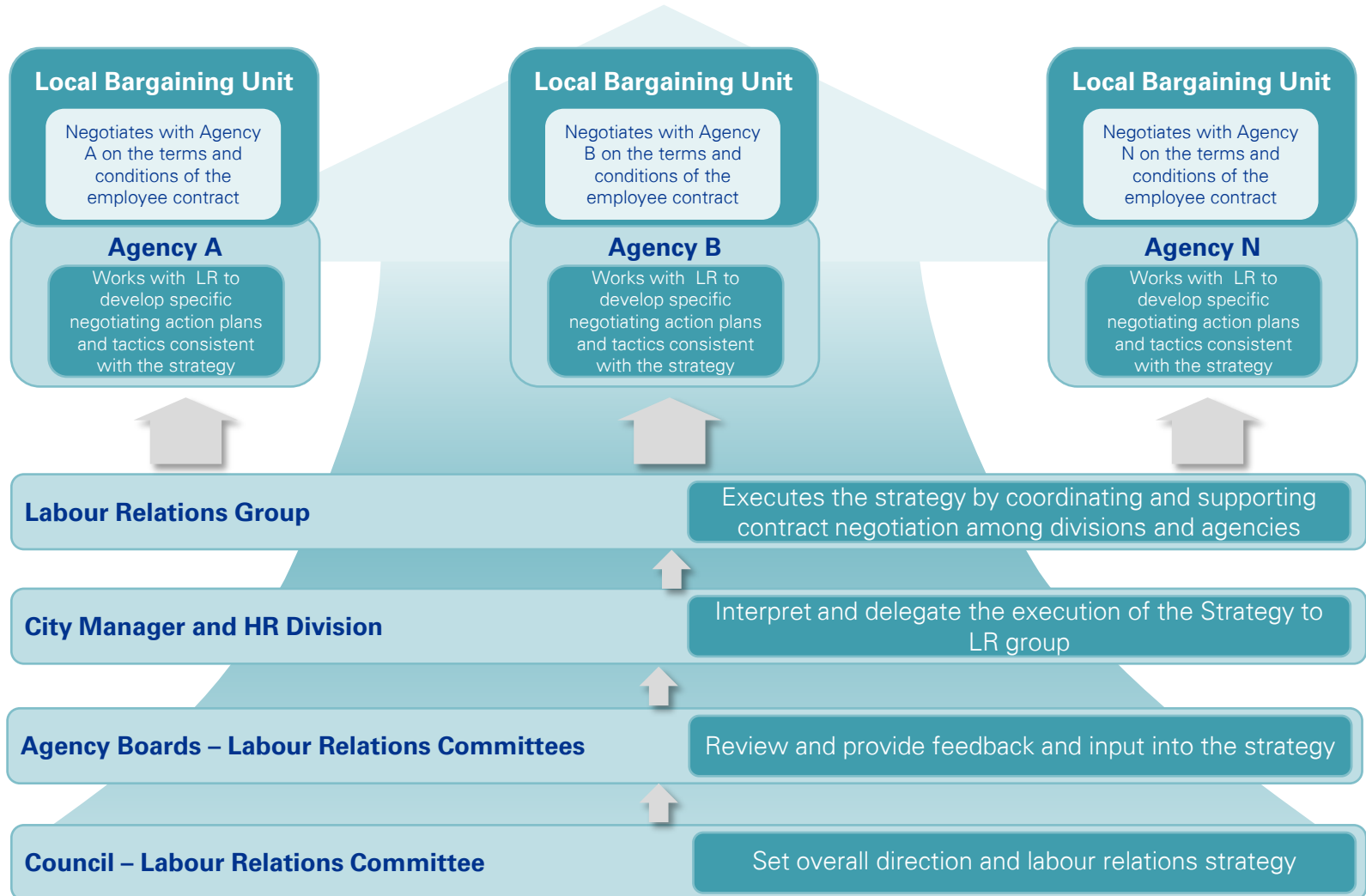
Model Description

- This option involves the development of an overall strategy for labour relations, which would extend to the City and its agencies.
- The components of the strategy could include:
 - Overall fiscal context of the City and its implications on the employee contracts (salary, benefits, other compensation items, etc.)
 - Labour market conditions and associated implications on the pool of potential employees available to the City
 - Directional guidance on contract terms, consistent with the contextual drivers outlined above (including, compensation adjustments for cost of living, nature/scope of benefits, etc.)
 - Methods of coordinating the City's interests in structuring employee contracts (collaboration, information sharing mechanisms, dependencies)
 - Governance and authority structures and processes
 - Evaluation mechanisms on the effectiveness of the strategy
 - Protocols/rationale for deviating from the strategy in unique circumstances

Model Description - continued

- The execution of the labour relations strategy will hinge on the administration's ability to carry it out with appropriate structures and processes in place.
- Within the City's Human Resources Division, there will be a group of people focused exclusively on labour relations, with a mandate to execute the overall labour relations strategy.
- This group will have the responsibility of working closely with City agencies in developing agency-specific tactics related to contract negotiations when contracts come up for bargaining.
- This group will not have the authority to impose contract terms on any given agency, as agencies are separate and distinct organizations governed by their own Board of Directors and sometimes by a dedicated Act (TPS, TPL). However, the group will provide guidance, information, historical data, and context related to specific parameters contained in the overall labour relations strategy.
- Agencies' Board of Directors and their respective HR staff, working jointly with the City's Employee and Labour Relations Unit, will finalize and execute the final contract with unions representing City and agency employees.
- The overall accountability for bargaining and contract execution will remain with the agencies' Boards of Directors.
- Ongoing relations with employees between bargaining periods are to be handled by the organizations' respective HR resources. The City's labour relations group will work in conjunction with existing LR and HR resources to provide guidance and advice in more complex, potentially precedent-setting disputes.

Figure 6 – Illustration of Labour Relations Strategy and Coordination



Role	Entity	Interest in Proposed Service Delivery Model
Supplier	<ul style="list-style-type: none"> A dedicated group of labour relations specialists structured within the City's HR division 	<ul style="list-style-type: none"> Execution of and achievement of the outcomes stipulated in the City's overall labour relations strategy, as mandated by the Council and Administration Ability to execute the strategy in coordinated, well-informed manner
Customer	<ul style="list-style-type: none"> Agencies' Boards of Directors and labour relations committees (including Boards and Commissions) 	<ul style="list-style-type: none"> Ability to negotiate with bargaining units on the basis of consistent, City-wide standards Greater ability to justify contract terms Review and provide feedback and input into the strategy
Customer	<ul style="list-style-type: none"> Agencies' HR Departments 	<ul style="list-style-type: none"> Support and expertise of dedicated professional labour relations staff Enhanced negotiations tools and resources

Stakeholder	Role	Decision Making	Reporting Relationship
City Council	The City Council (the Committee on Labour Relations) would approve the principles and parameters of an overall labour relations strategy for the City. The Council would also receive reports on the progress of strategy execution, as well as contextual information, which may inform any potential amendments to the strategy (market conditions, macroeconomic data, etc). The Committee may include councilors who are also represented on agency boards	The Council will be responsible for making or approving strategic decisions regarding any changes to the strategy (e.g., inflationary compensation adjustments)	Electorate
Agency boards (labour relations committees)	Establish working relations with LR group staff in order to provide historical perspective on negotiations and contracts, and to provide feedback and input into the strategy	Decisions related to the structure of the agency's employee contract terms and conditions. Decisions to involve City's Labour Relations group in employee disputes that could be potentially precedent setting	City council
City agencies	Adopt the labour relations strategy and its associated parameters. Alternatively, the Boards of Directors may choose to deviate from the overall strategy, in which case appropriate rationale documentation and deviation protocols need to be followed	Decisions related to the structure of the agency's employee contract terms and conditions. Decisions to involve City's Labour Relations group in employee disputes that could be potentially precedent setting	City Council for budget-related decisions
Labour Relations Group	Occasional interactions with the agencies' boards and HR departments, with frequency and intensity of interactions escalating during bargaining periods and during the development of the strategy	Decisions about the tailored application of the overall labour relations strategy to a given agency and the nature of support to be provided	HR Division of the City
HR Division/CMO	Develop the labour relations strategy for Council Approval. Provide interpretation of the strategy and its intent to the Labour Relations group	Decisions related to the consistent and uniform execution of the strategy across City divisions and agencies	City Council

Performance Metrics:

- Proportion of agencies adhering to strategy parameters and associated savings
- Degree of variance between LR strategic objectives and actual contract terms
- Labour disruptions/stoppage days
- Number of employee complaints/grievances attributed to the strategy
- Employee morale/satisfaction

Service Standards

A clear, unambiguous set of roles and responsibilities should be drafted by the Labour Relations Committee to delineate the function of the labour relations group from the agencies' HR departmental functions. In this arrangement, each party needs to understand who is accountable for what activities and ultimate outcomes related to labour relations and bargaining.

Standards related to the engagement and responsiveness of the labour relations group need to be created (i.e., triggers for engaging the group, timelines prior to and post labour negotiations, complexity thresholds for bringing specialists on individual dispute cases, etc.)

Adherence to these standards, as well as customer satisfaction levels (with customers being the agencies Boards and HR departments) need to be monitored and reported to the City's HR division on a regular basis.

Payment Mechanisms

The budget for the labour relations group could be derived from the City and the agencies' budgets proportionate to one or a combination of the following:

- Number of employees
- Labour costs
- Total budget

The City's and agencies proportional share of the expenditures dedicated to the labour relations group would be allocated through either an inter-departmental charge or an annual budgeting item.

Benefits

- An overarching strategy for labour relations would allow the City to adopt a consistent uniform approach to bargaining and negotiations across City divisions and agencies
- In times of fiscal constraint, the Council will have the ability to better control labour costs and keep adjustments in line with financial reality of the City
- In times of economic prosperity, the Council will have the ability to share in a coordinated way the results of higher taxation revenues and improved productivity with its employees
- Agencies will have strategy parameters, which will provide guidance and justification for structuring employee contracts
- A dedicated labour relations team will bring information sharing, consistency, and leading practices in negotiations to what is now a fragmented patchwork of agencies and agreements

Drawbacks

- While agencies will maintain ultimate control and accountability for their labour relations decisions, the imposition of a directive strategy could be perceived to reduce the independence and control of the agencies. They may feel that a generic framework is being applied to them without incorporating the organization's intricacies and history.
- The specialized labour relations group may not have full knowledge of agency specific history and labour dynamics, which would make their guidance less germane.
- Legal basis for such an approach could be challenged , including claims of "one employer" from unions.

Enablers

- Political environment amenable to making labour relations a priority
- A communication campaign detailing rationale, content, and context for the strategy
- The labour relations group pertains sufficient understanding and expertise of agency labour relations and operating environments
- Sufficient input and feedback is received from the labour relations committees of the agencies' boards
- The labour relations committee and group recognize that the strategy may not align with local and employer-based priorities in all instances and that generic bargaining objectives may impact different bargaining units to varying degrees
- The model will need to be structured in a manner that considers the potential for a union's application to the Ontario Labour Relations Board seeking a declaration that the City and its agencies are related employers by virtue having carried on related activities or businesses under the City's common control
- Support from PPEB, Legal Services, Finance and other corporate divisions is likely required for effective development and execution of the strategy
- A review of the current framework and shareholder agreements to determine if there are barriers that can be removed that may potentially impede success and/or whether there are provisions that should be added to the agreements that may enhance/enable the City's ability to effectively coordinate the labour relations strategy city-wide

Dependencies

- A legal review should be undertaken to ensure that there are no potential legal labour relations issues that prevent the implementation of the recommended corporate-wide labour relations strategy and/or to identify ways and means for the City to mitigate, if any, potential legal challenges.
- For this opportunity to materialize, the City Council needs to agree on a set of principles and parameters that would ultimately form a City-wide strategy for labour relations
- The labour relations group within HR needs to be given a broader mandate, with potentially more resources
- Agencies need to accept that a City-wide labour relations strategy is in their organization's best interest
- Agencies and their board's labour relations committees need to be willing and ready to work with the labour relations group during bargaining and agree to the directive set by Council
- A set of protocols through which an agency may elect to deviate from the City's strategy needs to be set up to allow for some uniqueness and tailoring of the strategy for organization's specialized needs
- A process on dealing with grievances arbitration should be developed to complement the labour relations strategy. Due to potentially material and broad reaching consequences for labour contracts, precedent setting cases need to be screened and managed with support of the labour relations group
- The labour relations strategy needs to aim to standardize, simplify, and unify contract terms and conditions with employees across agencies and bargaining units. This will make it easier to navigate what is currently a highly complex array of contracts and agreements, both for management and employees
- Account for legal requirements and bargaining patterns of individual agencies

Categories of Potential Savings

- Salary savings as part of better, more informed negotiating approach
- Employee benefits savings
- Pension savings, if included in bargaining

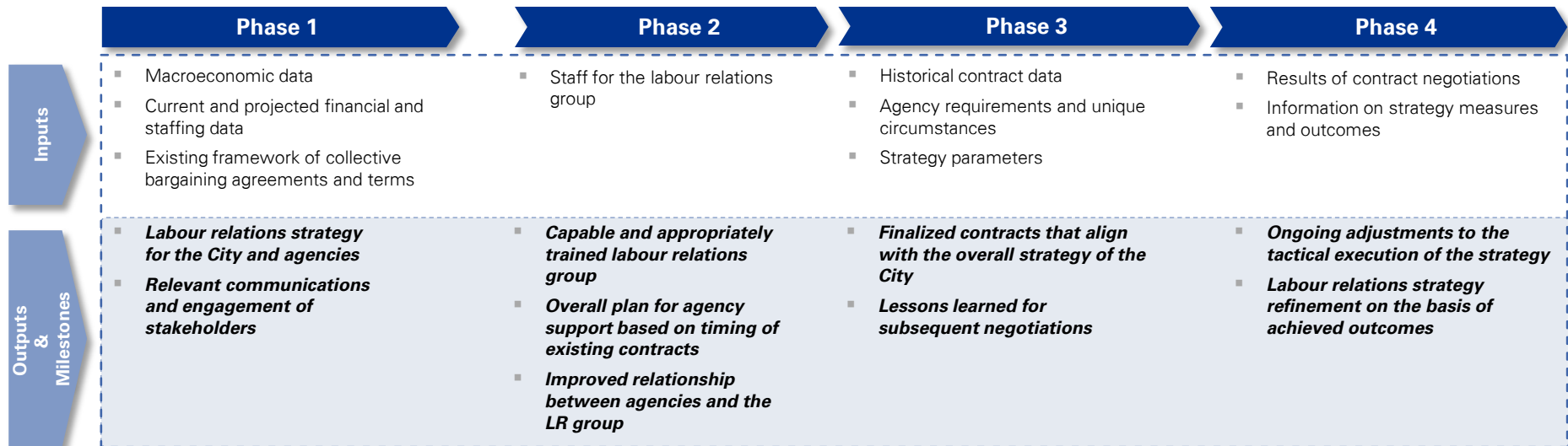
Implementation Plan

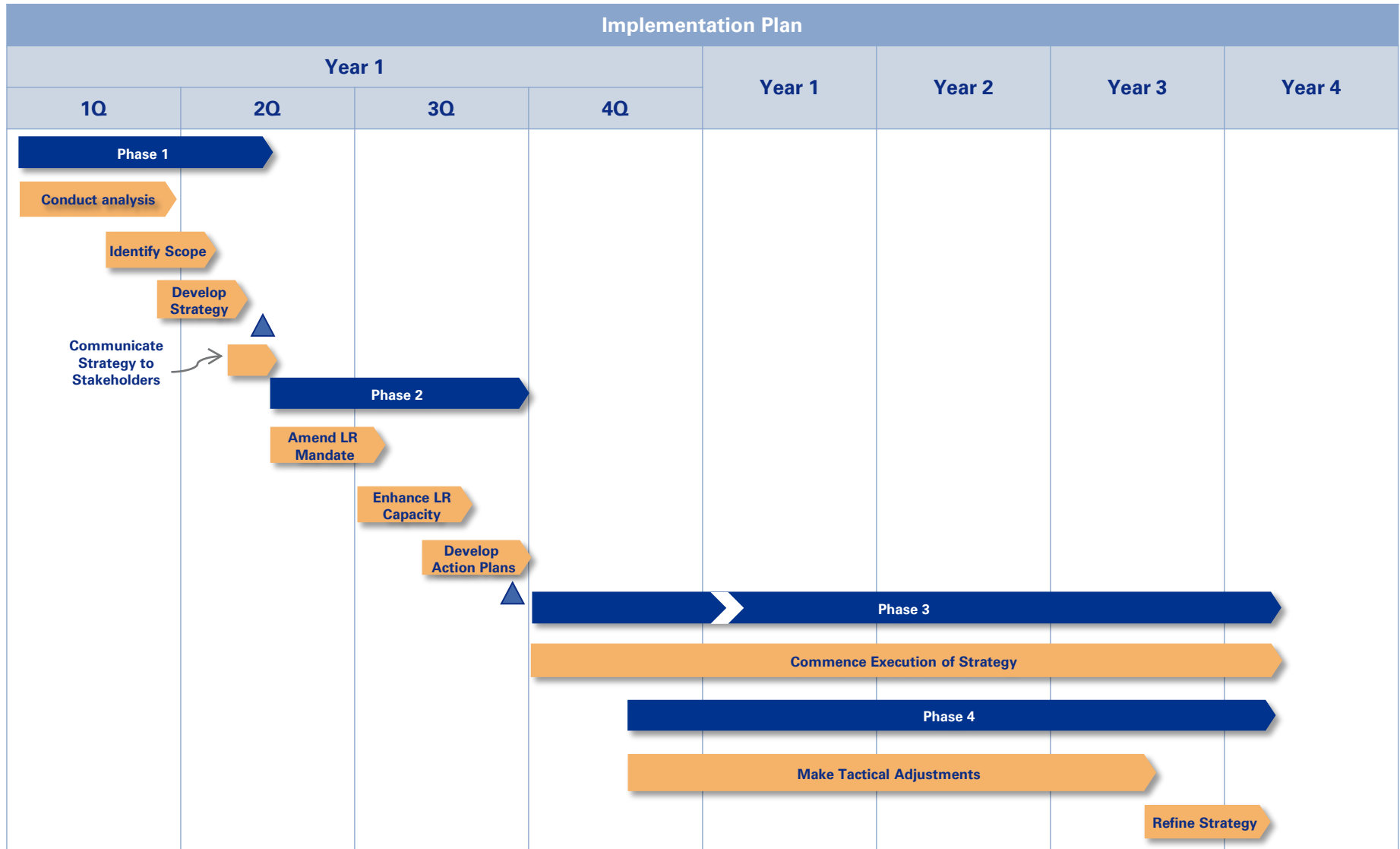
Labour Relations Strategy and Coordination

		Phase 1	Phase 2	Phase 3	Phase 4
Objective	Key Activities	<ul style="list-style-type: none"> Develop an overarching labour relations strategy for the City and the agencies 	<ul style="list-style-type: none"> Create authority and capacity of labour relations group to execute the strategy 	<ul style="list-style-type: none"> Commence and continue execution of the strategy 	<ul style="list-style-type: none"> Monitor and report on the effectiveness of the strategy
		<ul style="list-style-type: none"> Labour Relations Committee approves the recommendation from the City Manager Conduct legal feasibility study and risk analysis Review framework agreements/shareholder agreements for the potential assessment and removal of barriers Conduct macroeconomic analysis of factors that could influence strategic direction Conduct analysis of internal factors and budgetary projections, i.e., forecast revenues, future required staffing complement, etc. Conduct a risk assessment of implications of rolling out the strategy and identify mitigation approaches/tactics Develop the scope of the strategy, i.e., parameters it will entail and agencies it will affect Develop expenditure and savings targets Develop an approach for managing grievance arbitration and its impact on the strategy Create the overall strategy and an associated plan to carry it out across in-scope agencies Communicate the rationale and potential impact of the strategic direction to affected stakeholders (divisions, agencies, unions) 	<ul style="list-style-type: none"> Amend the mandate of the existing labour relations group to include provision of support, advice, guidance, and information to in-scope agencies Assess resource and operational requirements associated with the new mandate Close capacity gaps through recruitment or secondment of staff into the group Train and educate staff on the labour relations strategy and specific agency issues and history of previous contract negotiations Develop a plan of action for the group to support agencies on the basis of upcoming contract expiration and renewal dates Begin establishing working relations between the LR group and the HR/LR representatives of various agencies 	<ul style="list-style-type: none"> Prior to expiration of agency contracts, the LR group to work closely with agency HR/LR staff and the agency's own labour relations committee to develop a coordinated negotiation approach specific to the organization As contract negotiations commence, work closely with the Board and their labour relations committee and staff of each agency to provide guidance and support Advise the agency on the degree to which its bargaining position is consistent with the overall direction of the City Provide tools, techniques, and pertinent information relevant to each agency in formulating their respective negotiating positions Upon contract signing, hold a briefing session on lessons learned to improve bargaining techniques in subsequent negotiations 	<ul style="list-style-type: none"> After each contract negotiation, evaluate the degree of adherence to the strategy and seek to understand causes of deviation Measure the attainment of expenditure and savings targets Report on progress to the Labour Relations committee of the Council Periodically, review the strategy (including analytical inputs/outputs) and the outcomes being generated Update/refine labour relations strategy to reflect the changing fiscal, economic, and workforce-related landscape

Human Resources – Labour Relations Strategy and Coordination

Work Plan & Milestones (continued)





The table below describes some of the key roles and competencies which will be required for the successful implementation and operation of the strategy

Entity	Role	Activities
Council Labour Relations Committee	Council Labour Relations Committee will approve the labour relations strategy and make adjustments to it, if warranted	<ul style="list-style-type: none"> Responsible for setting the scope, parameters, and timelines of the strategy Will receive updates on the outcomes being achieved Adjust/refine the strategy on the basis of its effectiveness Make decision and escalate to full Council matters related to labour disruption
HR Division and City Manager's Office	Responsible for conducting research, analysis, and ultimately developing the labour relations strategy for Council approval	<ul style="list-style-type: none"> Working jointly, staff from HR Division and CMO would develop the labour relations strategy, on the basis of direction received from the Council's Labour Relations Committee With input from agencies, provide strategic direction to LR on specific action plans developed for agencies
Labour Relations Group	The Manager of the LR group will be responsible for ensuring organizational capacity exists to carry out the strategy.	<ul style="list-style-type: none"> Assess skill, competency, and capacity gaps that currently exist Develop an action plan on transitioning from current to future state Recruit and train staff Establish working relations with representatives of agencies in scope Report on the outcomes of the strategy using a set of performance measures
Labour Relations Staff	LR group staff are responsible for building knowledge about history, unique attributes, and labour dynamics within agencies they will be serving	<ul style="list-style-type: none"> Research existing collective bargaining agreements Research agencies business plans Establish working relations with representatives of agencies in scope Jointly develop agency-specific action plans
Agency Boards and LR committees (if applicable) or staff	Agency Boards or their LR committees or staff members will work with LR group to relay organization's specific requirements into action plans	<ul style="list-style-type: none"> Establish working relations with LR group staff Provide historical perspective on negotiations and contracts Jointly develop agency-specific action plans Review and provide feedback and input into the strategy

Risk	Mitigating Action(s)
Lack of political will to undertake a City-wide approach to labour relations	<ul style="list-style-type: none"> • Potentially the largest savings item identified in this study, effective bargaining on the part of the City with its employees can have a very significant impact on the overall budget. Council needs to be fully informed on the ramifications of maintaining current patchwork of contracts and agreements that exist across City divisions and agencies. A strategy of managing expenditures on the current complement of employees could be more politically palatable than achieving savings through headcount reductions. A similar overarching approach could be used in the times of prosperity to reward and recognize City employees with additional compensation.
Potential for labour disruption if strategy is put in place	<ul style="list-style-type: none"> • The threat of a strike (for select agencies) or alternative labour action is a highly plausible risk in labour negotiations. The City should communicate to employees, collective bargaining units, and the public the rationale for its strategic direction, while being transparent about the scope and scale of financial deficit or surplus that is being experienced.
Lack of acceptance of City's strategy across in-scope agencies	<ul style="list-style-type: none"> • City's agencies typically have a specific operational and/or legislative mandate, and are governed by a separate Board. This provides them with the authority to negotiate terms and conditions with employees without direction from the City. However, in most cases (unless they are self-sustaining enterprises), most are financially dependent on the City. It is, therefore, not unreasonable to expect the City to exert some degree of control over labour capital terms of employment and compensation. An educational campaign on the benefits of this approach and clear Council direction on this issue would likely generate greater buy in from agencies' directors and executives.
Shortage of resources to staff the labour relations group	<ul style="list-style-type: none"> • Seek individuals internally from the City that meet required position qualifications to minimize initial investment. If the number of qualified candidates is inadequate, seek staff from external sources.

Cost Factors

It is estimated that this model would result in ongoing operating costs of \$370-395K in the first year and \$350-375K each year thereafter.

Cost Category	Item	Cost
Operating	On-boarding and Training ¹	\$20K
Labour	Labour Relations Staff (1-3 FTEs)	\$150-375K
Capital	-	-
Total (first year)	-	\$170-395K

Assumptions

1. Initial costs of on-boarding and training may not be incurred if experienced or internal City resources are hired
2. 1-3 FTEs within the City's HR Division (one Senior HR Consultant and two HR Consultants) are estimated to cost approximately \$150 - \$375K per year, including salary and benefits

Communication Strategy

Target Audience	Stakeholder Perspective	Impact Rating (H,M,L)	Frequency of Interaction (Frequent, Moderate, Low)	Medium/Media of Interaction
Agencies	<ul style="list-style-type: none"> • Desire to effectively manage labour costs • Desire to remain flexibility in compensating employees of the agency • Desire to reduce labour disruption within their organization • Need to provide appropriate level of service, consistent with expectation of customers and stakeholders 	High	<ul style="list-style-type: none"> • High – Acceptance of this model by agencies is critical to the execution of the strategy. Agency directors and HR personnel need to engaged initially to understand their requirements and expectations, as well as during the rollout of the strategy. Communications and engagement need to be rapidly escalated during the contracting and negotiations period with their respective local bargaining units. 	<ul style="list-style-type: none"> • Briefing letters • In-person meetings
Local Bargaining Units	<ul style="list-style-type: none"> • Need to represent the interests of their constituents • Need to secure safe and appropriately compensated working environment for the members • Desire to bargain with each agency on individual basis 	High	<ul style="list-style-type: none"> • Medium – Local bargaining units need to be informed of the overall strategy and rationale for the choices made as part of this approach. Communicating the principles, input data and analysis involved would likely decrease their resistance to the strategy. A key communication point is during the rollout of the strategy at the end of Phase 1. 	<ul style="list-style-type: none"> • Formal communications • Engagement sessions • Negotiation session
Staff	<ul style="list-style-type: none"> • Desire to be compensated competitively • Need to be informed of the impact of the strategy on them 	High	<ul style="list-style-type: none"> • Medium – Communicate the direction of the strategy, once in place. Articulate how the strategy may impact them on a personal level. Explain rationale for the choices made as part of the strategy. 	<ul style="list-style-type: none"> • Formal communications • Webinars • Intranet

Human Resources & Labour Relations

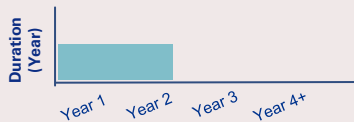
Change Management Centre of Excellence

Financial Impact

- This model may require an estimated ongoing investment of \$125 - \$375K
- The projected operational savings cannot be quantified for this opportunity, but are estimated to be material.

Timing

- Planning can commence in 2012, with implementation within two years



Benefits

- Increased, capacity, competency and quality of individual change agents and the organizations as a whole
- Development of a complete picture of all change taking place
- Reduced costs and increased likelihood of realizing full desired savings

Drawbacks and Risks

- Investments must be made to establish the CoE and customers will be required to reimburse the City for use of the CoE
- The CoE must be established and operational as soon as possible in order to support upcoming change initiatives
- Customers may not buy-in or utilize the CoE to the extent possible

Description

The model proposes to implement a change management function within the City to assist in the delivery of components of change. The CoE would provide advisory services regarding effective change management, and seek to develop a network of skilled change managers who guide their colleagues across the City and its agencies through the process of changing their ways of working. This change management Centre of Excellence (CoE) will provide oversight of all change initiatives planned and underway and ensure each is delivered effectively through the application of a consistent leading practices methodologies.

Specifically, the CoE would facilitate organizational change by owning and maintaining methodologies and toolsets; driving continuous improvement and learning; developing a community of change; providing advisory services and support to change agents; and managing an overall portfolio of change.

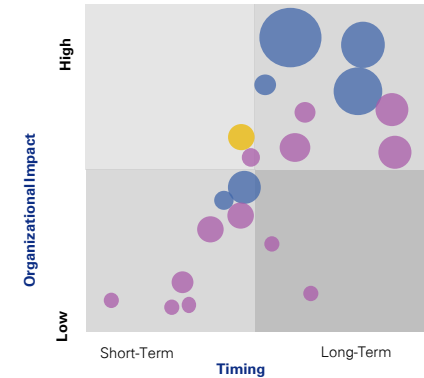
It is anticipated that the CoE will reside under the Human Resources Division but maintain strong working relationships and interactions with the Shared Services Secretariat.

Rationale/Benefit

The recent Core Service Review and associated Service Efficiency Studies have resulted in hundreds of recommendations representing \$376 – 556 million dollars of potential savings for the City. If adopted, each recommendation presents an element of change that must be managed by the City. Managing change is a vital skill set to create and sustain the momentum of impactful change. Without change management expertise and support, the savings, efficiencies or objectives associated with change initiatives may not be fully realized.

Key Considerations

The role and function of the CoE will depend on the level of maturity that exists across the organizations in their approach to change management. For example, if an organization-wide change management framework, methodology, documentation and performance metrics are already defined, understood and successfully in use then the primary role of the CoE will be to exploit economies of scale, disseminate these tools more broadly across organizations, and drive improvements in quality through a process of continuous improvement. If organization wide change management does not yet exist, then a primary function of the CoE should be to build this approach, educate users in its use and guide its application.



Current Change Initiatives

In May 2011 the City commenced a review of the City's programs and services to understand the degree to which they are core. Titled the Core Service Review, the study identified 119 opportunities for change, with associated savings ranging from an estimated \$200 - \$300 million. As a result of the Core Service Review, a number of Service Efficiency Studies (SES) were initiated to further assess areas of opportunity for service efficiencies and cost saving measures in a number of specific functions. Of the 20 SES undertaken by the City, 10 are currently complete, and these finished studies produced 168 recommendations with associated estimated savings ranging from \$176 – \$256 million. If adopted, each recommendation from these studies presents an element of change that must be managed by the City. While the SES' represent the majority of change initiatives currently taking place within the City, additional initiatives also exist, and the City is anticipating being in a constant state of change in years to come.

Current Change Management Capacity

Interviews with leaders from the functions under review revealed a perception that the City lacks the capacity and competency required to successfully implement change initiatives taking place within the City.

Currently, change management is largely the responsibility of the division, unit or program under which the initiative falls, and is often performed by individuals or groups without sufficient capacity or knowledge to implement effective change. In addition, the Human Resources Division currently provides consulting services to corporate change initiatives, however the capacity of this unit is limited to approximately 4–5 HR Consultants. In some instances, temporary change management expertise has been brought in to support the implementation of initiatives (e.g., FPARS implementation).

Type of Service:

- Change management support services

In-Scope:

- Change methodologies, tools, teaching and dedicated support

Out of Scope:

- Project management support
- Governing, structuring or implementing change initiatives

Value Proposition:

- Managing change is a vital skill set to create and sustain the momentum of impactful change. Without change management expertise and support, the savings, efficiencies or objectives associated with change initiatives may not be fully realized.

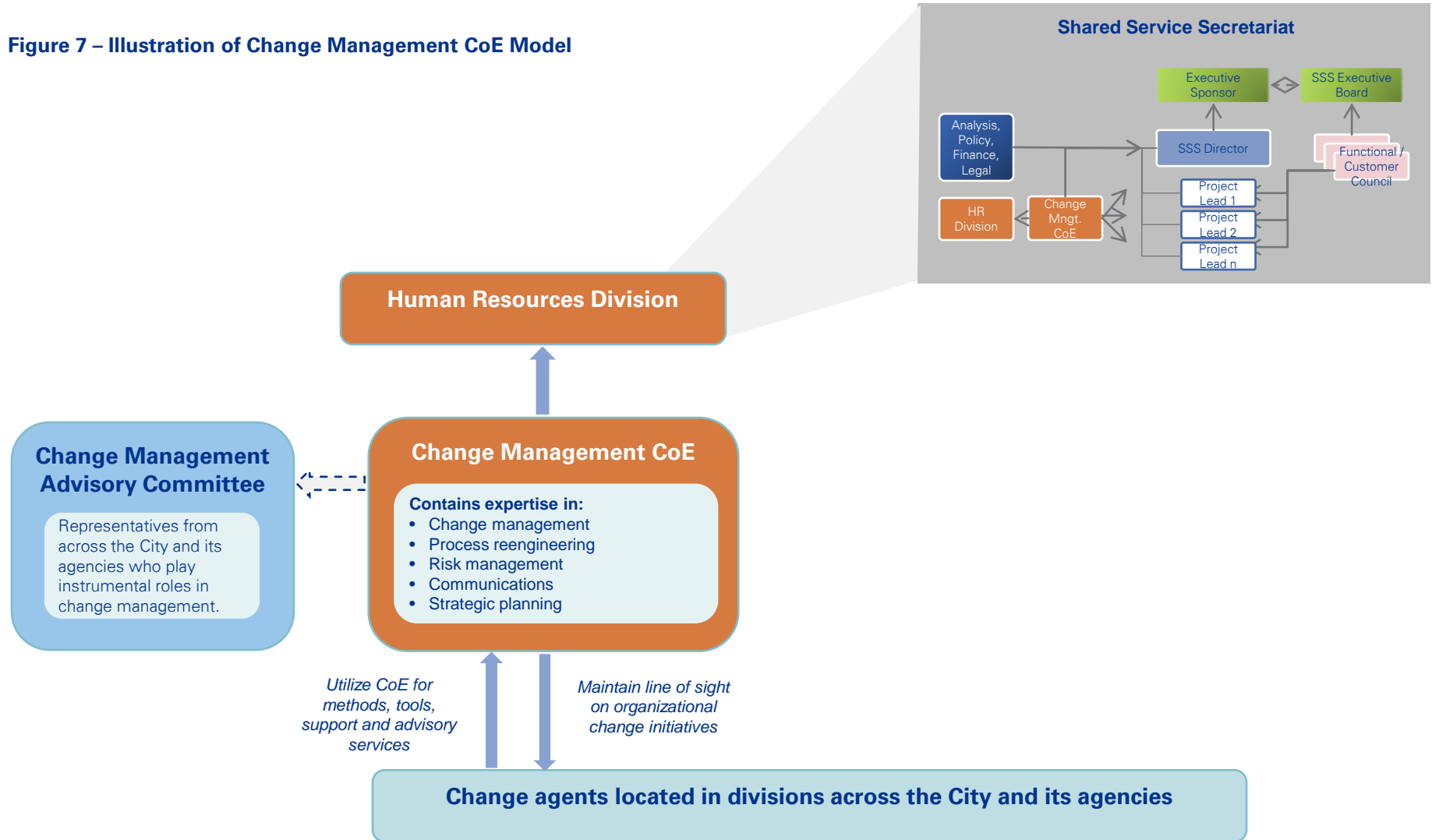
Model Description

- The model proposes to implement a change management function within the City to assist in the delivery of components of change. The CoE would provide advisory services regarding effective change management, and seek to develop a network of skilled change managers who guide their colleagues across the City and its agencies through the process of changing their ways of working. This change management Centre of Excellence (CoE) will provide oversight of all change initiatives planned and underway and ensures each is delivered effectively through the application of a consistent leading practices methodologies.
- Specifically, the CoE would facilitate organizational change by performing the following roles:
 - Own and maintain methodologies – The CoE will select or create, own and maintain a common set of methodologies and approaches for change management.
 - Own and maintain toolsets – The CoE will make change management tools available and accessible to customers to help build individual and organizational competencies.
 - Drive continuous improvement and learning – The CoE will capture lessons learned and incorporate them into the methodologies and tools to advance the change management practice of the City and its agencies.
 - Develop internal competency and community of change – The CoE will support staff across the City to build their own internal competencies at leading change by creating and owning curriculum, and providing training. Moreover, the CoE will create learning and networking opportunities by establishing a formal community for change agents across the City to interact with others.
 - Coach managers and sponsors - Leading staff through change is challenging and often a new demand on management. The CoE will provide support, guidance and tools to help managers and sponsors become great leaders of change.

Model Description (continued)

- Provide change management resources or consultative support to initiatives – It is proposed that the CoE be staffed with enough resources to be assigned out from the CoE to provide dedicated support to project teams. Given resource constraints, this approach may be selectively applied to larger, more significant changes. The CoE will create an annual workplan to identify change initiatives taking place within the fiscal year and to determine the level of support and resources required for each initiative. This workplan could also be used to support the budget process.
- Manage the change portfolio – The CoE is uniquely positioned to provide insight, data, and oversight of the scope of change taking place across the City and the collective and cumulative impact it has on employees in the organization.
- It is proposed that the CoE reside under the Human Resources Division but establish strong working relationships with the Shared Services Secretariat of the City. This structure is recommended because unlike the Shared Services Secretariat, the Change Management CoE should be established as a permanent organization as the City is in a constant state of change which will endure beyond the implementation of shared service operating models. Thus, the change management CoE would adopt a wide point of view of change management, extending beyond changes associated with the shared services streams to single projects and program-level change initiatives.
- It is critical that the CoE be established in time and with sufficient capacity to support the implementation of the various SES recommendations. In the long-term however, the CoE may have a smaller complement of staff as the level of change across the City may plateau.

Figure 7 – Illustration of Change Management CoE Model



	Entity	Interest in Proposed Service Delivery Model
Supplier	<ul style="list-style-type: none"> It is anticipated that the services of the CoE will be supplied by a distinct unit within the Human Resources Division. 	<ul style="list-style-type: none"> Create effective and sustained change across the City by assisting staff to change their way of working and achieve their respective roles, responsibilities and objectives Leverage and grow the experience and expertise of the current change management consultants, and City and agency staff Relieve pressure on the limited number of change management consultants currently available to the City
Customer	<ul style="list-style-type: none"> The users of this function are a wide cross section of roles across the organization including those responsible for strategic planning, project managers and divisional and departmental managers and project sponsors whose work is impacted by the changes. The customers of the CoE will include City divisions, agencies, boards and commissions. 	<ul style="list-style-type: none"> Create effective and sustained change Realize anticipated benefits of change Receive sufficient support to relieve pressure on change agents who are tasked with driving initiatives in addition to their full-time roles and responsibilities Deliver change initiatives on time and budget Maintain autonomy and independence

Stakeholder	Role	Decision Making	Reporting Relationship
Change Management CoE	<p>The role of the CoE includes the following:</p> <ul style="list-style-type: none"> Identify, modify and disseminate a change management methodology Define processes, tools and techniques for change management Support individual change agents to develop specialized change plans Maintain a central repository of information from all change managers regarding the status of change initiatives Develop training materials 	<p>The CoE has independent discretion to identify, modify and disseminate a common change management approach and methodology for use across the City. Moreover, the CoE is the authoritative source for tools and techniques for change management.</p> <p>The CoE is responsible for prioritizing and allocating the time and resources of its staff to various competing change management initiatives.</p>	The CoE will be managed by the Manager, Change Management
Human Resources Division	<p>The Human Resources Division will act as an administrative oversight body for the CoE. Specifically, the HR Division may:</p> <ul style="list-style-type: none"> Allocate a global budget to the CoE for non-recoverable services Monitor performance of the CoE, including receiving complaints and concerns 	<p>The Executive Director will decide upon the size of the CoE and the associated budget.</p> <p>Moreover, the Division will work with the CoE to develop appropriate performance metrics.</p>	The Change Management CoE will report to the Executive Director of Human Resources.
Customers (City divisions and agencies)	<p>Customers are responsible for:</p> <ul style="list-style-type: none"> Bringing their unique change management requirements forward and soliciting the consultative services of the CoE, as needed Employing the common change management methodology for all change initiatives 	Customers maintain the discretion to engage the CoE for specialized change management support and consultative services.	Customers may log complaints and concerns with the Manager of the CoE.

Stakeholder	Role	Decision Making	Reporting Relationship
Change Management Advisory Committee	<p>The Advisory Committee is composed of representatives from across the City and its agencies who play instrumental roles in change management. The membership of this committee may evolve over time as change initiatives begin and end. The mandate of the Committee may include:</p> <ul style="list-style-type: none"> • A mechanism to receive feedback on the effectiveness and impact of the change management support and tools provided by the CoE. • A mechanism by which line of sight and an inventory of change occurring across the City is maintained • Identifying strategic or transformational opportunities where the consulting and support services of the CoE are required • Sharing tools, techniques and lessons learned from previous engagements • Offering a forum to forge partnerships among leaders and groups involved with defining, implementing and impacting change and to influence the way that the CoE operates <p>This committee provides an opportunity for such entities as a Project Management Office or Shared Service Secretariat to interact on a formal basis with the CoE.</p>	<p>The Committee may provide advice and recommendations to the Manager of the CoE to adopt at his/her discretion.</p> <p>The Chair of the Committee has the responsibility to identify and approve new members.</p>	<p>It is recommended that the Committee be Chaired by the Manager of the CoE.</p>

Stakeholder	Role	Decision Making	Reporting Relationship
Shared Services Secretariat	<p>The Shared Services Secretariat will act as a central authority for the management, oversight and coordination of shared service implementation activities taking place across the City. In this capacity, the Secretariat may be a mechanism by which the CoE maintains line of sight to shared service change initiatives taking place across the City.</p> <p>The CoE will be responsible for ensuring that their activities coordinate with and complement the activities of other streams of the Secretariat.</p>	<p>The Shared Services Secretariat will work with the CoE to determine the change requirements of the shared services initiatives.</p>	<p>The Shared Services Secretariat will have a dotted line reporting relationship with the CoE.</p>

Performance Metrics:

- Utilization rate
- Response times
- Qualitative feedback from customers regarding the:
 - Quality of products, tools and methods
 - Quality of services
- Qualitative feedback from customers assessing the extent to which the CoE contributed to:
 - Achieve the desired operational goals
 - Improve organizational financial performance
 - Change at the right pace
 - Sustained positive organizational change for at least 5 years
 - Identified the changes necessary to be successful

Service Standards

A service level agreement (SLA) should be developed for any engagement where the services of a dedicated change management consultant are utilized. The service level agreement should include the following components, including answering the questions posed below:

- **General overview** – Who is entering the agreement? What is the purpose of the agreement?
- **Description of services** – What services are included and excluded? How will the services be delivered?
- **Service performance levels and measures** – How will the performance of the services be measured? What are the agreed upon targets for performance?
- **Service provider and customer responsibilities** – What are the duties of the service provider and the customer?
- **Problem management protocol** – How will issues be resolved? What is the escalation process?
- **Periodic review process** – When should the SLA be reassessed and updated?
- **Termination of agreement process** – What conditions warrant termination of the services and payment? How can the agreement be officially terminated?

For all other services provided by the CoE (e.g., training, tools, oversight, etc.) the CoE should develop targets and objectives against which their performance can be measured.

Payment Mechanisms

Payment should be rendered for consultation and direct support services provided to change initiatives. A number of options exist for payment mechanisms. Firstly, a charge back mechanism could be utilized to recover the time and expenses expended on change management consultant services. The payment mechanism, cost of services and estimated time and expenses should be agreed to in advance, and included in the SLA.

Secondly, the CoE could receive a global budget drawn from the Human Resources Division for the provision of all change management services, including consultative services, developing methods, tools, leading practice research, etc. The budget could be based on an annual workplan developed by the CoE.

Benefits

- Increased, capacity, competency and quality of individual change agents and the organizations as a whole
- Development of a complete picture of all change taking place, at a functional, organization and City-wide level, which enables quick identification of likely 'change overload' or destabilization of the business environment, identification and termination of benefits which are not aligned with strategic directives, and increased data and oversight of the scope of change taking place across the City
- Total cost of delivery of each change initiative is reduced as the CoE is able to achieve economies of scale across common change activities including communication, implementation, planning, risk analysis and project management
- Increased likelihood of realizing full savings, efficiencies or objectives associated with each initiative as risks associated with change management are reduced and standardization is increased through the application of an organization wide change management method
- Reduction in number of external consultants required to support change activities as the organization develops capability internally
- Reduction in the level of stress felt by those managing change as the CoE provides support, guidance and advice
- Potential reduction in implementation timelines for change initiatives given the increased level of support
- Continuous improvement of individuals and organizations developed through learning and networking opportunities
- Increased efficiency and decreased costs by eliminating the requirement for divisions to individually source or hire change management expertise

Drawbacks

- Implementation of this model will require investment to staff the CoE. Moreover, it is difficult to quantify the precise return on investment of such a model
- Customers will be required to reimburse the City for use of the CoE and this introduces a net new cost to their project budgets
- A common change management method may not meet the needs of all projects or may require adjustments, which could reduce the benefits of the methodologies or tools
- It may be difficult for the CoE to engage and support initiatives and projects which are already underway
- The CoE must be established and operational as soon as possible in order to support upcoming change initiatives

Enablers

- Adequate, effective and active involvement by senior leadership in the establishment, marketing and oversight of the CoE
- Ability to liaise with others supporting change - The members of the CoE cannot work in a silo. In applying and supporting change management, team members must forge partnerships with: project managers and project teams, strategic planners, training specialists, communication specialists, leaders and other groups involved with defining and implementing change
- Opportunities for those managing and impacting change to influence the way that the CoE operates through forums and regular discussions
- Marketing of services to divisions and agencies

Dependencies

- Successful and expedient recruitment of individuals with the requisite competencies and specializations required to compose the CoE
- Identifying and receiving approval and buy-in for a common change management method to be applied across the organizations
- Access to and visibility into the many change efforts occurring within the organizations
- Credibility in the organization - In some organizations, HR is viewed as an essential strategic partner and in others it is viewed as more of a bureaucratic function. While the CoE will maintain a dotted-line relationship with HR, it must be perceived to be separate and independent entity from the HR function in order to establish and maintain credibility across the City.
- There is clarity over the scope of services and responsibilities of CoE versus its key stakeholders, including the Shared Services Secretariat, etc.

It is difficult to quantify the financial impact of change management activities. However, as previously noted, the City has identified savings opportunities ranging from \$376 – \$556 million, and effective change capacity is a prerequisite for realizing these savings.

The following list describes the categories of savings that could be realized through the implementation of a change management CoE.

- Increased likelihood of realizing full savings and efficiencies associated with each initiative by:
 - Addressing and reducing risks associated with change management
 - Increasing employee morale by decreasing workload and increasing change management capacity and expertise
 - Decreasing 'inertia' through dedicated drivers of change
 - Increasing focus and mindfulness of the total implications of change initiatives on both processes and people
- Reduction in number of external consultants required to support change activities as the organization develops capability internally

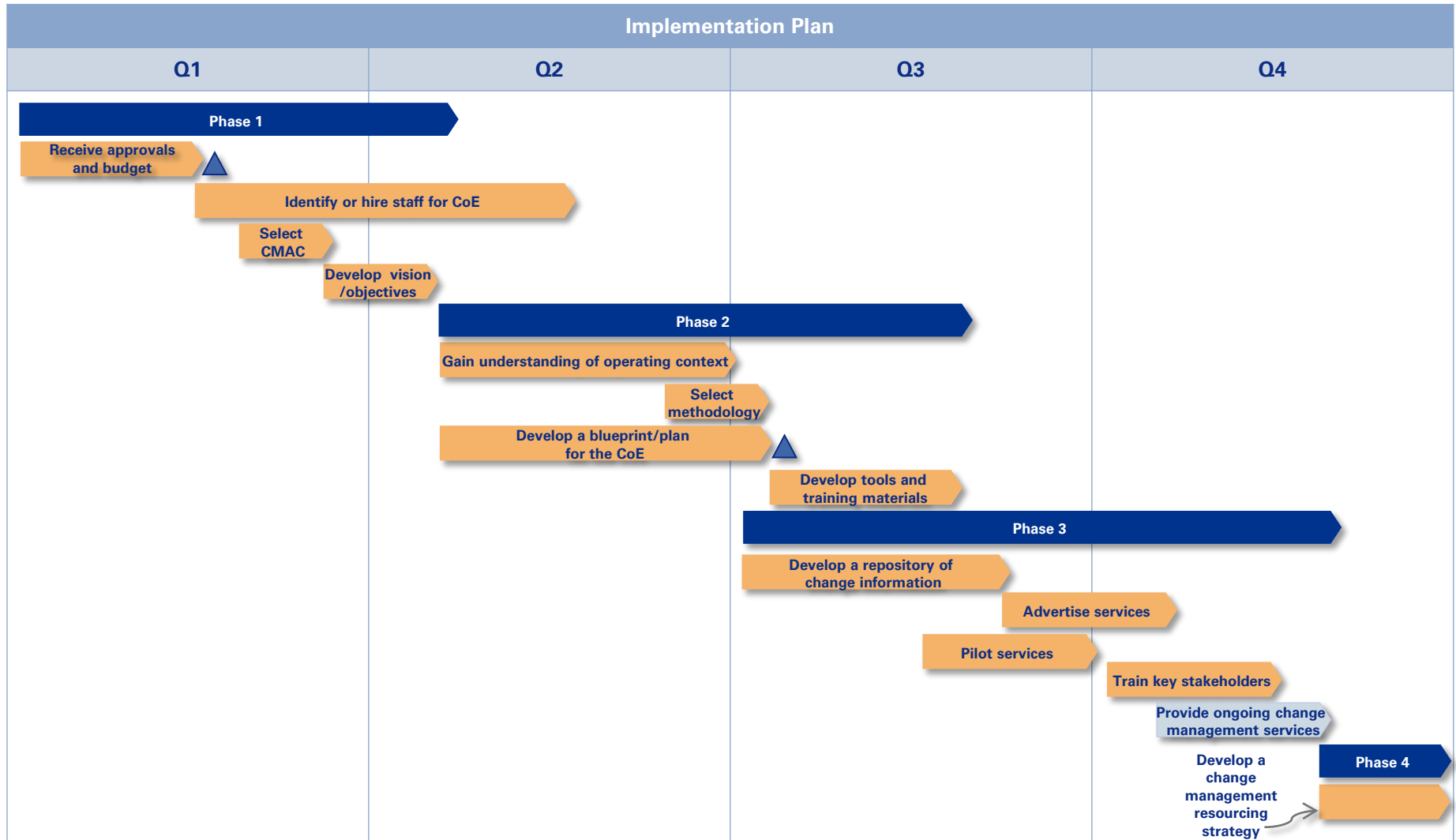
Implementation Plan

Change Management Centre of Excellence

Human Resources – Establishing a Change Management CoE

Workplan & Milestones

	Phase 1	Phase 2	Phase 3	Phase 4
Objective	<ul style="list-style-type: none"> Design the conceptual structure, objectives and operations of the CoE. 	<ul style="list-style-type: none"> Plan the future state operations of the CoE and prepare for implementation. 	<ul style="list-style-type: none"> Initiate operations of the CoE. 	<ul style="list-style-type: none"> Maintain and monitor operations of the CoE.
Key Activities	<ul style="list-style-type: none"> Receive approvals and budget to establish the CoE Hire a Manager of the CoE Determine the extent to which existing change management consultants can or should be utilized in the CoE Develop the vision and objectives of the CoE, including a program map, and preliminary thinking around performance metrics Select the Change Management Advisory Committee (CMAC) to assist in planning the operations of the CoE Craft preliminary communication and messages regarding the services and timelines of the CoE 	<ul style="list-style-type: none"> Recruit and onboard additional staff for the CoE Gain an understanding of the operating context, including: the organizations' current and future change initiatives; customer service delivery obligations; past change events; and attitudes towards change Assess current capacity and competency in change management across the organizations Select a common methodology Develop a critical mass of tools Identify gaps in change management competencies, and develop training material to address gaps Establish a plan/ blue print for the CoE to achieve its goals Understand and map how implementation of the CoE will effect business processes 	<ul style="list-style-type: none"> Develop a repository of information for active change initiatives taking place across the City Disseminate communication to advertise and market the services of the CoE Disseminate training materials for the common methodology Identify, enroll, and train key stakeholders on methodologies and tools Pilot consultation and support services with one transformational change initiative Refine business process amendments Create and implement a change management plan for each applicable change initiative, including outlining the communication and consultation approach, defining CoE support, and articulating strategies to achieve the desired changes. 	<ul style="list-style-type: none"> Performance measure are clearly defined, formalized, understood, and evaluated at agreed upon intervals Stakeholders actively engage the CoE in their change engagements and utilize tools Full life-cycle change management methodology is implemented and integrated into organizational culture A long-term change management resources strategy is defined to support short-term and long-term change needs
Inputs	<ul style="list-style-type: none"> Approvals Operating budget Staff 	<ul style="list-style-type: none"> Staff Information regarding current and past change initiatives and business processes Research regarding potential methodologies and tools 	<ul style="list-style-type: none"> Information regarding current and past change initiatives and business processes 	<ul style="list-style-type: none"> Staff engagement Information regarding current and past change initiatives and business processes
Outputs & Milestones	<ul style="list-style-type: none"> Communication messages Human resources Program Map, or similar document describing the conceptual terms of reference of the CoE 	<ul style="list-style-type: none"> Change management CoE blueprint Change management methodology Tools, templates, and training materials New business process maps 	<ul style="list-style-type: none"> Change management repository Marketing communications Training programs and courses Pilot project Change management plans for individual engagements 	<ul style="list-style-type: none"> Performance measurement framework CoE resourcing strategy



▲ Significant milestone or decision point

The table below describes some of the key roles and competencies which will be required for the successful implementation and operation of the CoE.

Entity	Role	Activities
Executive Director, Human Resources Division	The Executive Director will act as the Corporate Executive Sponsor for the installation of a Change Management CoE, advocating to secure sufficient resources and reporting progress to City Manager.	<ul style="list-style-type: none"> Responsible for the change agenda for the City, which is driven by the strategic objectives and directive set by Council Owns the blueprint for how the organizations are expected to evolve over time, which is devised from individual project plans, divisional strategies, and operational plans Responsible for reporting progress against the change agenda to Council, including a summary of how the totality of change is impacting day-to-day operational capability Draws Council attention to the risks and issues associated with the totality of change and which require decisions to be taken about any re-prioritizing or termination of initiatives Assists in recruiting the Manager of the CoE
Manager of Organizational Change Management	The Manager of the CoE is responsible for overseeing the successful installation of the CoE from conception through implementation and evaluation.	<ul style="list-style-type: none"> Determine the extent to which existing change management consultants within the HR Division can be utilized in the CoE and recruit and onboard additional staff as needed Lead the development of a program map and blueprint for the operations of the CoE Perform quality assurance and oversight for the outputs of CoE staff Work with Executive Director to develop long-term resource strategy for the CoE Obtain the confidence and support of change agents supported by the CoE Ensure that the change management methodology is applied to all initiatives irrespective of which function or organization is performing them Obtain authority to request necessary information from all those within the organizations who are running change projects, programs or other initiatives
CoE Staff	CoE staff are responsible for preparing and equipping the CoE to deliver change management services.	<ul style="list-style-type: none"> Perform research to identify and develop methodology, tools and training materials Perform research to understand the current and proposed future operating context of the City and its agencies with respect to change initiatives Deliver change management services to target stakeholders and customers
Change Management Advisory Committee (CMAC)	CMAC will play a key role in guiding the development of the operations of the CMAC.	<ul style="list-style-type: none"> Assist in planning the operations of the CoE Provide line of sight and an inventory of change occurring across the City through its diverse membership

In addition to the key roles described on the previous page, it is also important that the CoE obtain resources with the skills and expertise described below in order to successfully achieve its objectives:

- **Process engineering** – Change initiatives inevitably affect the way in which work is performed or services are delivered. Process engineering expertise is an asset to the CoE as it will assist them to pinpointing where change in one area can impact systems, processes, inputs, outputs and behaviours in other areas.
- **Risk management** – Risks and issues have the capability to prevent change from being successfully implemented. It will be important for the CoE to have the skills necessary to identify, analyze and develop responses to risks arising in one change initiative that might also apply to other initiatives of which the relevant change managers need to be made aware.
- **Communications** – Change requires everyone to be aware of what is changing, when and how so this role is central to ensuring all stakeholders are fully informed and engaged with the changes that matter to them.
- **Strategic and project planning** – Whilst individual change managers may work with the CoE to identify the change activities relevant to their work, there is a need to collate all of this activity across the organization and be able to understand how much is changing, where and for how long so that the risk of destabilizing the ability of the organization to deliver services is understood.

Risk	Mitigating Action(s)
Savings associated with effective change management may not exceed the cost of CoE operations	<ul style="list-style-type: none"> The economic viability of the CoE mandates the organization be reasonably big and have a critical mass of change initiatives running simultaneously. This risk can be mitigated during the early stages of implementation; the Executive Director of HR must endeavor to determine the scope of change occurring across the City and the capacity required to efficiently and effectively manage the change. Nearing the completion of the implementation of the Service Efficiency Studies, the Executive Director should once again work with the CoE to determine the long-term resource strategy for the CoE.
Customers may not buy-in or utilize the CoE to the extent possible	<ul style="list-style-type: none"> There are multiple potential causes at the root of this risk – lack of funding or budget to utilize the CoE, poor historical experiences working with the City or HR, etc. The CoE can attempt to mitigate this risk by engaging potential customers early in the implementation of the CoE to understand their historical experiences and needs, distributing effective communication and marketing regarding the services of the CoE, and rolling out a common methodology across the organizations.
Limited resources result in some change initiatives receiving less support than others	<ul style="list-style-type: none"> Effective training in the early stages of the implementation and adopting a “train-the-trainer” approach will ensure that change agents have the knowledge and tools they require to implement change initiatives with limited support from the CoE. When determining where CoE resources are most effectively deployed, the CoE should consider such aspects as the scope and reach of the proposed change, and the change experience and expertise of the individual project managers.
The common methodology is perceived to be inflexible or inappropriate for individual change needs	<ul style="list-style-type: none"> Each project is different and project managers have their own management styles and different historical experiences with change initiatives. There is a risk that the methodology selected by the CoE may not be appropriate or applicable to every change management initiative. To mitigate this risk, the CoE should take into account the nature and scope of historical, current and future change initiatives in their selection of a methodology. Moreover, to the extent possible, the CoE should seek to receive the input and feedback of change managers in their selection of the methodology.
Unclear understanding of the services and role of the CoE	<ul style="list-style-type: none"> The CoE is only a facilitator to improve the project process, reduce risk and increase success. In order to ensure clarity around the role and scope of services provided by the CoE, clear messaging should be disseminated early in the implementation. Moreover, SLA should be established for any engagement where the services of a dedicated change management consultant are utilized.

Cost Factors

It is estimated that this model would result in ongoing operating costs of \$300,000 per year.

Cost Category	Item	Cost
Operating	-	-
Labour	Change Management Consultants (3 FTEs)	\$125,000 - \$375,000 ²
Capital	-	-
Total	-	\$125,000 - \$375,000

Assumptions

1. The total cost of delivering each change initiative is reduced as the CoE is able to achieve economies of scale across common change activities including communication, implementation, planning, risk analysis and project management
2. Hiring a Change Management Consultant incurs a fully-loaded labour related cost of \$125,000 per annum, including salary, benefits and pension contributions. It is assumed that three full-time equivalents would be required to support change management capacity of the CoE, including the Manager of the CoE. This complement should be reevaluated following the initial implementation of service efficiency study recommendations.

Communication Strategy

Target Audience	Stakeholder Perspective	Impact Rating (H,M,L)	Frequency of Interaction (Frequent, Moderate, Low)	Medium/Media of Interaction
Customers (City Divisions and City Agencies)	<ul style="list-style-type: none"> • Desire to understand the role of the CoE and the impact of the CoE and its methodology on the execution of change initiatives • Desire to maintain autonomy and independence with respect to project management, while accessing expertise as needed • Desire to deliver projects on-budget 	Medium	<ul style="list-style-type: none"> • Frequent – Interaction and communication with potential customers is key to the successful creation and implementation of the CoE. Communication should begin in the early stages of implementation. Specifically, the CoE should seek to communicate with its customers for the following reasons: <ul style="list-style-type: none"> ◦ To solicit input and feedback on potential methodologies and training ◦ To train key change managers ◦ To disseminate messages regarding roles, services, fees, and key dates 	<ul style="list-style-type: none"> • Briefing letters • In-person interviews • Change Management Advisory Committee
City Manager's Office	<ul style="list-style-type: none"> • Desire to improve change management capacity and capability across the City while balancing the costs of establishing the CoE • Responsible for the successful execution of the City's change agenda 	High	<ul style="list-style-type: none"> • Medium – The CMO should receive status updates and briefings on the progress of implementation and performance relative to the change agenda. Moreover, the CMO must be informed when major risks or issues arise with respect to the totality of change taking place across the City 	<ul style="list-style-type: none"> • In-person meetings with Manager of the CoE • Briefing notes • Status reports

Information Technology (IT)

Shared Service Delivery of Common IT
Infrastructure

I&T – Shared Service Delivery of Common IT Infrastructure

Executive Summary

Financial Impact

- This model may require an estimated one-time investment of \$7m to \$10m spread over a period of 3 years
- The projected annual operational savings are estimated at \$2m to \$8m.

Timing

- Implementation and 'roll-out' of the Shared Services Unit will take 3 years. The timeline assumes a phased implementation approach starting with consolidation of City I&T and divisions IT physical infrastructure to a co-location facility and re-organizing resources. The next phase includes the consolidation of agencies (specifically TPL, TTC, TPS). Timing incorporates requirements for detailed design of the target operating model and addressing of complex labour relations and HR issues.

Benefits

- Shared service delivery of IT infrastructure is expected to deliver financial benefits and qualitative benefits

Drawbacks and Risks

- Establishing a well-defined Shared Services Unit for the proposed services will require time, effort and commitment across the different stakeholders (City and agencies)

Description

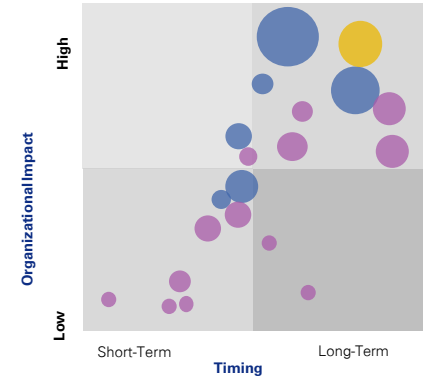
The proposed model is to create a single Shared Services Unit to deliver IT infrastructure services to all City divisions and participating agencies. The in-scope service areas for the Shared Services Unit include common IT infrastructure services such as, data centre services (primary and secondary sites), infrastructure management services and portions of the network & telecommunication services.

The Shared Services Unit is expected to be staffed by re-organizing the City I&T, divisional IT and in-scope affected agency IT resources who are currently delivering these services today. The Unit will sit under a Shared Services Division reporting to the Deputy City Manager/CFO. It is not anticipated that new resources will be required to support this Unit.

In addition to optimizing existing resources and implementing a governance structure for the new organization, a key component of the model includes the consolidation of all physical IT infrastructure assets and procuring co-location data centre facility services through this new organization.

Rationale/Benefit

IT infrastructure services are currently delivered across City divisions and agencies today. Within the City these are largely centralized in the I&T division with pockets of service delivery in a few divisions; the agencies are delivering these services through their own independent IT departments. The total budgeted spend on these services is estimated at ~ \$37m (total cost of ownership is estimated at ~\$42m) is substantial enough to consider unifying them under a single Shared Services Unit. Further, these services are common in nature and are non-core services for the divisions and agencies. As such, these IT infrastructure service delivery areas are prime candidates for shared services and changing the service delivery model should not adversely affect service delivery in impacted organizations.



Financial Impact

- This model may require an estimated one-time investment of \$7m to \$10m spread over a period of 3 years
- The projected annual operational savings are estimated at \$2m to \$8m.

Timing

- Implementation and 'roll-out' of the Shared Services Unit will take 2 to 3 years. The timeline assumes a phased implementation approach starting with consolidation of City I&T and divisions IT physical infrastructure to a co-location facility and re-organizing resources. The next phase includes the consolidation of agencies (specifically TPL, TTC, TPS). Timing incorporates requirements for detailed design of the target operating model and addressing of complex labour relations and HR issues.

Benefits

- Shared service delivery of IT infrastructure is expected to deliver financial benefits and qualitative benefits

Drawbacks and Risks

- Establishing a well-defined Shared Services Unit for the proposed services will require time, effort and commitment across the different stakeholders (City and agencies)

Rationale / Benefit (continued)

Unifying the costs to deliver these IT infrastructure services under one Shared Services Unit is expected to increase cost effectiveness. Implementation of this shared service will also yield additional benefits such as modernization, standardization and rationalization of the affected services and related assets, driving an improved and efficient service delivery capability. Transitioning to a shared service model will help realize economies of scale in the short term as well as set the foundation for sharing of large technology investments in the long term.

The proposed model involves procuring co-location data centre facility services (i.e., using a third party to house the primary and secondary data centre infrastructure) which will allow the participating organizations to cost effectively consolidate technology infrastructure while simultaneously improving the reliability, availability and overall recoverability of IT services. Co-location facility providers also provide participating organizations the opportunity to take advantage of modern, purpose-built, flexible, scalable and energy efficient data centre locations. In doing so, the participating organizations can avoid large capital investments required to sustain their current infrastructure and future growth.

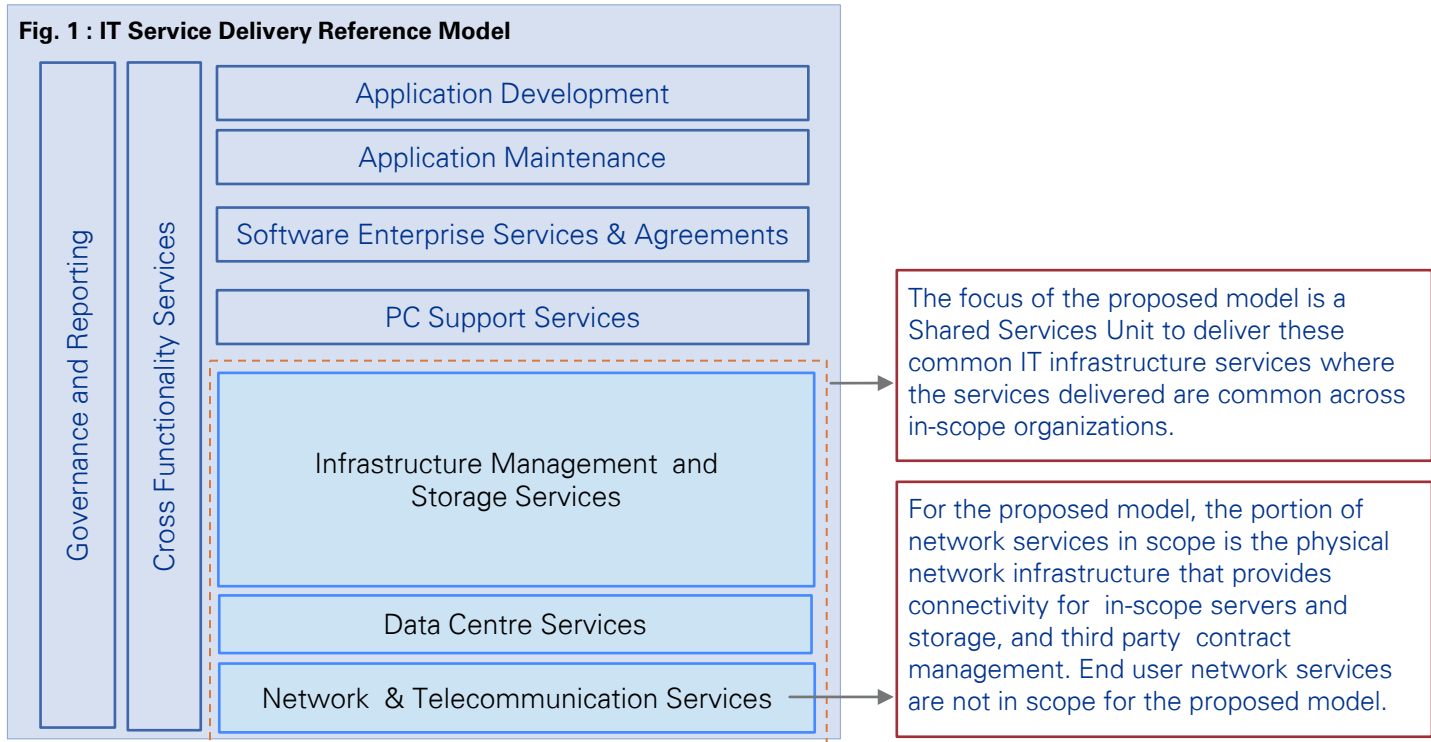
Key Considerations

- Consolidation of resources across City divisions and agencies will require addressing labor relations related issues.
- A well defined governance, target operating model and detailed service description is critical for a successful Shared Services Unit

The scope of IT service delivery areas for the proposed shared service model were identified early on in the study through stakeholder consultations to be data centre services, infrastructure management and storage services, and portions of the network infrastructure.

These service delivery areas are part of core IT infrastructure technology services, are common across the different in-scope organizations and are not key differentiators for in-scope organizations.

For the purposes of this shared service study, KPMG used an IT Service Delivery reference model – this is shown in Figure 1 below. This reference model was used to help drive a common view on IT service delivery and focus the scope of the study.



Please refer to the Supporting Materials Section which follows for a more detailed IT service delivery reference model.

Leading practices view these areas as ideal candidates for shared service delivery and the logical starting point for IT shared services.

Furthermore, our experience in IT shared services suggests that once these are organized as a shared service delivery model, there is large potential to attain economies of scale in future technology investments in these areas.

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Current Service Delivery

I&T – Shared Service Delivery of Common IT Infrastructure

Current State Delivery

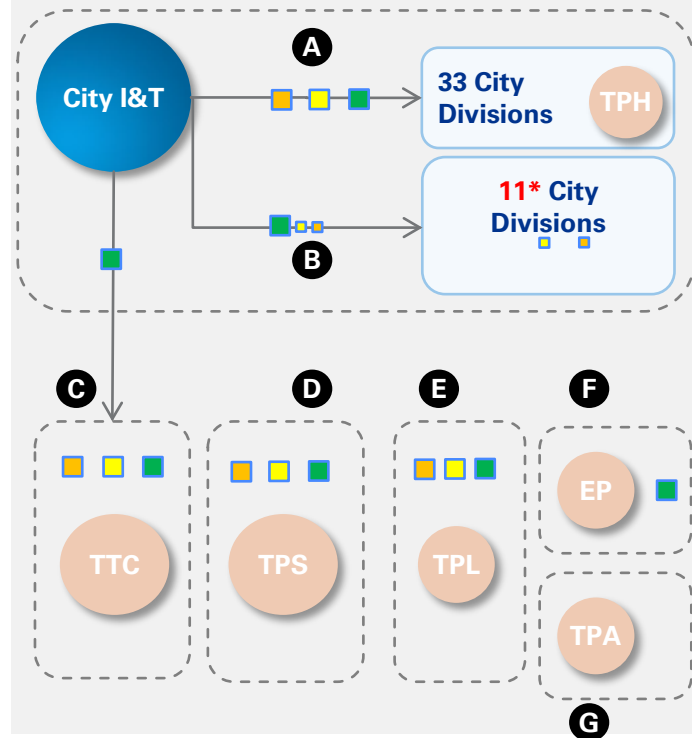
For City divisions, the main provider of core IT infrastructure services is the Technology and Infrastructure Services (TIS) section in the City I&T division. In addition to divisions, this group is also provides core IT infrastructure services to TPH.

Independent from the TIS group, some divisions have additional resources delivering core IT infrastructure services. These decentralized resources are allocated to division-specific infrastructure requirements only.

The bigger agencies (namely TTC and TPS) have large IT groups providing core IT infrastructure services, that overlap with services provided by the TIS group.

The diagram below illustrates current service delivery provisioning for common IT infrastructure services

- Data Centre Services
- Infrastructure Management Services
- Network and Telecommunication Services



A: City I&T division centrally provisions and delivers core IT infrastructure services to all City divisions and Toronto Public Health through the Technology & Infrastructure Services (TIS) group. Service level agreements are in place and costs are recovered using an interdepartmental charge. However, cost recovery is partial and a chargeback model has not been implemented.

B: 11 City divisions have additional resources who provision core IT infrastructure services required to support division specific IT infrastructure needs.

C: The TTC has its own IT department that provisions core IT infrastructure services to the organization. The TTC IT department operates its data centre independently of the City I&T Division, and has its own staff delivering infrastructure management, storage and network infrastructure services. The TTC does however piggy back, and to some extent, leverage major 3rd party contracts that the City I&T division has in place for network and telecommunication services.

D: The TPS also has its own IT department provisioning core IT infrastructure services to the organization. The TPS operates its own primary and disaster recovery data centre and manages its own infrastructure, storage and network. Collaboration for core IT infrastructure services with the City is minimal. TPS has specific requirements for the location of its secondary data centre.

E: The TPL has its own IT department (much smaller than TTC and TPS) provisioning core IT infrastructure services to the organization. These include data centre services, infrastructure management & storage services, and network and telecommunication services. TPL participates in group IT procurement with the City.

F: Network and Telecommunication services are core areas for EP and services are provisioned and managed by the EP IT department. EP has minimal requirements for data centre and infrastructure management services.

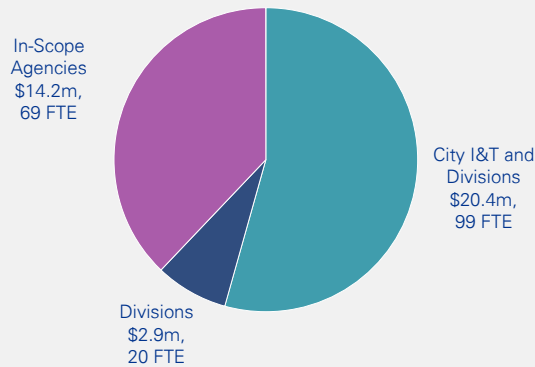
G: TPA has a small IT department that is core to the business and focuses on the application portfolio; core IT infrastructure services are outsourced.

I&T – Shared Service Delivery of Common IT Infrastructure

Current State Costs – City I&T, Divisions & Agencies

- The total IT costs for data centre, infrastructure management and storage services across City I&T, divisions and agencies is estimated at ~ \$37m (FTE and non FTE). Based on high level estimate data provided, there is ~188 FTE delivering these services (consolidated across City I&T, divisions and in-scope agencies) - see figure 1, table 1 and the Supporting Materials appendix
- During this study, a detailed cost analysis and total cost of ownership (TCO) calculation was not performed. The TCO is expected to be higher than the estimated budgeted costs - please see the next slide for a high level estimate calculation of the TCO
- A detailed total cost of ownership (TCO) needs to be calculated as the next logical step in evaluating the proposed model.

Figure 8: Estimated budgeted operating costs for delivery of data centre operations and infrastructure management & storage services



Notes:

- FTE and Costs are an aggregation of data provided by in-scope agencies, City divisions, and the City I&T Division
- The data represents budgeted operating costs and FTEs (not total cost of ownership)
- Activity analysis for costs and FTEs were not included in the scope of this study.
- A detailed analysis of costs and FTE activities should be performed in order to inform a detailed business case

Table 7: Current state budgeted operating cost estimates for data centre operations and infrastructure management & storage services

IT Service Delivery Areas	# of FTEs	FTE Costs (\$M)	Non FTE Costs (\$M)	Total Costs (\$M)
City I&T				
Data Centre Operations	14	1.32	0.11	1.43
Infrastructure Management & Storage	85	9.42	9.50	18.92
Sub Total	99	10.74	9.61	20.35
Divisions				
Sub Total	20	1.70	1.20	2.90
In-Scope Agencies				
Data Centre Operations	14	1.89	1.97	3.86
Infrastructure Management & Storage	55	5.91	4.41	10.32
Sub Total	69	7.80	6.38	14.19
Total – Data Centre Operations, Infrastructure Management & Storage Services	188	20.24	17.19	37.44

Refer to Supporting Materials section for a break down of these cost by each entity

Source: City of Toronto and agency data

I&T – Shared Service Delivery of Common IT Infrastructure

Current State Costs – City I&T, Divisions & Agencies

- The estimated budgeted operating costs are ~\$37.44m. In addition to these costs, there are ~\$4.31m of associated costs that are not included in IT budgets
- The calculated total cost of ownership (TCO) across the City I&T Division, divisional IT and in-scope agencies is estimated to be ~ \$42m
- TCO includes the power, cooling, space and security costs associated with the data centre, IT infrastructure and storage services.
- Calculations for City I&T, divisions and TTC are based on data provided and stated assumptions
- Calculations for TPS and other in-scope agencies based on assumptions as required information (i.e., computing facility locations and infrastructure footprint data) was not provided

Table 8: Estimated High Level Total Cost of Ownership Calculation	\$ M	Comments
Budgeted FTE Cost (A)	20.25	
Data Centre Services	3.71	
Infrastructure Management and Storage	16.53	
Budgeted Non-FTE Cost (B)	17.19	
Data Centre Services	2.38	Includes operating portion of City I&T current co-location service
Infrastructure Management and Storage	14.81	
Budgeted Cost of Service Delivery (A + B)	37.44	See note 1
Non Budgeted Costs (C)	4.31	This estimated calculation amounts to ~10% of the TCO, which is in line with industry benchmarks for power, cooling, space and security costs associated with IT infrastructure and data centre services
Power & Cooling	3.29	See note 2
Space & Security	1.02	See note 3
Total Cost of Ownership (A + B + C)	41.75	

Assumptions

- Budgeted operating costs for data centre, and infrastructure management and storage is estimated at \$37.44 M for City I&T, divisions & in-scope agencies (see table 7 on previous page of this report)
- Rate per KW hour assumed to be \$0.1167. Total power consumption estimated at 1651 KWH
 - City I&T infrastructure power consumption estimated at 1168 KWH (excludes cooling)
 - Division IT infrastructure power consumption estimated at 133 KWH
 - TTC IT infrastructure power consumption estimated at 175 KWH (includes cooling)
 - TPS, TPL and EP power consumption estimated at 175 KWH (includes cooling)
 - City cooling cost estimated at 50% of power cost
- Space and security costs estimated at \$50 per square foot and total space used estimated at 20,432 sq. ft.
 - City I&T and division IT infrastructure space use estimated at 9,932 sq. ft.
 - TTC IT infrastructure space use estimated at 5,250 sq. ft.
 - TPS IT infrastructure space use estimated at 5,250 sq. ft.

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Proposed Shared Service Model

I&T – Shared Service Delivery of Common IT Infrastructure

Overview of the Proposed Shared Service Model

Type of Service:

- Shared service delivery of common IT infrastructure services

In-Scope:

- Common IT infrastructure services that are not core services for agencies and City divisions.

Out of Scope:

- Specialized IT infrastructure services that are core for agencies and City divisions
- Application Portfolios

Value Proposition

- Shared service delivery of common IT infrastructure services are believed to deliver both financial and qualitative benefits. The proposed model will help establish the foundation required to realize increased economies of scale from future technology investments

The proposed model is for common IT infrastructure services to be provisioned and delivered as shared services to all City divisions and participating agencies by a Technology Infrastructure Shared Services Unit.

The overall goal of the proposed model is to improve the cost effectiveness of IT and realize cost savings for the City divisions and participating agencies. The proposed shared service model will help achieve this goal by transitioning the accountability for managing and delivering common IT infrastructure services to a single organization with consolidated computing facility locations and shared resources, using a managed services delivery model.

Consolidated delivery of common IT infrastructure services is expected to:

- Deliver both financial and qualitative benefits.
- Establish the foundation for sharing and collaboration across agencies and City divisions– this is required to realize increased economies of scale from future technology investments (both infrastructure and enterprise services).
- Enhance the maturity and discipline around common IT infrastructure service delivery
- Enable City divisions and agencies take advantage of modernized IT infrastructure and services, and
- Provide access to skilled resources, increase agility, and reduce operational risk

The establishment of the proposed Shared Services Unit will require the following changes to the current service delivery organizations:

- Consolidation of physical IT assets to a co-location data centre facility (primary and secondary sites). This involves the selection of a data centre provider to house the technology infrastructure, while at the same time allowing for the participating organizations to manage their own infrastructure and maintain their established security and privacy requirements
- Creation of a Shared Services Unit under the Shared Services Division of the Deputy City Manager/CFO based on agreed design principles. In contrast to the Shared Services Secretariat described in the Cross-Functional Recommendations, the Shared Services Division and its Units are permanent organizations which will not be dissolved following implementation of the shared service recommendation.
- Pooling, reorganizing and optimizing the resources currently delivering common IT infrastructure management services to staff the Shared Services Unit
- Establishing a new governance structure that ensures adequate representation of participating organizations and their service delivery requirements

I&T – Shared Service Delivery of Common IT Infrastructure

Design Principles

Shared service is a strategy to increase efficiency and improve service delivery

Shared services is a strategy for optimizing service delivery of common IT infrastructure services. It is important to realize that shared service as a cost reduction strategy involves an evolution along a maturity continuum and is a journey that requires vision, commitment, and strong leadership.

Optimize existing resources

A key principle in designing the Shared Services Unit is to reduce organizational change. The proposed model is based on an alternate service delivery model requiring optimization (i.e., re-organization and consolidation) of existing resources and is not rooted in reducing headcount.

Divisions and participating agencies will retain ownership of IT service management

Service delivery will be provisioned by groups in the Shared Services Unit, while participating organizations will own the service management relationship with their internal clients. This local service management layer will interact with a relationship management layer and other governance processes at all levels of the Unit.

Consolidated data centre for divisions and participating agencies

The proposed model is based on consolidated data centre locations (primary and secondary) for all City divisions and participating agencies using co-location data center facility services, taking into account future expansion requirements, operating/legislative constraints, and business continuity needs (i.e., primary and secondary locations) for all participating entities.

Avoid large up-front capital investment required to build data centre – buy vs. build

Building a consolidated data centre requires large up-front capital costs and involves high risks associated with large construction projects. Further, the current and expected future pace of change in IT infrastructure technology implies a continuous investment is required to maintain the currency of City owned data centre.

Seek to standardize and rationalize IT hardware and related maintenance costs

Once physical computing infrastructure and the resources required to manage that infrastructure and deliver services are consolidated and re-organized, the Shared Services Unit must seek to standardize and rationalize IT hardware equipment and related maintenance costs. This is expected to yield further financial benefits.

Standardize and rationalize IT software components and related support costs

Inherent to optimizing existing service delivery costs is an aggressive approach towards standardizing and rationalizing IT software components (such as operating system software, middleware stack, and IT system management tools). In doing so, financial benefits are expected to accrue from reduced licensing costs and lower associated support costs.

Consolidate IT demands, leverage 3rd party contracts and procure strategically

A key objective of transitioning to a single shared service delivery model for City divisions and agencies is to establish the foundations for consolidating IT demand and procurement spend across the divisions and agencies to further leverage external spend and 3rd party IT contracts (enterprise software licensing, networking & telco)

Design architecture roadmap with long term view of virtualization, cloud strategy, and additional participants

As consolidation of infrastructure occurs in Phase 1, this would lay the foundation to introduce additional opportunities for sharing, such as shared virtual test environments, potentially introducing private cloud services and later down the road the introduction of public or community cloud solutions. Further, it is expected that the Shared Services Unit will attract more participants (such as Boards and Commissions) in the future.

I&T – Shared Service Delivery of Common IT Infrastructure

Proposed Future State Service Provisioning

The table below outlines the proposed future state provisioning of common IT services for divisions and in-scope agencies.

As indicated, the primary focus of the new Shared Services Unit is envisaged to be data centre, infrastructure management and storage services; network and telecommunication services is a secondary focus. PC support services are not included in the initial or secondary scope of service delivery for the Shared Services Unit – however, it is expected that once the Shared Services Unit is stabilized, this service delivery should be revisited to assess further opportunities.

Figure 9 – Proposed Provisioning of Services

Common IT Services	TPS	TTC	TPL	EP	TPH	TPA	Divisions	Comments
PC Support Services								Maintain current state for divisions and agencies; revisit after Unit is stabilized
Infrastructure Management & Storage								Primary focus of Shared Services Unit is the consolidation of physical infrastructure (servers, storage, associated network infrastructure components) and the resources required to manage this infrastructure.
Data Centre Services								
Network & Telecomm.								Managing 3rd party contracts are in scope; end user network services are not in scope.
Exceptions	Maybe	Maybe	Maybe	No	Maybe	No	No	See below for basis of exceptions

Legend – Provisioned by:

Local IT groups Shared Services Unit Outsourcing service provider

TPS Exceptions

- As a result of special security requirements based on legislative and operating environment constraints
- Where sharing with peer organizations and Police is more beneficial
- Where Tier III requirements cannot be met

TTC Exceptions

- As a result of public and transit safety considerations
- Industrial networks

TPL Exceptions

- Public Internet access at all 98 branches (>1700 wired PCs and wifi) necessitates special network configuration and security needs.

TPH Exceptions

- As a result of special privacy requirements based on legislative constraints

A key success factor for the proposed shared service model is the governance structure.

The governance model must be designed to take into account a tiered structure that drives a consistent and disciplined reporting, escalation, and monitoring process.

It is envisaged that the Shared Services Unit is to be governed by a body comprised of representatives from participating organizations. Further, it is expected that representation be fair to all participating organizations, which is a key success factor for the proposed model.

Prior to designing the governance model, it is vital that guiding principles be agreed to. We outline governance guiding principles on this slide that should form the foundation for designing the governance structure of the proposed model.

Guiding Principles

- A successful infrastructure shared services implementation embraces a strong customer service culture.
- Each of the key stakeholders need to have a seat at the governance table to ensure their requirements are accounted for in their service level agreements (SLAs) for service delivery, and project resources for demand management.
- Participating organizations will retain ownership of service management for the services delivered through the proposed shared services model
- An agreed management model that describes the involvement of participating organizations in the operation of the proposed shared service model is a key component of the governance engagement model
- Agreed operating level agreements (OLAs) with program delivery units in participating organizations is a pre-requisite to transitioning to the proposed model
- IT service delivery is to be governed and measured using agreed service level agreements between IT service managers in participating organizations and shared service delivery groups.
- The governance model must provide consideration of continuity, capacity, and efficient organization
- The governance model must provide a robust and consistent remediation process for service delivery failures and breaches in service level agreements using agreed to service level agreement mechanisms
- Any governance model for the proposed shared service model must consider governance at three levels:
 - Strategic (i.e., approving strategic direction and planning; providing top level sponsorship and championing the change effort; resolving strategic issues and prioritizing resources)
 - Functional (i.e., setting strategic direction and planning; managing service expectations; approving significant change requests and process improvements)
 - Operational (i.e., managing operational and service performance against service level agreement mechanisms and targets; escalation point for unresolved operational issues; managing projects and continuous improvement project pipeline to drive standardization, efficiency and consistency of service)

It is proposed that the Technology Infrastructure Shared Services Unit be transitioned under a new Division focused on the long-term operations and continuous improvement of shared services in the City.

Thus, it is proposed that a new Division be created under the Deputy City Manager and Chief Financial Officer (CFO) titled the Shared Services Division (SSD). In contrast to the Shared Services Secretariat, the Shared Services Division is envisioned to be a permanent structure. The SSD contains units for each function requiring ongoing and dedicated shared service support and leadership, including Technology Infrastructure. The creation of an SSD separates shared services from the internal functional units which focus solely on supporting City divisions. As a result, the SSD creates a structure with perceived independence from City Divisions, a factor which was deemed to be critical to the success of shared services by participant agencies.

It is anticipated that the SSD would be led by a Director, with Senior Managers leading each functional unit. Administratively, the Unit reports through the Director of the Shared Services Division to the Deputy City Manager and CFO. At a functional level, the Unit will also have a dotted-line reporting relationship to a governing body, made up of representatives from the agencies served.

It is anticipated that the Unit will be staffed using existing City and agency IT infrastructure professionals.

The structure of the proposed long-term governance model is presented on the following page.

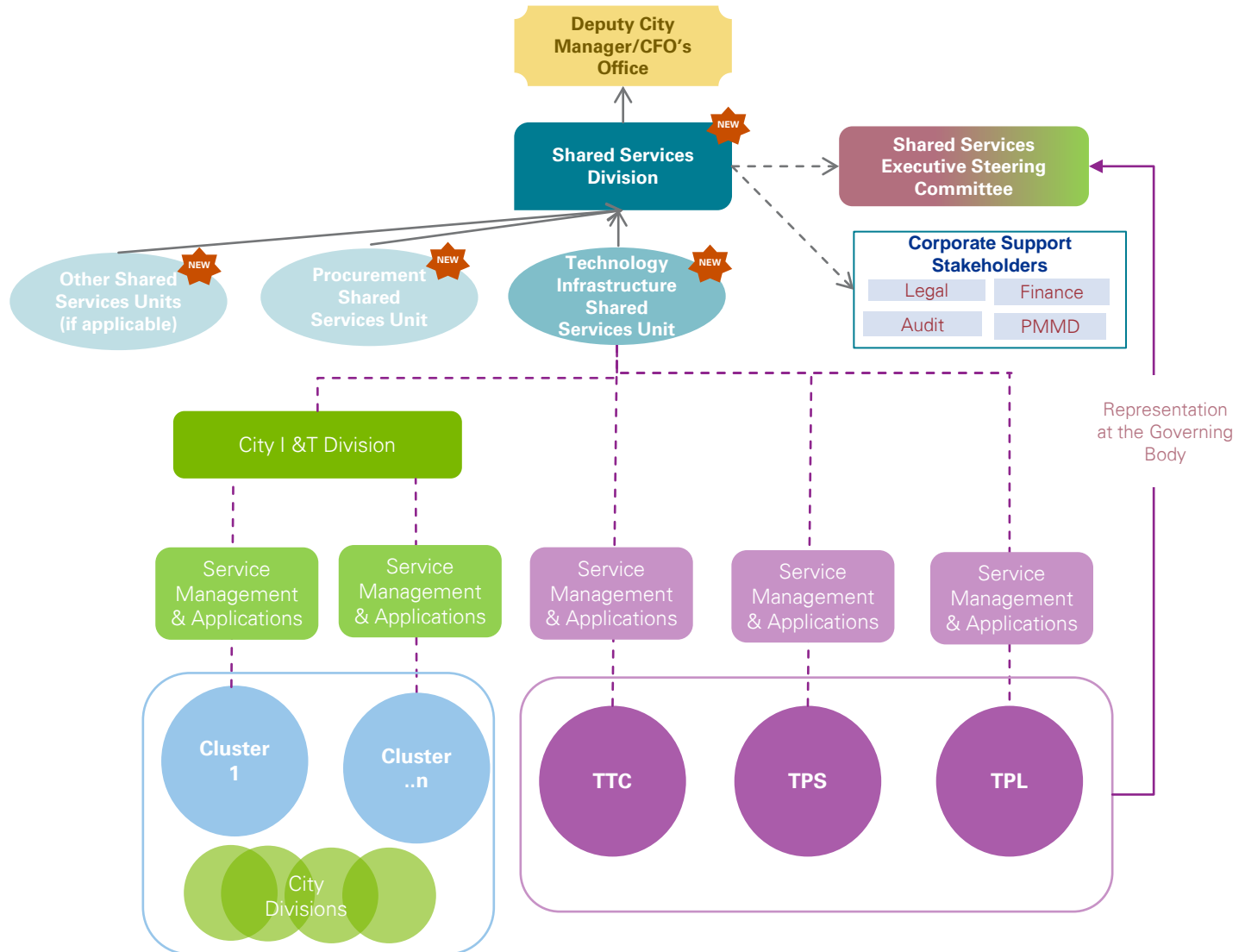
I&T – Shared Service Delivery of Common IT Infrastructure Proposed Governance Model

Representation of participating organizations (both City divisions and agencies) on the Shared Services Executive Committee is a critical success factor.

The Shared Services Unit will deliver common IT infrastructure services to participating organizations.

Each of the participating organizations will interface with the Unit through a service management layer. The Unit is expected to deliver on service level mechanisms agreed and established with the service management layer, which acts as the IT service delivery broker between the business clients and the IT service provider.

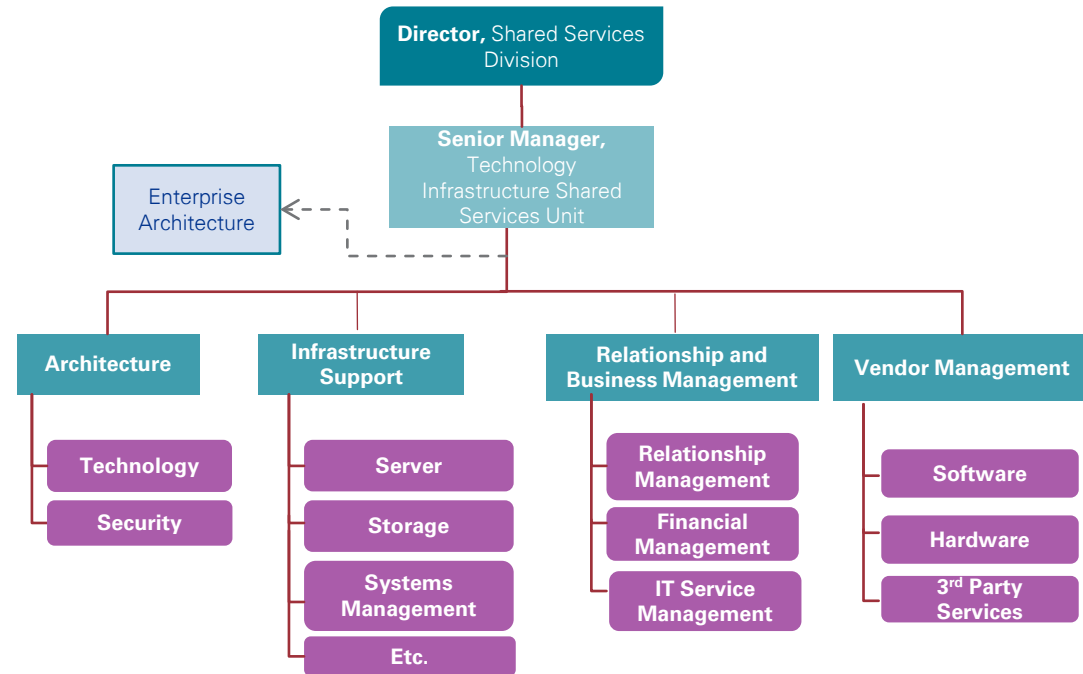
Each participating agency is expected to have their own service management layer. For City divisions, the service management layer interacts seamlessly with the Unit through service level agreements established with the City I&T division.



I&T – Shared Service Delivery of Common IT Infrastructure Proposed Organization Model

Below we have outlined a potential organization model for the proposed Shared Services Unit. Detailed organization design and description of roles, responsibilities and accountabilities are to be performed during the detail design phase outlined in the sample implementation roadmap:

- The **Architecture** group is responsible for ensuring that the technology and security architecture meets customers needs
- The **Infrastructure Support** group is responsible for the delivery of infrastructure management and storage services
- The **Relationship and Business Management** group is responsible for managing the relationship with the Unit customers (i.e., the service management layer in the customer organizations); this group provides the capability and capacity for the Unit to embrace a strong customer service culture
- The **Vendor Management** group is responsible for managing relationships and service delivery agreements with 3rd party service providers, including the co-location data centre facility provider. This group operates as a centre of excellence and is expected to drive savings through better contracts for software, hardware, networks and related maintenance and support.
- These groups are led by the **Director of the Technology Infrastructure Shared Services Unit**, supported by an extended team of support functions, and reporting functionally to the Shared Services Executive Steering Committee. The City I&T Division's Enterprise Architecture Group has a dotted line into the Unit, providing expertise to the Architecture team to drive alignment.



Through shared service delivery of IT infrastructure services, agencies and City divisions should expect a number of qualitative benefits:

Business Agility & Speed to Market

- Process and services are often more efficient through scale, and optimized making project delivery and speed to market quicker

Externalize Data Centre Location Risk

- Gain capabilities by using a co-location facility – these capabilities include: modern, purpose-built , flexible and scalable, energy efficient, with higher levels of physical security, building and data centre infrastructure reliability
- Externalize accountability for Data Centre maintenance – the co-location provider is responsible for investments in data centre maintenance and upgrades
- Move location from current high risk area to offsite location with provision for geographically separated disaster recovery sites equipped for quick failover. As a result, participating organizations can expect to improve the overall recoverability and survivability of their IT services

Focus on Common Business

- Externalizes responsibility for day to day delivery of non-core operations – although the co-location facility service provides housing for the infrastructure, the infrastructure is managed by the Shared Services Unit, thereby enabling the retained IT groups in participating organizations to focus on IT services that are specialized to the business and contribute to overall effectiveness and efficiency of core program delivery

Improve Service Quality

- Enables agencies and City divisions to manage a partner to deliverables / outcomes rather than day to day oversight

Access to Skills and Leading Practices ‘On Demand’

- Co-location facility providers drive development of leading practices due to competitive nature of the industry
- Shared service delivery externalizes risks of variability , allowing agencies and divisions to quickly ramp up and scale down for projects

Career Opportunities for affected staff

- Displaced staff are often provided opportunities to develop deep technology expertise, and gain access to diverse clients when ‘rebadged’ to a shared service delivery model

Predictability of Delivery Costs

- Cost structure of IT shifts from mix of capital and operating costs to more predictable unit-based operating costs

The major potential drawback of the proposed model is the potential for a temporary reduction in service delivery, quality and responsiveness. This would be mitigated by a detailed transition plan with agreed milestones and deliverables, including a go/no-go decision gate to proceed to the next stage of implementation.

Enablers

- Detailed definition of services and decomposition at sufficient level of detail
- Clear service level agreement mechanisms and associated costs that address service delivery requirements
- A service provider(s) and facilities exists which are able to accommodate the security and business requirements of the City and agencies data centres (e.g., requirements regarding distance from nuclear plants, physical separation, etc.)
- An effective dispute resolution mechanism and robust remediation mechanisms in case of service level agreement breach
- Governance structure that enables consistency and discipline in escalation, resolution and monitoring
- Disciplined root cause analysis and IT service management processes
- Buy in from all organizations – this is expected to be based on a detailed financial model, and business case showing projected costs and quantified benefits.
- Detailed analysis that ties service level object to the resources required to effectively delivery specific activity, thereby providing an informed service costing mechanism
- Solution design for target state architecture
- Compelling evidence that budgetary constraints will not impact funding for Shared Services Unit in the long term
- Process harmonization
- Council commitment

Barriers

- Change resistance
- Availability of resources amidst competing priorities
- Legal, labour and pension risks and barriers with respect to staff being transferred from the City and agencies into the Unit
- Agency Board autonomy
- Budgetary challenge – there is a cost to implement the proposed shared service model
- Data centre space is not a current cost item - a co-location facility is expected to introduce a new cost to run IT infrastructure
- Two physically separate data centres are required by TPS, one for primary activities and one for disaster recovery/backup/business continuity. Design and location must be based on industry best practices (distance from nuclear plants, 25km-40km between primary and backup sites, etc.)
- Integration of people, process and technology is complex – perception that cost to integrate may be higher than realized benefits and future costs may be greater than current costs
- Perception that the proposed Shared Services Unit may not have the ability maintain continuity, capacity, and effective organization process to deliver, be governed and held accountable
- Legislative and operational constraints in agencies
- Additional levels of approvals at agency board level for changes to existing service delivery
- Implementing proposed shared service model is a transformation that requires commitment, leadership and focus

Estimated Savings Potential

- The estimated savings potential ranges from between 5% to 20% of the total operating costs – this potential is based on KPMG experience with similar shared service models and aligns with industry benchmarks
- Based on this benchmark, the estimated annual operational savings potential is between **\$2.2 m and \$8.4 m**
- The major categories driving these savings are outlined in the table below:

Saving Category	Annual Estimated Total Cost of Ownership (\$ M)	Estimated Savings Potential (%)	Estimated Savings Potential (\$ M)	Savings are expected to be realized through efficiencies achieved in the following categories
Data Centre	~\$11m	~ 5% - 20%	~ \$0.6m to \$2.2m	<ul style="list-style-type: none"> • Data centre consolidation (primary and secondary sites) • Co-location data centre facility • Avoidance of cost of capital
Infrastructure Management and Storage	~\$31m	~ 5% - 20%	~ \$1.6m to \$6.2m	<ul style="list-style-type: none"> • Pooled resources for infrastructure management • Standardization and rationalization of hardware and software • Virtualization of servers and storage devices • Shared storage services
Total Estimated Annual Savings Potential			~ \$2.2m to \$8.4m	Additional savings potential come from the ability to reduce costs by leveraging consolidated IT procurement spend on 3rd party contracts for network services and enterprise licensing.

Note: Estimated addressable costs represents total cost of ownership (TCO) i.e., includes budgeted and non budgeted costs; TCO based on high level cost estimate data provided by City and agencies and is not based on a detailed cost modeling exercise

Key Business Case Considerations

1. A key factor in building the business case is how existing City and agency owned data centre real estate is repurposed by moving to a co-location data centre facility
2. Consolidation of data centre and infrastructure management is the foundation that can be leveraged for further IT shared service opportunities (these include application portfolio rationalization and PC support services) as well as attract more organizations to participate in the shared service model, thereby increasing economies of scale further
3. Consolidation of data centre and infrastructure management will allow for the modernization, rationalization and standardization of these technologies in the short and near term - it will also allow for the sharing of future technology investments in the long term.

I&T – Shared Service Delivery of Common IT Infrastructure

Current State: Projected Total Cost of Ownership

- The estimated current total cost of ownership (TCO) is calculated to be ~ \$41.75m
- Assuming the status quo delivery model is maintained, this TCO is projected to increase to ~ \$50.21m in 8 years

Table 9 – Projected Total Cost of Ownership of Current State

Current State : Status Quo		All figures are in \$M								
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Assumptions
Budgeted FTE Cost (A)		20.25	20.65	21.06	21.49	21.92	22.35	22.8	23.26	Costs increase by 2% each year
Data Centre Services		3.71	3.79	3.86	3.94	4.02	4.1	4.18	4.27	
Infrastructure Management and Storage		16.53	16.86	17.2	17.54	17.89	18.25	18.62	18.99	
Budgeted Non-FTE Cost (B)		17.19	17.71	18.24	18.79	19.35	19.93	20.53	21.14	Costs increase by 3% each year
Data Centre Services		2.38	2.45	2.52	2.6	2.68	2.76	2.84	2.93	
Infrastructure Management and Storage		14.81	15.26	15.72	16.19	16.67	17.17	17.68	18.22	
Budgeted Costs (A + B)		37.44	38.36	39.3	40.27	41.27	42.28	43.33	44.4	
Non Budgeted Costs (C)		4.31	4.5	4.69	4.89	5.11	5.33	5.56	5.8	
Power & Cooling		3.29	3.46	3.63	3.81	4	4.2	4.41	4.63	Costs increase by 5% each year
Space & Security		1.02	1.04	1.06	1.08	1.11	1.13	1.15	1.17	Costs increase by 2% each year
Total Cost of Ownership (A+B+C)		41.75	42.86	44	45.17	46.37	47.61	48.89	50.21	

I&T – Shared Service Delivery of Common IT Infrastructure

Proposed Model: Projected Total Cost of Ownership

- The estimated current total cost of ownership (TCO) is calculated to be ~ \$41.75m (year 1)
- The TCO for the current state (maintaining the status quo) is projected to be ~\$50.21m in year 8
- The TCO for the proposed shared service model using co-location data centre facility services is projected to be \$42.77m in year 8
- Comparing the 2 scenarios (i.e., current state status quo vs. proposed shared service model with co-location), the gross annual savings in operating costs in year 8 is \$7.44m

Table 10 – Projected Total Cost of Ownership of Proposed Model

Shared Service Model using Co-Location		All figures are in \$M								Assumptions
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	
Budgeted FTE Cost (A)		20.25	20.65	21.06	17.24	16.89	16.56	16.22	15.9	
Data Centre Services		3.71	3.79	3.86	3.48	3.41	3.34	3.27	3.21	10% savings in Y4, 2% savings each year thereafter
Infrastructure Management and Storage		16.53	16.86	17.2	13.76	13.48	13.22	12.95	12.69	20% savings in Y4, 2% savings each year thereafter
Budgeted Non-FTE Cost (B)		17.19	17.71	18.24	14.84	14.55	14.26	13.97	13.69	
Data Centre Services		2.38	2.45	2.52	2.27	2.23	2.18	2.14	2.1	10% savings in Y4, 2% savings each year thereafter
Infrastructure Management and Storage		14.81	15.26	15.72	12.57	12.32	12.07	11.83	11.6	20% savings in Y4, 2% savings each year thereafter
Budgeted Costs (A + B)		37.44	38.36	39.3	32.08	31.44	30.81	30.2	29.59	
Non Budgeted Costs (C)		4.31	2.16	1.08	0.65	-	-	-	-	Costs decrease as infrastructure moved to co-location facility
Power & Cooling		3.29	1.65	0.82	0.49	-	-	-	-	
Space & Security		1.02	0.51	0.26	0.19	-	-	-	-	
Co-Location Costs (D)		-	5.87	8.81	9.98	11.75	12.33	12.95	13.60	Costs increase as co-location ramps up to Y3; 5% growth thereafter. Assumed co-location cost per VA/month of \$0.5933 (includes space, power, cooling, security) and total power consumption estimated at 1650 KVA
Space Repatriation (E)					0.42	0.42	0.42	0.42	0.42	Assumed 70% of ~20k sq feet repatriated @ \$30/sq. ft
Total Cost of Ownership (A+B+C+D-E)		41.75	46.39	49.19	42.29	42.77	42.72	42.72	42.77	

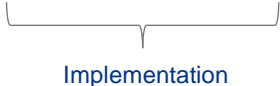
Taking into account the yearly savings and investment outlay of ~\$10m, we calculated the net present value (NPV) to be \$1.35m over an 8 year period, using a cost of capital of 5%.


- The estimated investment required to implement the proposed shared service model is ~\$10m, with an implementation period of 3 years.
- Starting in year 4 (i.e., first year after the implementation is complete), the estimated gross savings in total cost of ownership is \$2.87m, increasing to \$7.44m in year 8. Incremental savings are expected to accrue in future years as the shared service unit continues to optimize operations.
- The payback period for the return on investment is in year 8 (i.e., 5 years after implementation is complete)
- The table below outlines the projected savings, investments, and discounted cash flow

Table 11 – Estimated Savings, Investments and Discounted Cash Flow of the Shared Service Opportunity

All figures are in \$M

Year	1	2	3	4	5	6	7	8
Estimated Savings in TCO	-	(3.53)	(5.20)	2.87	3.61	4.89	6.17	7.44
Project Investments	(5.00)	(3.00)	(2.00)	-	-	-	-	-
Cash Flow	(5.00)	(6.53)	(7.20)	2.87	3.61	4.89	6.17	7.44
Discounted Cash Flow	(4.76)	(5.92)	(6.22)	2.36	2.83	3.65	4.38	5.03
Cumulative Discounted Cash Flow		(10.69)	(16.90)	(14.54)	(11.71)	(8.06)	(3.68)	1.35



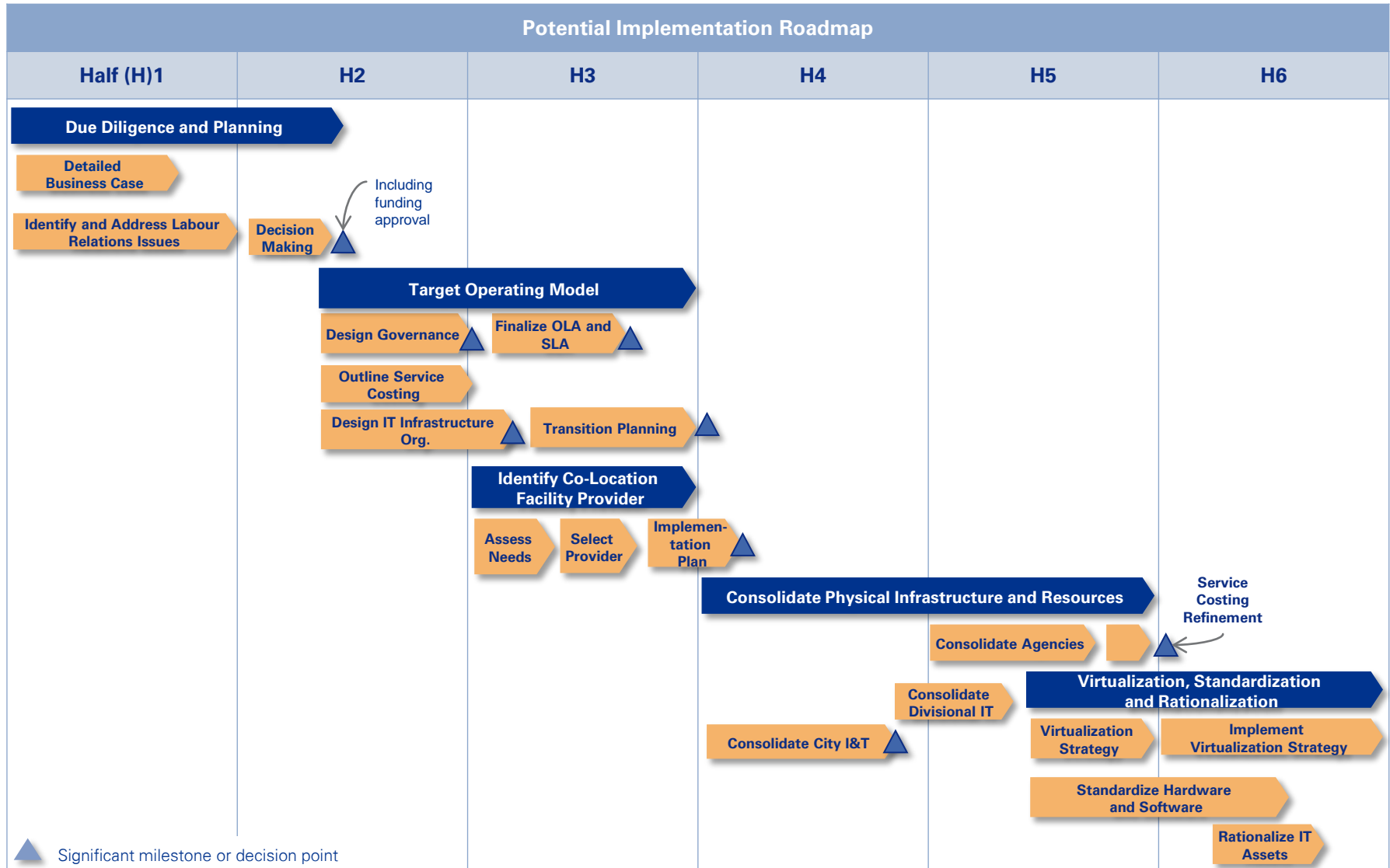


Implementation Considerations

I&T – Shared Service Delivery of Common IT
Infrastructure

I&T – Shared Service Delivery of Common IT Infrastructure

Potential Implementation Roadmap



I&T – Shared Service Delivery of Common IT Infrastructure Workplan & Milestones

	Phase 1 Due Diligence & Planning	Phase 2 Target Operating Model	Phase 3 Identify co-location provider	Phase 4 - Consolidate physical Infrastructure and resources	Phase 5 - Virtualize, Standardize & Rationalize
Objective	<ul style="list-style-type: none"> Decision making with respect to formalizing initiative to move forward with the proposed model Due diligence via detailed business case Address labour relations issues 	<ul style="list-style-type: none"> Detail design of the target operating model 	<ul style="list-style-type: none"> Select a provider that will meet the current and future data centre facility needs (including security and architecture, for both primary site and disaster recover) for City and agencies, with ability to scale up for additional organizations 	<ul style="list-style-type: none"> Move all in-scope physical infrastructure (both primary and secondary) to co-location facility Transition all affected resources into the Shared Services Unit 	<ul style="list-style-type: none"> Develop strategy to gain efficiencies through virtualization, standardization and rationalization Implement strategy and measure / report on efficiencies gained
Key Activities	<ul style="list-style-type: none"> Formalize decision to proceed with the proposed model – this formalization must involve all stakeholders (i.e., divisions and agencies) Perform detailed cost, FTE activity and infrastructure analysis to prepare detailed business case, including the development of a TCO model Identify labour relation issues – this activity will be informed by activities in phase 2 (target operating model) Address labour relations issues 	<ul style="list-style-type: none"> Design and establish full-fledged governance operating model Identify service catalogue and outline service costing mechanism Develop SLA and OLA mechanisms Detailed design the Shared Services Unit Detailed design of the retained service management function Stakeholder consultation and consensus building 	<ul style="list-style-type: none"> Collect and assess data centre needs for all participating organizations, both current and future, for primary and disaster recovery Develop and Issue RFP Select vendor Develop implementation project plan for data centre consolidation and move 	<ul style="list-style-type: none"> Consolidate the City I&T data centres (primary and secondary sites) to the co-location facilities; transition affected City I&T to Shared Services Unit; consolidate divisional data centre equipment and transition staff Harmonize processes Consolidate agency data centres equipment and transition staff Refine service costing Monitor governance effectiveness Develop strategy to repatriate free space 	<ul style="list-style-type: none"> Assess current state of server and storage virtualization; develop and implement virtualization strategy Identify technology platforms (operating system, software, hardware); develop and implement standardization strategy Analyze infrastructure and application footprint; develop and implement rationalization strategy Consolidate 3rd party spend and develop spend rationalization strategy
Inputs	<ul style="list-style-type: none"> Stakeholder consultations Detail cost and FTE data Staff activities IT asset inventory details IT infrastructure details Current contracts Labour Relations constraints 	<ul style="list-style-type: none"> Stakeholder input on governance model design Service level requirements Current service catalogue Current service costing Organization design consultations Current staff terms and conditions Labor Relations Plan 	<ul style="list-style-type: none"> Data centre needs Disaster recovery strategies Market assessment Procurement policies and support Legal implications and support Stakeholder consultation 	<ul style="list-style-type: none"> Signed off implementation and project management plan for consolidation of physical infrastructure Signed off transition plan to transition affected resources Signed off governance model and service level agreement mechanisms 	<ul style="list-style-type: none"> Current state of infrastructure and technology landscape Consensus on vision and guiding principles for standardization, rationalization, and virtualization
Outputs & Milestones	<ul style="list-style-type: none"> Council approval Agency board approval Detailed business case (including benchmark comparison) Business case sign-off Labor Relations Plan 	<ul style="list-style-type: none"> Transition Plan documenting how the shared organization will be staffed Detail design of target operating model Service catalogue, costs, and service level requirements Detailed implementation plan 	<ul style="list-style-type: none"> Data centre requirements Co-location facility RFP Market assessment report Provider selection Detailed transition and milestone plan to implement consolidation and move to co-location facility 	<ul style="list-style-type: none"> Consolidation of all in-scope physical infrastructure to co-location facility provider location(s) Transition of all affected staff into the Shared Services Unit Refined service costing mechanisms 	<ul style="list-style-type: none"> Future state design of rationalized infrastructure and technology platform footprint Measurement of efficiencies gained through standardization, rationalization, and virtualization

I&T – Shared Service Delivery of Common IT Infrastructure

Risk Mitigation Plan

Risk	Mitigating Action(s)
Transformational risk from a federated to shared services model	<ul style="list-style-type: none"> • Adherence to the governance guiding principle of customer centricity • Strong direction and messaging from executive leadership that the shared service unit must operate as a business • Design governance structure such that poor quality service is disputed and resolved effectively and consistently. • Process to develop service costing mechanisms must be transparent and competitive with third party providers
Securing active joint Executive Sponsorship and Key Stakeholder involvement	<ul style="list-style-type: none"> • Engage all relevant stakeholders in the detailed business case process to help ensure early agreement with the target operating model, cost to implement and projected savings. • Reach consensus on the vision and governance model early in the due diligence and planning phase, through extensive stakeholder communication and transparent communication. • Engage all relevant stakeholders in design, implementation planning and consultation process. • Establish a properly defined governance structure based on a shared understanding of vision, business issues and transformation complexity prior to design and implementation planning.
Sustaining commitment and energy	<ul style="list-style-type: none"> • Secure commitment at the onset of the project and involve support of local IT departmental staff and leadership. At the Executive Steering Committee level, flexibility and ability to embrace the new must be exhibited. • Assignment of dedicated project resources, who are committed to building cooperative relationships between parties involved. • Staffing of key program tasks with a blend of external and internal resources to promote ownership and develop forward momentum • Plan for aggressive yet realistic and agreed timelines to avoid delays and inertia which create frustration, uncertainty, and a loss of energy and commitment • Secure adequate funding, support and resources

I&T – Shared Service Delivery of Common IT Infrastructure Risk Mitigation Plan (continued)

Risk	Mitigating Action(s)
Underestimating the people, communication and change management implications for the new delivery model	<ul style="list-style-type: none"> • An effective internal and external communication strategy and change program is essential • Develop a strong vision and strategy communication program, establish advocates in each key stakeholder group
Underestimating the time required for staff training/transitioning	<ul style="list-style-type: none"> • Contingency planning • Develop a people and change agenda augmented by proactive training plans
Retention of key staff during transition to the shared services organization	<ul style="list-style-type: none"> • Identify key critical resources and implement incentive based techniques to retain during transition
Failure to continually establish, communicate and report against meaningful performance measures	<ul style="list-style-type: none"> • Establishment of an effective Program Management Office to oversee the program execution and track key milestones
Potential for a temporary reduction in service delivery, quality and responsiveness.	<ul style="list-style-type: none"> • A detailed transition plan with agreed milestones and deliverables, including a go/no-go decision gate to proceed to the next stage of implementation. • This risk should not be under estimated as the interruption or reduction of core public services may have significant implications.

The cost estimate for the investment required to implement the proposed shared service model is based on a top-down approach using industry standards and KPMG benchmarks to guide the high level estimate for the required investment.

A bottom up approach to determining costs to implement the proposed model will require a detailed business case and associated implementation project plan, which has been identified as the first step in the implementation roadmap.

In determining estimated transition costs for a multi-year IT infrastructure transformation, we have used a broadly accepted industry approach. Typically, the projected savings in the first year after the payback period are used to determine the estimated capital expense for the transformation program.

Referring to the high level outline business case presented earlier in this report (see slide # 167), the projected annual savings in the total cost of ownership in the first year after the payback period (i.e., year 8, assuming 3 year implementation roadmap) is estimated to be ~ \$8.2m.

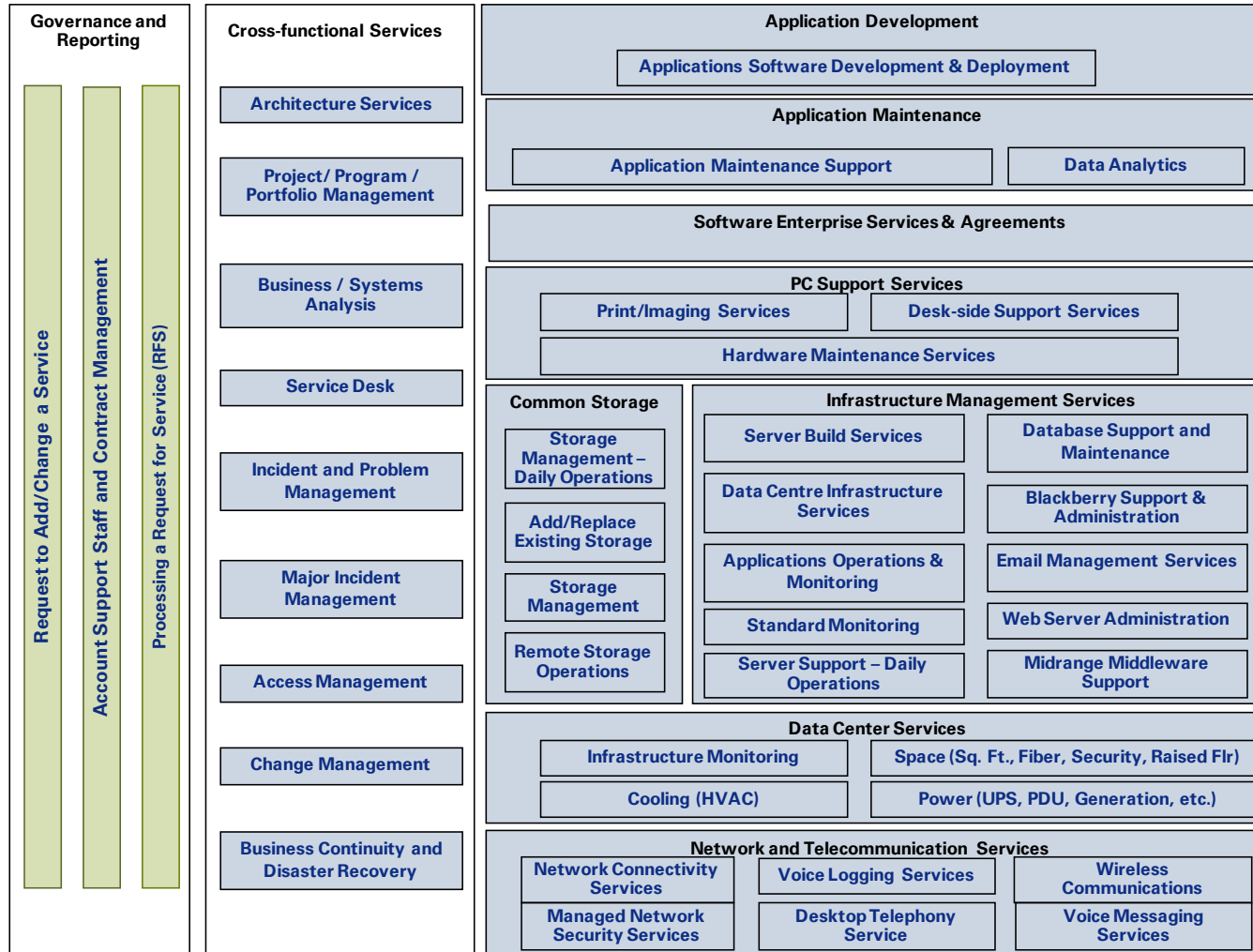
With due consideration to the high level nature of the analysis, the estimated investment (+/- 20%) required to implement the proposed model is approximately \$7m to \$10m.

- These are one-time costs spread across the duration of the implementation.
- 60% to 70% of the costs are expected to be labor costs, and the remaining 30% - 40% are expected to hardware and software.
- The major categories of labor costs are:
 - Procurement and Legal advisory
 - Architectural assistance
 - Project management
 - Program management
 - Change management
 - Labor relations assistance
 - Technical resources and advisory
 - Transition support and execution
- The major categories for hardware and software costs are:
 - Equipment and hardware purchase and deployment
 - Infrastructure management systems purchase and deployment

Supporting Materials

I&T – Shared Service Delivery of Common IT
Infrastructure

Figure 1 – IT Service Delivery Reference Model



Current State Budgeted Operating Costs City I&T (1/2)

97.7m . Of this amount, the TIS section has an estimated annual operating budget of \$46.54m (see table 11)

Using the IT service delivery reference model (see appendix A), the estimated costs of the TIS annual operating budget allocated to Data Centre, Infrastructure Management and Storage Services is ~ \$20.35m (see table 12). This amount does not include costs of space, power, cooling and security that contribute to the total cost of ownership for these services

The TIS units that comprise these costs are shown on the next page (see table 13)

Table 11: City I&T - Breakdown of I&T Service Delivery Groups

I&T Service Delivery Group	# of FTEs	FTE Costs (\$M)	Non FTE Costs (\$M)	Total Costs (\$M)
Business Enablement & Client Services	21	\$ 2.59	\$ 0.09	\$ 2.69
I&T Strategic Planning & Architecture	24	\$ 3.02	\$ 0.38	\$ 3.40
Portfolio Management	22	\$ 2.71	\$ 0.23	\$ 2.94
Solutions Development & Sustainment	180	\$ 17.87	\$ 5.53	\$ 23.39
Technology Infrastructure	236	\$ 24.67	\$ 21.87	\$ 46.54
Finance & Administration (including CIO Office)	23	\$ 2.18	\$ 0.68	\$ 2.86
Projects - Capital and Client Divisions	142	\$ 15.85	\$ 0.00	\$ 15.86
Total	648	68.90	28.79	97.69

Note : Breakdown is based on the 2012 Approved Gross Expenditure Budget and the Complement.

Notes:

- FTEs shown are based on data provided by the City I&T Division
- The data represents budgeted operating costs and FTEs and not total cost of ownership (i.e., costs of space, cooling, power, and security are not included in the operating budget)
- Costs and FTEs have been mapped to the IT service delivery reference model used in this study based on information provided by the City I&T division – KPMG did not perform a detailed activity and cost analysis

Table 12 : City I&T - Estimated budgeted operating costs using the IT service delivery reference model

IT Service Delivery Areas	# of FTEs	FTE Costs (\$M)	Non FTE Costs (\$M)	Total Costs (\$M)	
Data Centre Operations	14	1.32	0.11	1.43	Includes sub-units "Operations Support & Services" and "Data Centre Management" from TIS Unit "Data Centre Operations"
Infrastructure Management & Storage	85	9.42	9.50	18.92	Includes TIS Units "Enterprise System Products", "Infrastructure Management Services", and "Servers and Storage". Also includes sub unit "Production Control" from Data Centre Operations
Sub Total	99	10.74	9.61	20.35	
Network & Communications	32	3.47	10.97	14.43	Includes TIS Units "Network" and "Voice & Wireless". Costs include City-wide centralized voice telecom
PC Support Services	103	10.14	0.47	10.61	Includes TIS Units "Desktop Support" and "Service Desk"
Other IT	414	44.55	7.74	53.42	
Total	648	68.9	28.79	97.69	

Current State Budgeted Operating Costs City I&T (2/2)

Of the 236 FTE in the TIS section of the City I&T Division, there are 99 FTE involved in the delivery of Data Centre Services, Infrastructure Management and Storage Services. Table 5 on this slide identifies these units and the associated costs

Table 13: TIS units mapping to in-scope components in IT Service Delivery Reference Model					
TIS Unit Service Descriptions:		# of FTEs	FTE Costs (\$M)	Non FTE Costs (\$M)	Total Costs (\$M)
Data Centre Operations ⁽¹⁾	Production Control	5	0.44	0.15	0.59
	Operations Support & Services	11	1.06	0.04	1.10
	Data Centre Management	3	0.26	0.07	0.33
	Sub Total	19	1.75	0.26	2.01
Enterprise System Products	Email Services	5	0.58	0.77	1.35
	Directory Services (AD + eDIR)	5	0.55	0.79	1.34
	Enterprise Printing & Fax	3	0.33	0.16	0.49
	Internet Services	6	0.66	0.51	1.17
	Database Management	7	0.77	2.52	3.29
	Electronic Service Delivery (ESD)	5	0.55	0.25	0.80
	Access Management & Security	5	0.60	0.70	1.30
	Sub Total	36	4.03	5.70	9.73
Infrastructure Management Services	Infrastructure Consulting & Coordination ⁽²⁾	5	0.56	-	0.56
	IT Asset Management	3	0.32	0.10	0.42
	Disaster Recovery Implementation	1	0.14	-	0.14
	Sub Total	9	1.01	0.10	1.11
Servers & Storage	Business and Service Management	9	0.99	0.44	1.43
	Server Support & Administration	15	1.75	2.14	3.88
	Storage Management (SAN)	3	0.33	0.63	0.95
	File Services	5	0.55	0.35	0.90
	Technology Lifecycle Management	3	0.33	-	0.33
	Sub Total	35	3.94	3.55	7.49
Total		99	10.74	9.61	20.35

■ Data Centre Services
■ Infrastructure Management and Storage Services

Notes:

- (1) Non FTE costs for data centre operations includes operating charges portion of current co-location costs. A portion of co-location costs are charged as capital expense
 (2) Includes some cross-functional and unit-wide co-ordination activities such as budgeting and infrastructure project management
 (3) Source: City of Toronto and agency data

Current State Budgeted Operating Costs City Divisions

11 City divisions have resources allocated to the delivery of data centre, infrastructure management and storage services

Based on high level estimates provided by the divisions, there are ~20 FTE in total, and an estimated operating cost of ~\$2.9m – see table 14.

Based on information provided, these resources are allocated to the exclusively to providing and managing the IT infrastructure required to support division specific IT environments and applications.

The costs shown here do not include costs for space, cooling, power and security.

Table 14: Divisional IT – Estimates of budgeted operating costs allocated to data centre operations and infrastructure management & storage services

City Division	Data Centre Operations, Infrastructure Management and Storage Services		Comments
	# of FTE	Estimated Budgeted Operating Cost (\$ M)	
Shelter, Support & Housing Administration	0.15	0.02	
Legal Services	-	-	
Toronto Employment & Social Services	5.0	0.65	These are gross costs to support the legislated Provincial SDMT system for the delivery of the Ontario Works Program, which are cost shared 50-50 with Province
Emergency Medical Services ⁽¹⁾	2.5	0.56	The divisional IT group supports exclusively process systems and applications that are associated with the emergency ambulance dispatch, 911 IT integration and patient transport to hospitals. All the other non-emergency business and administrative EMS IT services (desktop telephony, wireless cellular, administrative networks, Internet, e-mail, desktop computer support, financial systems support, scheduling system support) are provided by the Corporate IT group
Children Services	1.8	0.18	
City Clerk	0.9	0.087	
Toronto Fire ⁽²⁾	2.5	0.56	TFS has small group of IT staff that support TFS specific environments. Because it is a small group, and because of the critical nature of our work (emergency dispatch) we tend to have staff cross all service delivery categories
Toronto Water	2.0	0.2	Data Centre (for Process Control System (PCS, a.k.a. SCADA) located at Toronto Water Works Yard. Facility related service is provided by Corporate Facilities (FRED); and security is provided by Corporate Security. Common/Corporate Infrastructure Services are provided by I&T Division TIS Section (paid via IDC, annual charge \$0.60 not included here); divisional IT is a focused service, specifically for PCS/SCADA related infrastructure
311	4.0	0.572	
Long Term Care Homes	0.1	0.01	
Transportation	1.0	0.075	The FTE represented here deliver these services at the Traffic Management Centre, 703 Don Mills. Corporate IT provides support at our Yards and offices
Total	~ 20	~2.9	

Notes:

- (1) EMS provided data indicating 8 FTE in Divisional IT group, with estimated budget (non FTE and FTE) of ~ \$1.855; we have estimated 30% of these resources can be allocated to data centre, infrastructure management and storage. The divisional IT group is 100% funded by the Ministry of Health and Long Time Care for both FTE and non FTE costs. Non-FTE costs include wireless carrier costs for paging and cellular although the service contracts, activations, and administrations are provided by Corporate IT.
- (2) Toronto Fire provided data indicating 8 FTE in Divisional IT group, with estimated budget (non FTE and FTE) of ~ \$1.85; we have estimated 30% of these resources can be allocated to data centre, infrastructure management and storage.

Source: City of Toronto and agency data

Current State Budgeted Operating Costs In-scope Agencies

The total annual IT operating budget for in-scope agencies estimated at ~\$75.95

Using the IT service delivery reference model (see Supporting Materials section), ~\$14.19m of the consolidated in-scope agencies annual IT operating budget is allocated to Data Centre, Infrastructure Management, and Storage Services (see table 15)

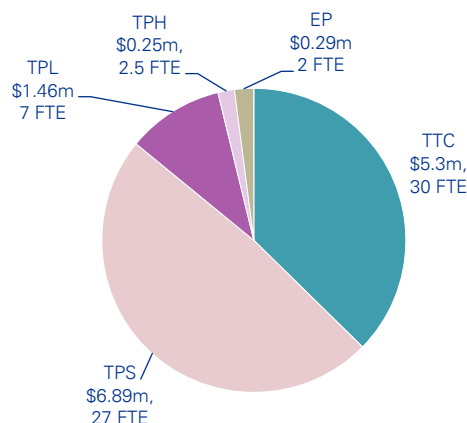
A breakdown of these costs by agency are shown on the following pages of this report

This amount does not include costs of space, power, cooling and security that contribute to the total cost of ownership for these services

Table 15: In-Scope Agencies: Summary of current state budgeted operating cost estimates mapped to IT Service Delivery Reference Model

IT Service Delivery Area	# of FTEs	FTE Costs (\$M)	Non FTE Costs (\$M)	Total Costs (\$M)
Data Centre Operations	14	1.89	1.97	3.86
Infrastructure Management & Storage	55	5.91	4.41	10.32
Sub Total	69	7.80	6.38	14.19
Network & Communications	29	6.79	9.77	16.56
PC Support Services	58	4.36	2.74	7.10
Other IT	307	24.56	13.55	38.11
Total	463	43.51	32.44	75.95

The chart below represents the consolidated costs (estimated at \$14.19m and 69 FTE – see table above), for data centre, infrastructure management & storage across the in-scope agencies:



Source: City of Toronto and agency data

Current State Budgeted Operating Costs Toronto Transit Commission (TTC)

TTC annual budgeted IT operating costs are estimated at \$25.7m

Using the IT service delivery reference model (see Supporting Materials section), ~\$5.3m of the TTC annual IT operating budget is allocated to Data Centre, Infrastructure Management and Storage Services (see table 16)

This amount does not include costs of space, power, cooling, and security that contribute to the total cost of ownership for these services

A breakdown of the non-FTE for data centre, and infrastructure management and storage costs are shown in table 17

Table 16: TTC : Current state budgeted operating cost estimates mapped to IT Service Delivery Reference Model

IT Service Delivery Area	# of FTEs	FTE Costs (\$M)	Non FTE Costs (\$M)	Total Costs (\$M)	
Data Center Operations	7.5	0.6	0.8	1.4	Includes 7.5 FTE from "Computer Operations"
Infrastructure Management & Common Storage	22.5	2.1	1.8	3.9	Includes 7 FTE from "Operations Support" and 15.5 FTE from "Server Technology"
Sub Total ⁽¹⁾	30.0	2.7	2.6	5.3	
Network and Telecommunications	12.0	1.2	3.6	4.8	
PC Support Services	12.0	1.0	1.0	2.0	
Other IT	112.0	9.3	4.3	13.6	
Total	166.0	14.2	11.5	25.7	

Notes

(1) These services are provided by "Technical Services" unit is in the TTC IT department.

Table 17: TTC : Non FTE Cost Details

	(\$000's)
Data Center	
Mainframe and Non Mainframe - HW	105
Maintenance (SW) - Double Take, Symantec and Mainframe	198
Oracle- Development Software	530
Sub Total	833
Infrastructure Management & Common Storage	
Host and Virtual Operating system licenses, database, message, communication etc (SW Maintenance)	625
Processing Devices (HW and Servers)	100
3 VM Hosts, 18 Virtual Servers (HW and Processing)	330
Windows Server, Virtualization (SW Maintenance)	308
Net app for disks (HW)	202
Storage Maintenance/Reporting, Security, Monitoring	160
NetApp Software Purchase and Maintenance for new disk	67
Sub Total	1,792

Source: City of Toronto and agency data

Current State Budgeted Operating Costs Toronto Police Service (TPS)

TPS annual budgeted IT operating costs are estimated at \$33.72

Using the IT service delivery reference model (see Supporting Materials section), ~\$6.89m of the TPS annual IT operating budget is allocated to Data Centre, Infrastructure Management, and Storage Services (see table 18)

This amount does not include costs of space, power, cooling, and security that contribute to the total cost of ownership for these services

Table 18: TPS : Current state budgeted operating cost estimates mapped to IT Service Delivery Reference Model

IT Service Delivery	# of FTEs	FTE Costs (\$M) ⁽¹⁾	Non FTE Costs (\$M)	Total Costs (\$M)	
Data Center Operations	3				Includes: • Infrastructure & Operations Support Services Unit (IOSS) • Customer Service Unit (CSU) support for Blackberry Excludes: • IOSS Computer Access & Change Mgmt • Quality Assurance • Software maintenance costs, but not FTE
Infrastructure Management & Common Storage	24	4.02	2.87	6.89	
Sub Total ⁽²⁾	27	4.02	2.87	6.89	
Network and Telecommunications	11	4.97	3.87	8.84	Includes: • Telecommunication Services Unit (TSU) – numbers are for entire unit, but IT service delivery reference model used in study excludes all radio & MWS related services Excludes: • Software • MWS related services & OT • Callback • Standby
PC Support Services	30	2.06	0.28	2.34	Includes Service Desk from Customer Service Unit (CSU) Excludes Blackberry support & software
Other IT	120	7.92	7.73	15.65	Includes: • Info. Technology Services Unit • Enterprise Architecture Unit • Project Management & IT governance Office Unit • Information Systems and Services Unit • IOSS QA section • Software maintenance costs but not FTE from IOSS, CSU, TSU
Total	188	18.97	14.75	33.72	

Notes:

(1) Salaries, benefits and pensions

(2) Budgeted operating costs, not including cost of space, power, cooling and security

Source: City of Toronto and agency data provided to KPMG in May 2013

Current State Budgeted Operating Costs Toronto Public Library (TPL)

TPL annual budgeted IT operating costs are estimated at \$8.34m

Using the IT service delivery reference model (see Supporting Materials section), ~\$1.46m of the TPL annual IT operating budget is allocated to Data Centre, Infrastructure Management, and Storage Services (see table 19)

This amount does not include costs of space, power, cooling, and security that contribute to the total cost of ownership for these services

Table 19: TPL : Current state budgeted operating cost estimates mapped to IT Service Delivery Reference Model

IT Service Delivery Area	# of FTEs	FTE Costs (\$M)	Non FTE Costs (\$M)	Total Costs (\$M)
Data Center Operations	2.3	0.171	0.117	0.288
Infrastructure Management & Common Storage	4.7	0.479	0.692	1.171
Sub Total	7.0	0.650	0.809	1.459
Network and Telecommunications	2.6	0.263	2.127	2.390
PC Support Services	9.0	0.634	0.411	1.045
Other IT	29.4	2.568	0.877	3.444
Total	48	4.11	4.22	8.34

Notes:

- Include operating FTEs only
- Does not include space and cooling
- Costs estimates provided by TPL (derived using high level activity allocation)

Source: City of Toronto and agency data

Current State Budgeted Operating Costs Toronto Public Health (TPH)

TPH annual IT operating costs are estimated at \$7.41m, excluding inter-departmental charges and corporate overhead charge.

Using the IT service delivery reference model (see Supporting Materials section), ~\$0.25m of the TPL annual IT operating budget is allocated to Data Centre, Infrastructure Management, and Storage Services (see table 20)

This amount does not include costs of space, power, cooling, and security that contribute to the total cost of ownership for these services

Table 20: TPH : Current state budgeted operating cost estimates mapped to IT Service Delivery Reference Model

IT Service Delivery Area	# of FTEs	FTE Costs (\$M)	Non FTE Costs (\$M)	Total Costs (\$M)	
Data Center Operations	-	-	-	-	IDC of \$0.54m - see note 1 and 2
Infrastructure Management & Common Storage	2.5	0.25	-	0.25	
Sub Total	2.5	0.25	-	0.25	
Network and Telecommunications	2.5	0.25	0.12	0.37	COC of \$0.16m - see note 3
PC Support Services	6	0.56	1.00	1.56	COC of \$2.51m - see note 4
Other IT	45	4.64	0.59	5.23	COC of \$1.3m - see note 5
Total	56	5.7	1.71	7.41	Does not include annual IDC of \$0.54m Does not include annual COC of \$3.97m

Notes:

- Costs shown above do not include inter departmental charges (IDC) or corporate overhead charge (COC)
- For the 2012 IDC

■ Notes

- (1) For data centre, infrastructure management and storage services (FTEs and associated costs) in 2012, TPH was billed IDC of \$0.54m for– costs covered TCHIS, SUN, Unicenter, Storage maintenance, Veritas, 3FTE's, ESRI License cost, Corporate Web Service Staff, other undefined
- (2) Of the IDC of \$0.54m, \$0.35m was FTE cost (3.1 FTE) and \$0.19m non FTE cost
- (3) Corporate overhead charge (COC) of \$0.08m for wireless and \$0.08, for telecom
- (4) Corporate overhead charge (COC) of \$2.51m for desktop computing
- (5) Corporate overhead charge (COC) of \$1.13m for application deliveries, \$0.08m for SAP competency centre and \$0.09m for Land Information Toronto

Current State Budgeted Operating Costs Exhibition Place (EP)

EP annual IT operating costs are estimated at \$0.781m

Using the IT service delivery reference model (see Supporting Materials section), ~\$0.185m of the TPL annual IT operating budget is allocated to Data Centre, Infrastructure Management, and Storage Services (see table 21)

This amount does not include costs of space, power, cooling, and security that contribute to the total cost of ownership for these services

Table 21: EP : Current state budgeted operating cost estimates mapped to IT Service Delivery Reference Model

IT Service Delivery Area	# of FTEs	FTE Costs (\$M)	Non FTE Costs (\$M)	Total Costs (\$M)
Data Center Operations	1	0.104		
Infrastructure Management & Common Storage	1	0.081		
Sub Total	2	0.185		
Network and Telecommunications	1	0.104		
PC Support Services	1	0.104		
Other IT	1	0.129		
Total	5	0.522	0.259	\$0.781
Notes: <ul style="list-style-type: none"> • EP did not provide a breakdown of non FTE costs • Total Revenues Earned for Services Delivered \$0.828m 				

Source: City of Toronto and agency data

Current State Budgeted Operating Costs Toronto Parking Authority (TPA)

- TPA did not provide a breakdown of their IT operating costs aligned to the IT service delivery reference model.
- Based on information provided TPA has already outsourced its data centre and infrastructure management & storage requirements – as such, TPA is not included in the proposed model and preceding high level cost analysis



cutting through complexity

Purchasing and Materials Management

Category Management as a Shared Service

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Scope and Approach

Procurement – Category Management as a Shared Service

Executive Summary

Financial Impact

- This model may require an estimated one-time investment of \$500k
- The projected savings are estimated at \$10m annually
- The projected operating costs are anticipated to remain constant

Timing

- Implementation and 'roll-out' of the Procurement Shared Services Unit will take approximately 2 years, with complete transition to a long-term governance model in year 3. This includes a phased take-up of spend categories from the City and agencies and allows for the agreement and establishment of governance arrangements with all the agencies.
- However, there is an opportunity to establish the unit for the City of Toronto divisions in 'Phase 1' and begin delivering benefits. The other agencies could then be introduced in 'Phase 2'.

Benefits

- The main benefit will be in delivered savings on third party spend. These have been estimated at \$10m per annum.

Drawbacks and Risks

- A phased approach to governance arrangements will require additional effort and change.
- Existing capability and skill sets to support the model are unknown.

Description

- The establishment of a Procurement Shared Services Unit ("the Unit") providing category management and strategic sourcing services to the City of Toronto and the City agencies
- In the short-term, the Unit will be housed until the City's PMMD. In the long-term however, the organization will be transitioned out of PMMD to report through a distinct Shared Services Division to the Deputy City Manager/CFO. At a functional level, the Unit will also have a dotted-line reporting relationship to a governing body, made up of representatives from the agencies served. The Unit is funded by these agencies on a pro-rata of spend, and governed by shared service governance leading practices.
- The organization will be made up of a team of Senior Category Managers who report to the Unit's overall Senior Manager. Each Senior Category Manager will be responsible for a portfolio of spend categories and have a team of 'Strategic Sourcing Consultants' and analysts that report to them.

Rationale / Benefit

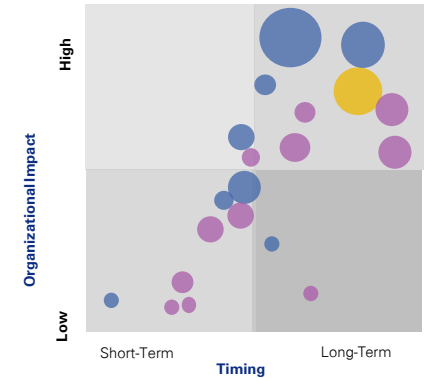
KPMG's own research from the recently published report "The Power of Procurement" highlighted that those organizations that had established mature category management and vendor management achieved better cost savings than their peers.

The City and the other agencies across Toronto have procurement resources that are not realizing their full potential. The establishment of a Procurement Shared Services Unit and supplier relationship management activities will drive improved value and provide opportunity for the development of leading practice category management and contract management for the agencies and the City.

The establishment of a Unit will be able to attract, train, and retain high quality procurement specialists that will deliver quality services to the agencies.

Key Considerations

- The Unit must be seen to add value and deliver benefits above and beyond those that are being delivered by the current procurement organizations.
- The Unit must recognize the ongoing legitimate and unique requirements of agencies.
- Significant labour relations, human resource and legal issues may arise from the transfer of staff from PMMD and City agencies to the Unit.
- Significant change management required.

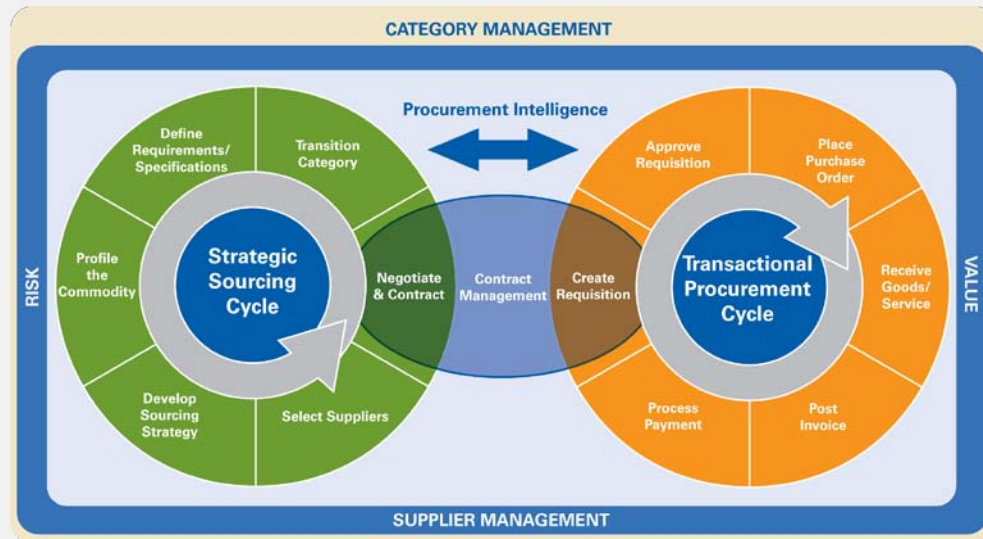


The strategic sourcing cycle was identified as the focus of the shared service study for the procurement function through stakeholder discussions.

The procurement function is comprised of two core processes (see Figure 2):

- Savings from **operational procurement** are achieved by more efficient processes resulting in reduced transactional costs. Achieving these savings involves significant changes to people in the organization, the systems that are used, and the processes in place.
- Savings from **strategic sourcing** are achieved by getting better pricing and improved contracts resulting in cost savings and spend efficiencies. Achieving these savings involves changes to the approach, mindset and focus of procurement resources.
- Implementing changes to achieve savings in the operational procurement cycle requires more investment and take longer to implement whereas the achieving savings in the strategic sourcing cycle has less system implications and requires a smaller investment. Our experience with similar clients shows that the savings potential and achievability is greater in the strategic sourcing cycle. As a result, the remainder of this report describes a target operating model focused on the strategic sourcing cycle.

Figure 2: Procurement Service Delivery Reference Model



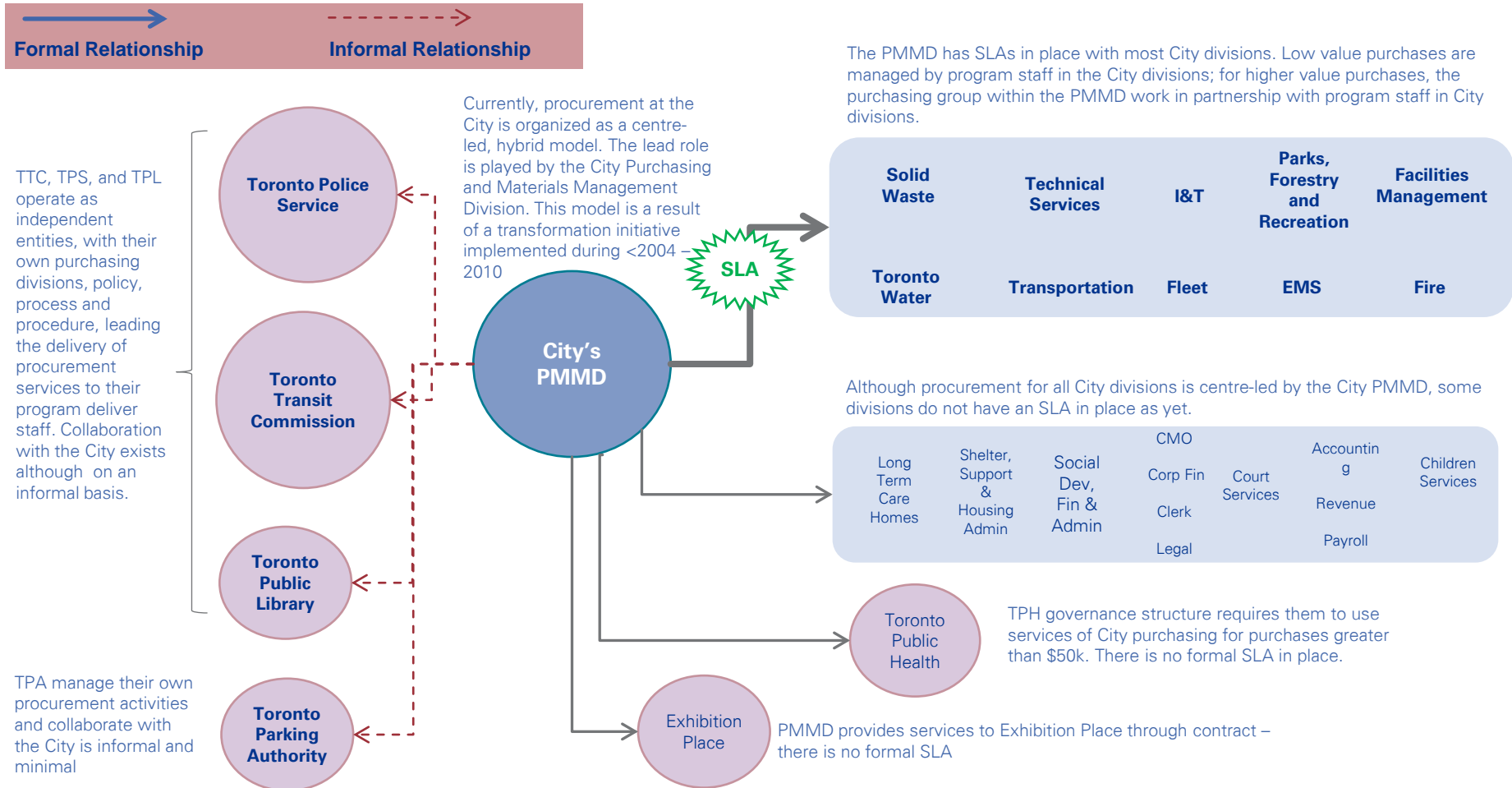
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Current Service Delivery Model

Procurement – Category Management as a Shared Service

Current Service Delivery Model

The diagram below illustrates the current procurement service delivery model. There is no formal relationship with TPS, TTC, TPL and TPA. There is some degree of formality in the City Purchasing and Materials Management Division relationship with EP and TPH. All City divisions are formally centre-led, although there are some divisions who do not have SLAs in place. Services provided by the PMMD to divisions are primarily tactical and reactive to requests for procurement. There is informal collaboration with TPS, TTC and TPL, largely in the form of joint procurement.



Procurement – Category Management as a Shared Service

Current Organization – PMMD

There are 4 groups in the City's Purchasing and Material Division, with 79 positions providing procurement services to most divisions and Toronto Public Health. The estimated gross budget for this organization is \$7.1m.

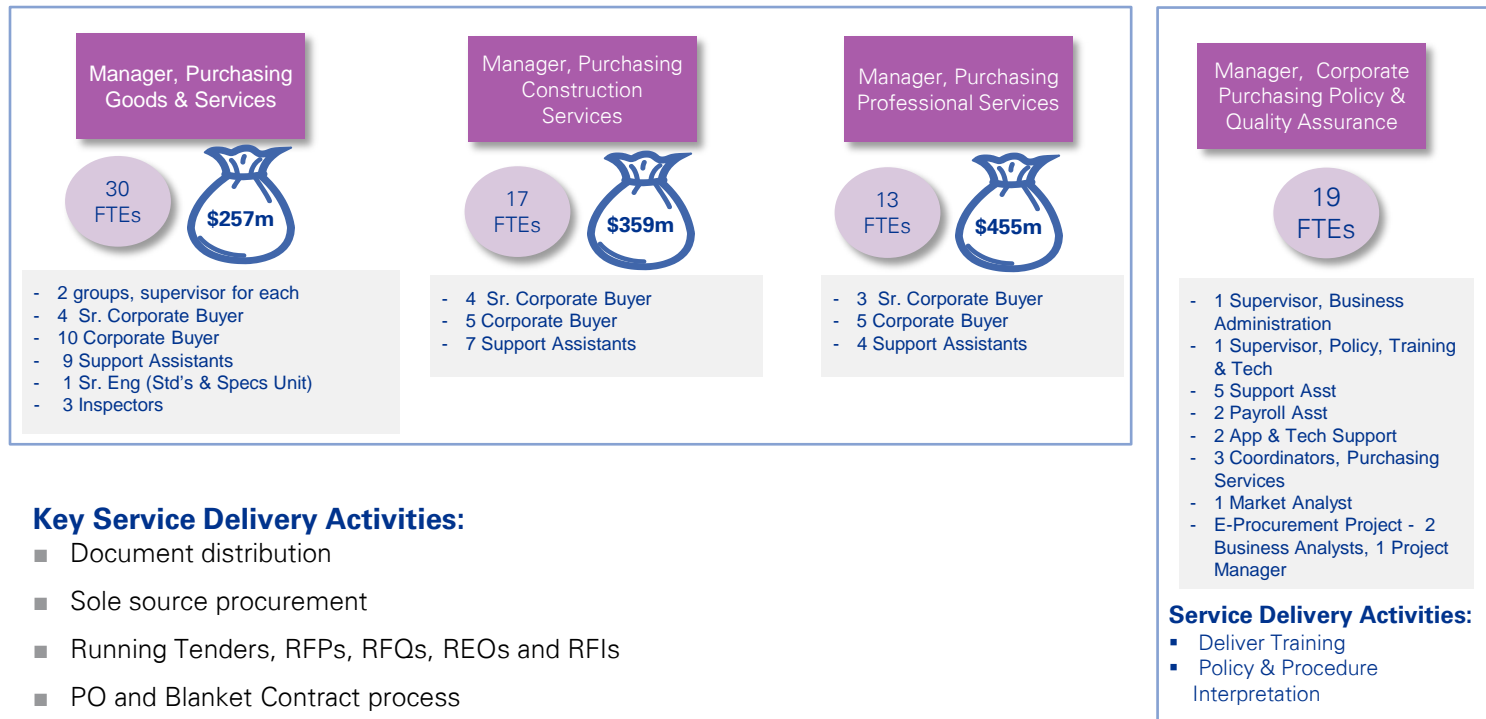
There are staff in divisions who perform procurement activities required to support their program delivery staff. However, this data was not made available during the course of this study.

There is no evidence to suggest that the City PMMD performs category management or strategic sourcing. Although there is some joint procurement across divisions and agencies for some commodities, and efforts to establish blanket contracts are underway, this does not amount to disciplined category management or strategic sourcing.

The diagram below illustrates how procurement service delivery within the City's PMMD is currently organized, the spend managed by each group and the key activities performed. The total spend managed by the Division is ~ \$1.1b.

FTE figures include staff that are dedicated to divisions.

Figure 10 – Categories of City Purchases and Associated Staffing



Key Service Delivery Activities:

- Document distribution
- Sole source procurement
- Running Tenders, RFPs, RFQs, REOs and RFIs
- PO and Blanket Contract process
- Oversight, Compliance and Advisory
- Manage and deliver against service level agreements

Source: City of Toronto and agency data

Procurement – Category Management as a Shared Service

Current Organization – In-Scope Agencies (1/3)

Toronto Police Service (TPS)

- There are 5 dedicated procurement staff in Purchasing Support Services (1 manager, 3 buyers, 1 clerk) – this division has a budget of \$500k. TPS receives no support from the City's Purchasing and Materials Management Division and operate in compliance to their own by-laws. Based on high level rough estimates, an estimated 60-70% of the annual procurement spend is police specific. Specifications and bid documents are prepared by the business units, with Purchasing Support Services guiding the process in compliance with policy and procedure.
- The unit issues over 2,000 purchase order per year.
- The total annual procurement spend is estimated at \$100m – of this amount, annual operational spend is estimated at \$60m and annual capital spend is estimated at \$40m.
- There is some shared procurement with the City – namely gasoline, medical/dental claims, certain vehicle parts and telephone services, however this is not formalized. TPS partners with other police agencies for co-operative purchasing of police items, such as clothing, vehicles and ammunition. There is no evidence of formal, structured, and disciplined category management or strategic sourcing.

Toronto Transit Commission (TTC)

- There are 59 staff involved in the delivery of procurement services at the TTC. These people are directly involved in the buying of goods and services (i.e., the full pre-award cycle from specification preparation through tendering process and award) plus post-award contract administration. These resources are also involved in ensuring commercial compliance, contract management, coordination and payment processing (to some extent). The TTC has their own policies, procedures and systems for procurement.
- The total annual procurement spend is estimated at \$260m – of this amount, annual operational spend is estimated at \$98m and annual capital spend is estimated at \$162m.
- There is some shared procurement with the City (including road salt, diesel fuel, electrical, cell phones and IT) although this is not formalized. There are indications that disciplined contract management is a strength in TTC's procurement function; however there is no evidence of structured category management.

Procurement – Category Management as a Shared Service

Current Organization – In-Scope Agencies (2/3)

Toronto Public Library (TPL)

- There are 3 staff performing procurement services (these staff do not handle procurement of library collections). TPL does not receive any formal procurement support from the City's PMMD, but TPL does participate in a number of City contracts. TPL's procurement processes and policies are modeled after the City's, and TPLs purchasing dollar thresholds are lower, e.g., for sole sourcing and departmental purchase orders. Key activities performed by the TPL procurement group include ensuring the procurement process is competitive and compliant with the purchasing policy and other financial policies, ensuring proper documentation for non-competitive procurement and administering the procurement card program which is established by the City.
- The total annual procurement spend is estimated at \$44 m – of this amount, annual operational spend is estimated at \$20m and annual capital spend is estimated at \$24m.
- There is some collaborative procurement with the City with TPL tapping into some of the City contracts – this is estimated at \$2m (of this amount, \$1m is on office supplies and desktops). There is no evidence of formal, structured and disciplined category management or strategic sourcing.

Toronto Public Health (TPH)

- Procurement services at TPH are delivered as a partnership with the City's PMMD. There are approximately 4.4 FTEs performing procurement activities – main tasks are managing lower value purchases and partnering with the City for higher value purchases.
- The total annual procurement spend is estimated at \$27m.
- There is some shared procurement with the City in terms of TPH leveraging City contracts for specific commodities, including IT equipment. There is no evidence of structured category management or strategic sourcing .
- Purchases over \$50,000 are placed through PMMD.

Procurement – Category Management as a Shared Service

Current Organization – In-Scope Agencies (3/3)

Exhibition Place (EP)

- EP has 3 FTEs performing procurement activities within the agency and is supported by the City's PMMD – this support is formalized through a contract and EP is charged approximately \$25k for buyer services and procurement support); however, there is no formal service level agreement. EP adheres to the City purchasing process and relies on the City to ensure compliance with the fairness process.
- The total annual procurement spend is estimated at \$21m.
- There is some indication of strategic sourcing but it is limited to joint procurement through City contracts and has establishing blanket contracts. There is no evidence of structured category management.

Toronto Parking Authority (TPA)

- Based on information provided, there are no dedicated Purchasing staff in TPA. RFP issuance is performed by business units, and are categorized into three areas (1) construction on car parks, (2) operations (i.e., Snow removal, paving, etc) and (3) administration (i.e., banking, insurance, etc). TPA have their own purchasing by-law and are not subject to the City's thresholds.
- Based on interviews and information provided, the estimated annual operational procurement spend is \$20m.
- There is some indication of collaboration in procurement, however this is limited to purchasing maintenance items from the City, and sharing City contracts for specific items in some commodity groups (for example, email services in IT). There is no evidence of structured category management.

Procurement – Category Management as a Shared Service

Current State – Estimated Total Spend

The total estimated spend consolidated across City divisions and in-scope agencies is approximately \$1.6b. As shown in the pie chart below, the City divisions spend comprises the majority of this spend (69%), followed by Toronto Transit Commission (17%) and Toronto Police Service (8%).

Note: The estimated spend is based on high level budgeted spend data provided by City PMMD and agencies. The data below is not based on a detailed spend analysis.

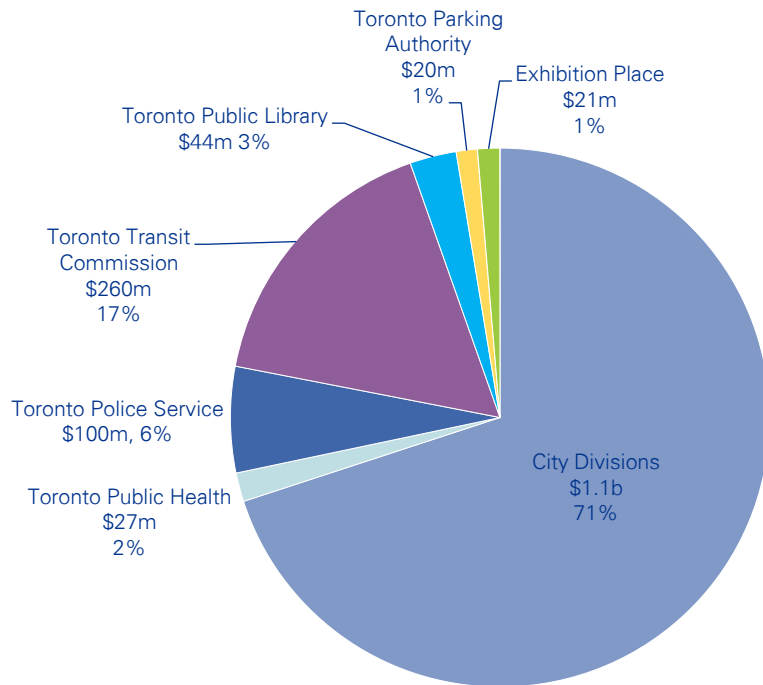


Table 22 – Total Estimated Consolidated Spend Across the City

Organization	Estimated Spend
City Divisions	~ \$1,100m
Toronto Police Service	~ \$100m
Toronto Transit Commission	~ \$260 m
Toronto Public Library	~ \$44 m
Toronto Parking Authority	~ \$20 m
Exhibition Place	~ \$21 m
Public Health	~ \$27 m
Estimated Total Spend	~ \$1.6b

Source: City of Toronto and agency data

Based on our experience, it is expected that roughly 30%- 35% of this amount can be estimated to be the “addressable spend” by the proposed Procurement Shared Services Unit. We describe this concept further in subsequent slides.

Procurement – Category Management as a Shared Service

Current State - High Level Maturity Assessment

KPMG did not conduct a formal maturity assessment but based on conversations with procurement staff from the different organizations (PMMD and in-scope agencies), we observed that procurement is pre-dominantly tactical with little formal emphasis on strategic sourcing and category management.

Although the SLAs that govern the relationship of the PMMD with the City divisions include reference to strategic sourcing, this is limited to consolidating individual spend into a blanket contract. There is no formal strategy for consolidation of spend across divisions and agencies

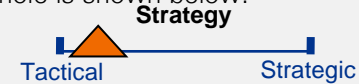
Observations

- The level of procurement experience and training amongst staff differs across the different organizations although staff in the larger agencies, on average, have a higher level of experience and specialism. All organizations, including the City, agreed they did not have sufficient or formalized succession planning.
- The City did have formal development planning and some staff are studying for procurement qualifications.
- None of the agencies are organized on a spend category basis and none of them operate category management*.
- Strategic sourcing is largely confined to operating the Request For Proposals (RFP) processes specific to each agency. Each agency has a different RFP process, although some agencies do participate in some of the City's RFPs.
- Contract management is performed by the end-user divisions with little or no involvement from procurement.
- It was recognized that the different agencies (and the different divisions within the City) may have independent contracts with the same vendors, meaning that contract terms and commercial arrangements may be different. This also means that there is no coordinated supplier relationship management or supplier development.

A high level assessment of the current service delivery model for the procurement lifecycle is shown on the next page.

High level maturity assessment

KPMG has not conducted a formal maturity assessment but a high level assessment taking all the organizations as a whole is shown below:



Procurement is tactical and re-active to business requirements as they occur



Procurement is seen as providing support (rather than leading). There is some cross-agency activities on an informal basis.



Skills exist in pockets across the agencies but these are not being utilized to greatest effect.



Cross agency volumes are only leveraged informally. Sourcing is contract based rather than category based.

* Category Management is defined as "organizing the resources of the procurement team in such a way as to focus externally onto the supply markets of an organization (as against having a focus on the internal customers or on internal Procurement divisional functions) in order to fully leverage purchasing decisions" (The Chartered Institute of Purchasing and Supply)

Procurement – Category Management as a Shared Service

Current State Delivery Model – Gap Analysis

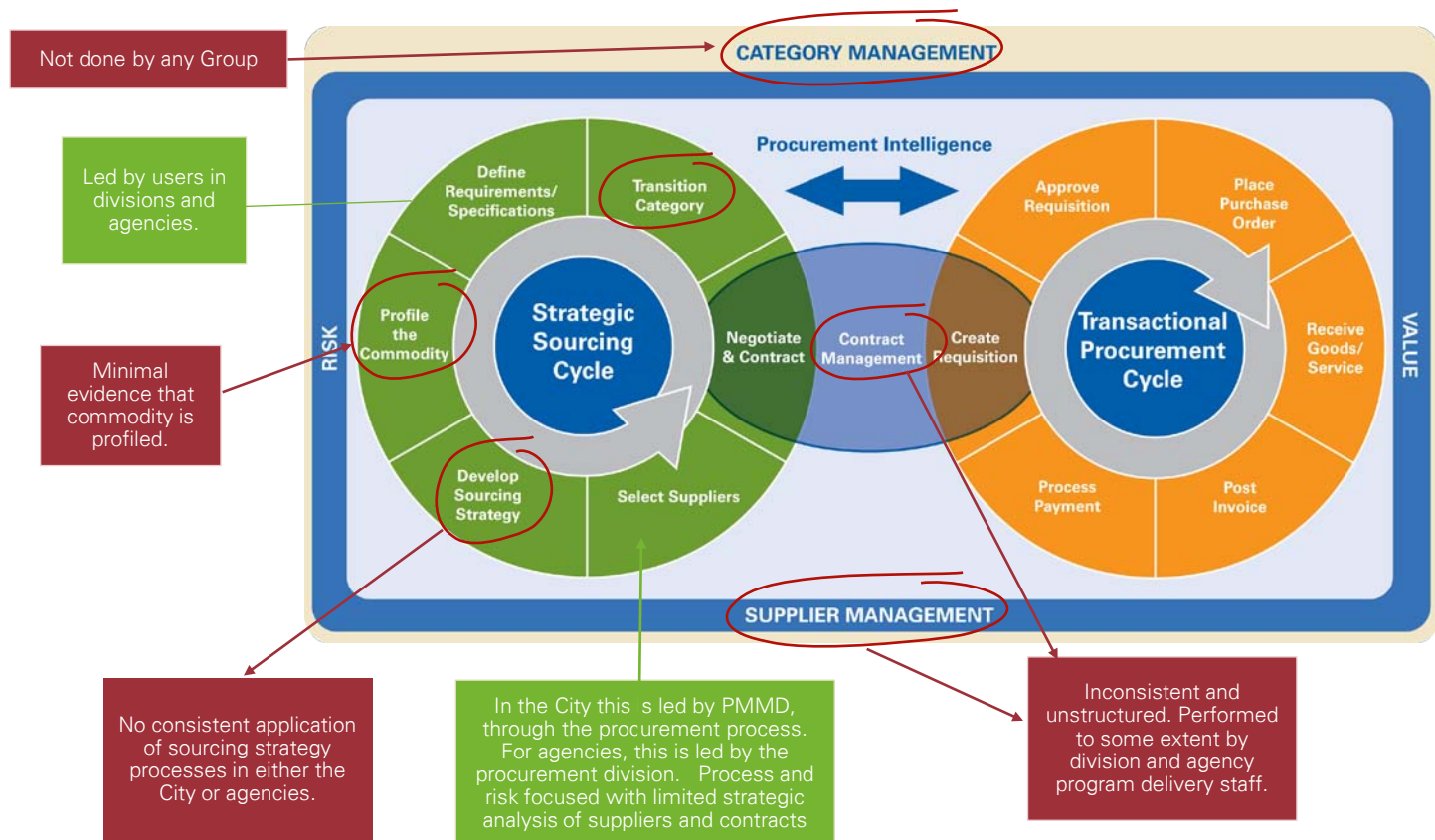
Based on a high level assessment of the current state, key activities in the strategic sourcing cycle are not performed or not performed consistently.

There is no formalized category management, contract management or supplier management processes.

Strategic sourcing is focused on running Request for Proposals (RFP) for individual divisions, or jointly with other agencies for some goods and services. Contracts are designed to allow other agencies to adopt the contract if they require.

The diagram below, shows KPMG's view of procurement. There are two main processes, strategic sourcing and transactional procurement, which are supported by contract management, supplier management, and procurement intelligence. In KPMG's view the optimum way to manage these processes is on a category basis and the combination of this is referred to as category management.

We have indicated our high level assessment of the current situation with regard to these processes within the City and agencies.



Option Analysis

The opportunity for the City and the in-scope agencies lies in a structured approach to managing spend across the organizations and from the application of category management disciplines.

There are a range of options that have been considered that can deliver these two requirements. The shared service model as a Centre of Excellence in category management and strategic sourcing is most likely to maximize the benefits delivered.

The structured spend opportunity

- The City and the in-scope agencies currently collaborate on procurements on an ad-hoc basis as and when they can combine spend and align contracts. Some agencies (such as TPL) adopt City contracts wherever practical.
- There is an opportunity to ensure all common spend is procured collaboratively. This will require clear visibility of all agency and City spend and contracts databases, with one or more individuals assigned to coordinate activities between agencies and the City to identify common spend, align contract end-dates, and facilitate the development of a common approach to the market.
- In this way, the benefit from coordinating spend across the City and agencies can be maximized.

The category management opportunity

- KPMG's recent global survey of procurement functions "The Power of Procurement" found a direct link between an ability to achieve greater cost savings and an overall maturity in category management, strategic sourcing and supplier relationship management. Those organizations that reported either 'excellence' or 'leading' maturity in these areas tended to deliver a higher percentage of savings than their less mature peers.
- The Chartered Institute of Purchasing and Supply (CIPS) defines category management as "organizing the resources of the procurement team in such a way as to focus externally onto the supply markets of an organization (as against having a focus on the internal customers or on internal procurement divisional functions) in order to fully leverage purchasing decisions"¹
- In KPMG's view: category management is about nominating procurement staff to be responsible for all aspects of one or more spend categories – often referred to as a "Category manager".
- Category managers take a pro-active approach to managing these spend categories. Their activities typically include:
 - consolidating the spend across all organizations to ensure a coordinated approach is taken with the market
 - undertaking portfolio analysis to establish the best strategy for managing the category
 - monitoring the market for innovations that will bring additional benefits
 - managing vendors in their categories (both those with contracts and without) to maintain and improve value
 - working with their internal customers to understand current and future requirements and develop plans to meet them
 - bringing innovations to their internal customers and encourage them to consider new and alternative ideas

¹ Source: CIPS Knowledge Works: Category Management, July 2007

Procurement – Category Management as a Shared Service

Options Analysis – Alternative Organizational Models

The table opposite summarizes the potential options that would deliver the opportunities and help realize the benefits to varying degrees.

The establishment of a Procurement Shared Services Unit has the benefit of clear lines of governance and responsibility, whilst being independent enough to move swiftly.

During the ‘challenge session’ with stakeholders there was general feeling amongst the representatives that a consortium was the best solution.

In the view of KPMG, a consortium would not deliver the greatest benefits, but is likely to be met with the least degree of resistance.

Table 23 - The alternative organizational models to support the delivery of coordinated spend and category management

Option	Description	Pros	Cons
Informal collaboration	This is the current situation with the agencies and the City collaborating, when practical (as contracts and spend allows)	<ul style="list-style-type: none"> Relatively easy to administer Organizations are free to join the collaboration or not on a contract-by-contract basis 	<ul style="list-style-type: none"> Coordination of spend is not optimized. There is limited action to align contracts and coordinate medium / long term strategies
The establishment of category management disciplines in the City's PMMD	The largest third party spend is with the City therefore the greatest proportion of savings achieved from applying category management disciplines will be achieved by the City.	<ul style="list-style-type: none"> There is a single management structure and policy requirements, making it relatively quick to apply without the need for agreement from the other agencies 	<ul style="list-style-type: none"> Only the City benefits (except where there are ad-hoc arrangements or a formal SLA with the City as at presents) There are no benefits of collaboration or combined spend
Formal SLAs for agreed upon spend categories between the City and agencies	<p>One procurement organization agrees to manage a spend category for several or all other organizations on their behalf. The lead organization agrees upon an SLA with the other organizations and is responsible for managing the spend, RFP and contract(s).</p> <p>All the common spend categories are allocated to lead organizations for them to manage.</p>	<ul style="list-style-type: none"> All the common spend is managed and coordinated across the organizations. The SLA should ensure the organizations receive the service they require. 	<ul style="list-style-type: none"> There are no formal governance arrangements and there might be a temptation for the lead organization to agree upon contracts that best meet their requirements The organizations' procurement divisions continue to operate independently. RFP and contract management processes are different and there is no formal sharing of leading practice.
The establishment of a procurement consortium	All procurement organizations form a consortium with agreed upon governance arrangements. The organizations work collaboratively together on common spend categories	<ul style="list-style-type: none"> Spend categories are managed across all organizations and activities are coordinated Individual organizations within the consortium ensure their requirements are met. 	<ul style="list-style-type: none"> Procurement resources within the organizations must find time to attend the consortium meetings. Progress is often slower than individual organization . There is no leader of the consortium and more complex categories are often too difficult for the consortium to manage.
The establishment of a separate Procurement Shared Services Unit	An independent Procurement Shared Services Unit ("the Unit") is established to manage all the common spend categories. Governance arrangements are established and SLAs are agreed upon with each organization.	<ul style="list-style-type: none"> The Unit has clear leadership and is able to develop the optimum strategic sourcing solutions. The Unit becomes a Centre of Excellence and offers this support to the individual organizations. 	<ul style="list-style-type: none"> Organizations fear a loss of control over their contracts Staffing can be an issue if people are seconded on different terms and conditions from different organizations Individual organizations may not be able to reduce their head count, resulting in a net increase in staff overall.

Procurement – Category Management as a Shared Service

Options Analysis – Case Studies

Two case studies for a Consortium and a Procurement Shared Services Unit highlight the key differences between the two types of organization.

Table 24 - Case Study – Consortium (United Kingdom)

Organizations	Description	Method of operating	Spend and savings achieved	Comments
A consortium of 9 municipalities within a greater city area	The consortium was established to help the municipalities collaborate on a number of areas including procurement. The objective was to share leading practice and deliver savings for the organizations	<ul style="list-style-type: none"> Each member organization sent their head of procurement to sit on the consortium steering committee. Areas of overlapping spend were identified and sub-committees were established for each category. Each municipality took responsibility for managing one or more of the overlapping spend areas and for managing the RFPs in this spend area - on behalf of the consortium members. At each critical 'stage-gate' of the RFP process the sub-committee would meet to sign-off that stage-gate and approve specifications, documentation, evaluations etc. 	<ul style="list-style-type: none"> The 9 municipalities spent approximately \$2b per annum The consortium managed approximately \$100m of that spend (5%) And achieved a maximum run-rate savings of approximately \$3m on that spend 	<ul style="list-style-type: none"> The municipalities viewed collaborative procurement as an extra requirement of the day job, which lead to limited success due to conflicting priorities, insufficient resources, and lack of authority to drive things forward. Those projects that were successful had robustness of the project management provided by external resources who ensured the governance arrangements were in place to secure the commitment of the municipalities to provide resources and to realize the benefits.

Table 25 - Case Study – Procurement Shared Services Unit (Canada)

Organizations	Description	Method of operating	Spend and savings achieved	Comments
A Procurement Shared Services Unit providing procurement, IT and HR services to 8 regional organizations	The Procurement Shared Services Unit was established to provide service in a number of areas including procurement. The Unit took responsibility for all aspects of procurement including category management and strategic sourcing	<ul style="list-style-type: none"> The Unit took responsibility for managing all procurement spend across the 8 organizations. It created a standardized strategic sourcing process and prepared and managed all RFPs. RFPs were developed by bringing together all the key stakeholders for the specific area of spend across the organizations and agreeing specification, RFP documentation, selection criteria, etc. RFPs were published and managed by the Unit and vendor responses were evaluated by the key stakeholders. Contracts were awarded by the Unit and implementation was managed by the Unit with consultation and the support of the key stakeholders. 	<ul style="list-style-type: none"> The 8 organizations spent approximately \$500m per annum The Unit managed all of this spend (100%) And achieved a maximum run-rate savings of approximately \$12m on that spend 	<ul style="list-style-type: none"> The Unit took responsibility for the spend and actively led the procurement activity. They were able to drive the process and guide the key stakeholders to ensure the optimum solution was achieved. Governance was established through a executive board of CEOs of the organizations, that agreed on the priorities for the Unit and ensured that appropriate key stakeholder resources were made available from the organizations.

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Proposed Shared Service Operating Model

Type of Service:

- Procurement Category Management, including:
 - Sourcing strategy
 - Contract negotiation
 - Vendor management

In-Scope:

- All third party spend where there is overlap with the City and the agencies

Out of Scope:

- Purchase-to-Pay (P2P) transactional activities

Value Proposition

- Better value third party spend contracts through leveraging total spend and procurement resources across the City and agencies

The proposed model is a single Procurement Shared Services Unit to deliver category management and strategic sourcing services for all City divisions and agencies within scope of this business case.

The overall goal of the proposed model is to establish a mature category management capability and a disciplined strategic sourcing practice spanning all City divisions and participating agencies. The establishment of a Procurement Shared Services Unit with this objective will drive improved value for the City and the agencies, realized in terms of spend efficiency and cost savings.

In order to implement the desired future state, we propose a 2 step approach.

Step 1: The development and implementation of category management disciplines within the City's PMMD.

The City's PMMD would be re-organized and re-trained to manage procurement spend on a category management basis to deliver maximum value for all City divisions through the implementation of strategic sourcing.

This can be achieved relatively rapidly, without the need to gain agreement from each of the agencies or to establish governance arrangements.

Step 2: Establish the Procurement Shared Services Unit as a new entity, delivering services to the agencies.

This would start in parallel with Step 1 commencing with spend and contract analysis and developing and agreeing on the segmentation of spend categories. At the same time, the governance arrangements for the Unit would be developed and agreed upon with each of the agencies. Additionally, the Unit would begin to demonstrate the value of category management and strategic sourcing.

Once the necessary governance arrangements had been agreed upon, the organization would be established on a phased basis by migrating staff and spend from both the City and the agencies into the Procurement Shared Services Unit in a series of 'waves'. In the short-term, it is anticipated that this Unit will fall under the purview of PMMD. In the long-term, following achievement of steady-state operations, it is proposed that the Unit be transitioned permanently to the Shared Services Division, reporting to the Deputy City Manager/CFO.

Step 1: Category management disciplines within the City PMMD

Category management is concerned with considering spend on a category basis rather than on a contract basis. Categories are aligned to the supply markets (such as 'IT Hardware' and 'office supplies', etc.) and will often contain more than one contract and be consumed by more than one division or agency).

A strategy is developed for each category of spend that considers the medium term (and possibly long term) requirements of the consuming divisions and agencies. PMMD will take responsibility for developing a clearly defined category strategy and ensuring key stakeholders agree and support the implementation of that strategy.

Category strategies may include a range of activities that will increase value for the divisions and agencies such as:

- consolidating spend and running coordinated RFPs (that present a common and consistent approach to the market)
- reviewing specifications and working with key stakeholders to develop the most appropriate specification that
 - reduce the cost of supply to the supplier
 - encourage or even enable suppliers to bid for the business (hence encouraging competition)
 - allow for alternative solutions from suppliers
 - et cetera.
- considering the most appropriate approach to the market (perhaps by combining the spend with other similar spend that the suppliers can also supply)
- encouraging new suppliers into the market, where there are too few
- identifying new innovations in the market and considering how they could benefit the divisions and agencies

The development and implementation of these category strategies is led by the Procurement Shared Services Unit who will work with key stakeholders to ensure their technical and business requirements are met.

All key category decisions are made jointly with the key stakeholders.

Step 2: Establish the Procurement Shared Services Unit as a new, separate entity from PMMD and the agencies

The establishment of a Procurement Shared Services Unit ("the Unit") will provide the opportunity for the development of leading practice category management, contract management, and supplier relationship management activities, which in turn will drive improved value for the agencies and the City.

Strategic sourcing procurement resources will be 'pooled' into the Procurement Shared Services Unit, which will provide services to the City and other City agencies. Ultimately, the Unit will fall under the Shared Services Division of the Deputy City Manager/CFO (as illustrated further on pages 214-218).

Administratively, it is preferred that the Unit will report through the Shared Services Division to the Deputy City Manager. At a functional level, the Unit will also have a dotted-line reporting relationship to a governing body, made up of representatives from the agencies served. The Unit will be funded by these agencies on a pro-rata of spend, and governed by shared service governance leading practices. In contrast to the Shared Services Secretariat described in the Cross-Functional Recommendations, the Shared Services Division and its units will be permanent organizations which will not be dissolved following implementation of the shared service recommendation.

The Unit will be made up of a team of Senior Category Managers who report to the Procurement Shared Services Unit's overall Senior Manager. Each Senior Category Manager will be responsible for a portfolio of spend categories and will have a team of 'Strategic Sourcing Consultants' and analysts that report to them.

There will also be support functions providing procurement intelligence, spend and database management etc.

The establishment of a Procurement Shared Services Unit will be able to attract, train, and retain high quality procurement specialists that will deliver quality services to the agencies.

Procurement – Category Management as a Shared Service

Scope: Segmentation of Spend Categories

The Procurement Shared Services Unit will manage a portfolio of categories of spend – but not all.

The segmentation is based on whether these categories are A) procured by all (or nearly all) the agencies across the City, B) procured by a few agencies, or C) only 1 agency.

An initial high level review of spend categories that are common to more than one agency suggest the spend that would be directly managed by the Unit would be approx. \$350m of annualized spend.

A key enabler for the proposed model is the segmentation of spend categories into three segments

Table 26 – Spend Categories

Spend categories				
	Description	Managing organization	Typical activities by the managing organization	Support from the Procurement Shared Services Unit
A	Spend categories common to all or nearly all divisions and agencies	The Procurement Shared Services Unit	<ul style="list-style-type: none"> Identifying and consolidating City and agencies upon requirements Agreeing upon contracts that meet City and agencies requirements Identifying and introducing innovations Managing contracts and vendors, and Continuously introduce added value 	N/A
B	Spend categories common to 2 or more organizations (but not most)	The Procurement Shared Services Unit	<ul style="list-style-type: none"> Identifying requirements for participating agencies Agreeing upon contracts for participating agencies Identifying and introducing innovations Managing contracts and vendors and Continuously introduce added value 	<ul style="list-style-type: none"> Manage the lead representatives and co-ordinate their activities
C	Spend categories unique to local agency	The local agency	<ul style="list-style-type: none"> Agreeing upon contracts as required by the local agency 	<ul style="list-style-type: none"> Manage the lead representatives Provide procurement specialist advice and support to lead

Segments A and B

- For spend categories that are common to some or many of the agencies there is an opportunity to combine the spend and agree upon preferential contracts with vendors.
- The contract need not be a 'one size fits all'. The Unit could agree upon a common 'core' contract with variation appropriate to each agency. Similarly there could be more than one contract and vendor.
- The opportunity comes from going to market with a common and consistent approach.

Segment C

- Where the spend category is unique to the agency this spend should continue to be managed by the local agency, but the Unit would be available to provide specialist procurement support.

Procurement – Category Management as a Shared Service

Scope: Segmentation of Spend Categories(2)

The Unit provides procurement category management services to the participating organizations for categories of spend that are common or purchased by two or more organizations

Spend that is unique to individual organizations remains with those organizations. The Unit only manages spend where it can provide additional value to the participating organization.

The spend categories are divided in to 3 segments:

- 'A' - spend categories common to most organizations
- 'B' - spend categories common to two or three organizations
- 'C' - spend categories unique to an individual organizations

[managed by the Unit]

[managed by the Unit]

[managed by the organization]

Table 27 - Estimate of the spend that will be managed by the Unit and that will remain in the City and agencies²

Organization	Estimated Spend managed by Procurement Shared Services Unit (A+B)	Estimated Spend managed by Organization (C)
	\$ M	\$ M
City of Toronto (inc TPH 10/2)	~ 400 m	~ 700 m
TPS	~ 40 m	~ 90 m
TTC	~ 26 m	~ 233 m
TPL	~ 13 m	~ 27 m
TPA	~ 10 m	~ 33 m
EP	~ 15 m	~ 6 m
Estimated Totals	~ \$504 m	~ \$1,089 m

Table 28 - Suggested categories that will be managed by the Unit and the estimated combined spend²

	Total spend
	\$'000
Professional Services	\$126,000
Construction Services	\$116,000
Computer & Office Equipment	\$38,000
Food	\$22,000
Clothing	\$19,000
Automotive	\$17,000
Security Systems	\$16,000
Electrical Supplies & Services	\$16,000
Chemicals	\$14,000
Horticultural Supplies/Service	\$13,000
HVAC Supplies/Services	\$11,000
Oils/Lubricants/Fuel Oils	\$11,000
Telecoms	\$9,000
Janitorial Supplies/Service	\$8,000
Stationary Supplies	\$6,000
Others	\$62,000
Total	\$504,000

² Source: Based on spend data provided by PMMD and the agencies

Procurement – Category Management as a Shared Service

Suppliers & Customers of the Service

	Entity	Interest in Proposed Service Delivery Model
Supplier	<ul style="list-style-type: none"> The Procurement Shared Services Unit will act as a procurement 'agent' for the City and agencies. Vendors will deal with the Unit and conform to the Unit's required tendering and contract management policies and procedures 	<ul style="list-style-type: none"> Suppliers will benefit from dealing with a single organization and only have to bid on 1 contract rather than up to 6. Supplier will also have the opportunity to win all the spend across the City and the agencies. Supplier will also have category managers who are interested in discussing new ideas, products and services and working with suppliers to improve the relationship.
Customer	<ul style="list-style-type: none"> City agencies and divisions including the City of Toronto divisions currently served by the City's PMMD division 	<ul style="list-style-type: none"> These customers will expect the Unit to provide procurement services that include: <ul style="list-style-type: none"> Commercial support for running tenders and RFPs Contract management support Vendor management services including the identification of innovations, quality improvements, and reductions in the total cost of ownership. Transactional management of the P2P processes currently in place in each agency The Unit will also actively seek to understand each agencies' and divisions' requirements and adjust their service to meet those needs. Specifically the Unit will continuously look for opportunities to improve the service it provides (see service delivery standards)

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Organization and Governance

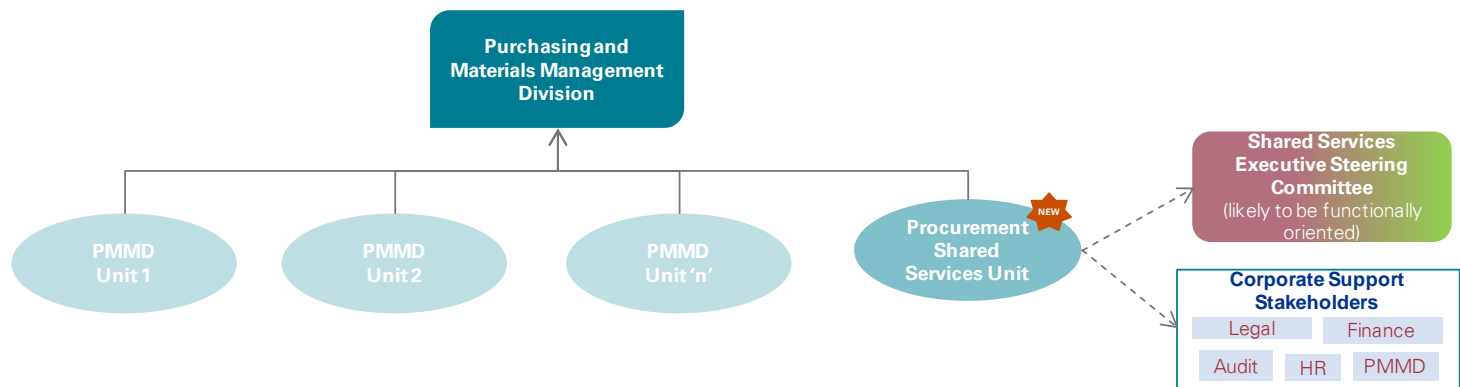
The shared service procurement model could be implemented in phases, involving two different governance models.

Short-Term (Transition) Governance Model

In the short-term, it is recommended that a shared services unit be created under the existing Purchasing and Materials Management Division. The formation of a Shared Service Unit under an existing City Division avoids the creation of new major organizational structures and associated administrative supports, while still ensuring that shared services receive distinct focus. It is proposed that this governance model be utilized until the Unit has reached a plateau in its maturity; at the point that the Unit is in a steady state of operations it is proposed that it transition to the long-term governance model described on the following page.

Administratively, the Unit, led by a Manager, will report to the Director of PMMD. The Unit will also have a dotted line reporting relationship to a Shared Service Executive Steering Committee with representatives from all participating agencies. The Unit is an organization comprised of a pool of strategic sourcing procurement professionals, providing services to the City and its agencies. It is envisioned that the Unit can be staffed using existing complement within PMMD and from participating agencies, provided that the requisite skills and abilities exist within the staff pools (see pages 219-222). Utilizing staff from both the City and agencies will ensure the most appropriate resources are placed within the Unit and that sufficient understanding of client needs and history exists.

The structure of the proposed short-term governance model is illustrated below:



Long-Term (Preferred) Governance Model

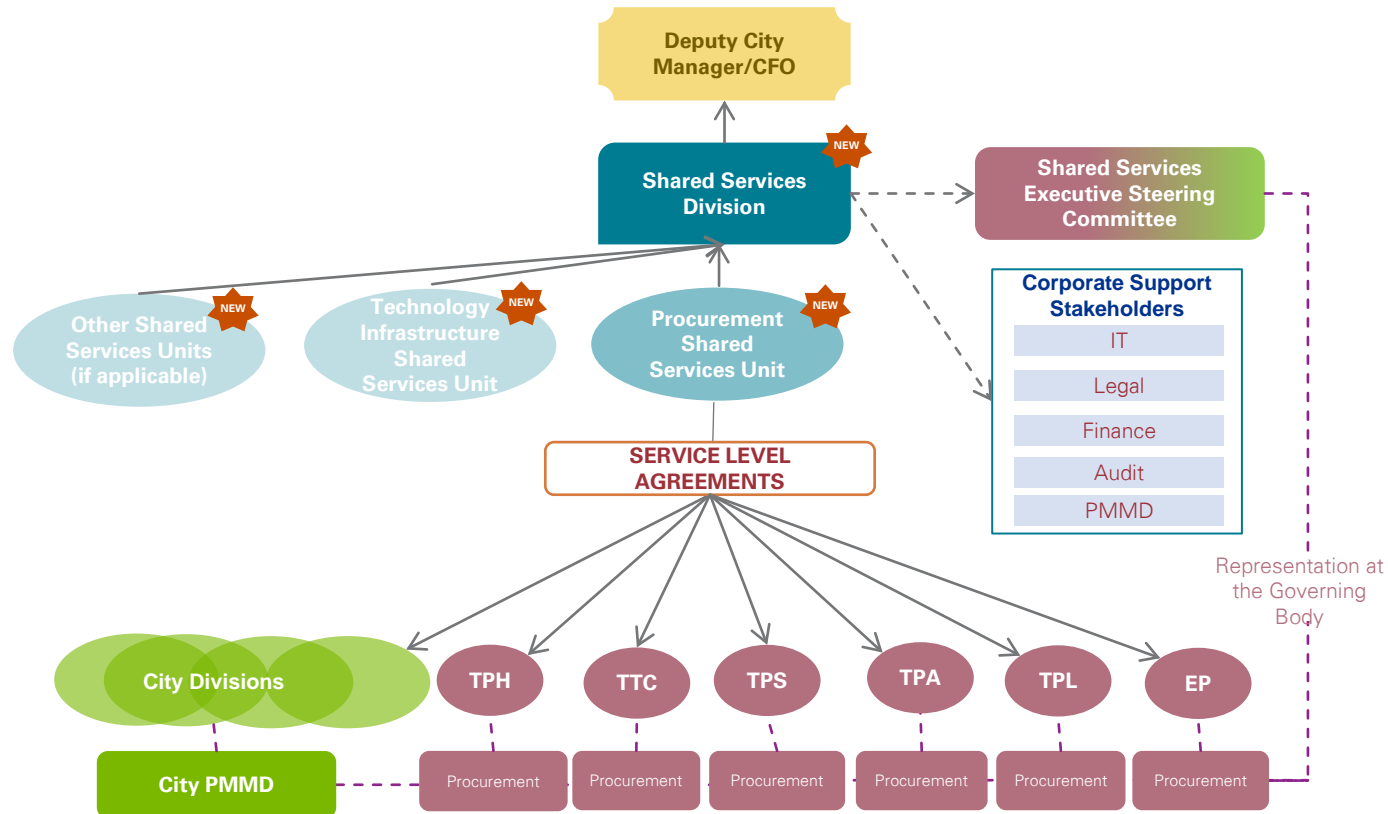
In the long-term, it is proposed that the Procurement Shared Services Unit be transitioned under a new Division focused on the operations and continuous improvement of shared services in the City. It is thought that this transition will also coordinate with the readiness of the IT Infrastructure Shared Services Unit to begin delivering shared services (as described on pages 148-188).

Thus, it is proposed that a new Division be created under the Deputy City Manager and Chief Financial Officer (CFO) titled the Shared Services Division (SSD). In contrast to the Shared Services Secretariat, the Shared Services Division is envisioned to be a permanent structure. The SSD contains units for each function requiring ongoing and dedicated shared service support and leadership, including the Procurement Shared Services Unit. The creation of an SSD separates shared services from the internal functional units which focus solely on supporting City divisions. As a result, the SSD creates a structure with perceived independence from City Divisions, a factor which was deemed to be critical to the success of shared services by participant agencies.

It is anticipated that the SSD would be led by a Director, with Senior Managers leading each functional unit. Administratively, the Unit reports through the Director of the Shared Services Division to the Deputy City Manager and CFO. At a functional level, the Unit will also have a dotted-line reporting relationship to a governing body, made up of representatives from the agencies served. The Unit would be funded by these agencies on a pro-rata of spend and is governed by shared service governance leading practices.

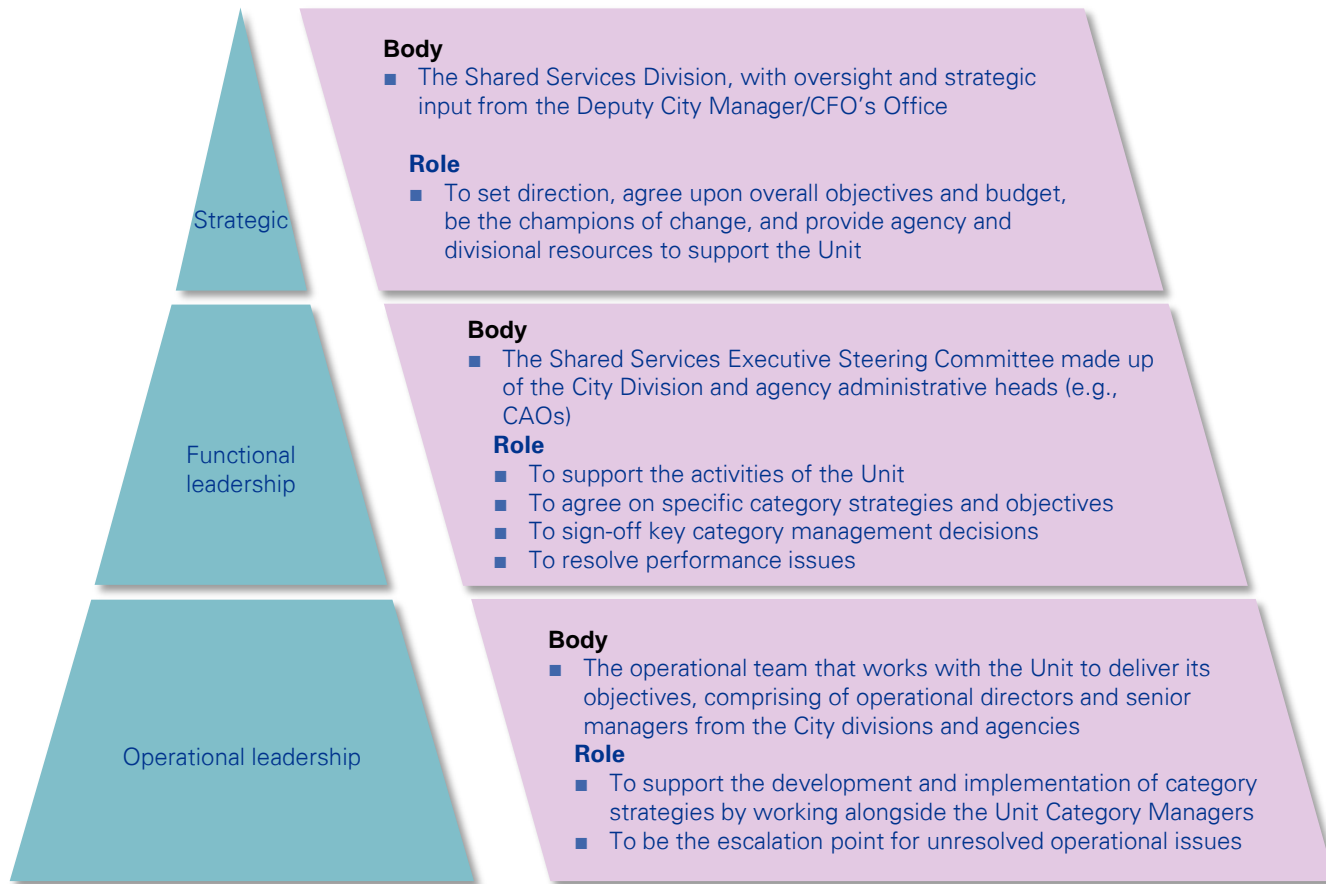
As in the previous governance model, the Unit will be staffed using existing City and agency procurement professionals. The structure of the proposed long-term governance model is presented on the following page.

Long-Term (Preferred) Governance Model



Complex organizations delivering complex services must have complex governance arrangements.

The governance arrangements will be established to ensure there are clear lines of control at the strategic, functional, and operational leadership levels. These are described below.



Procurement – Category Management as a Shared Service Organizational Model

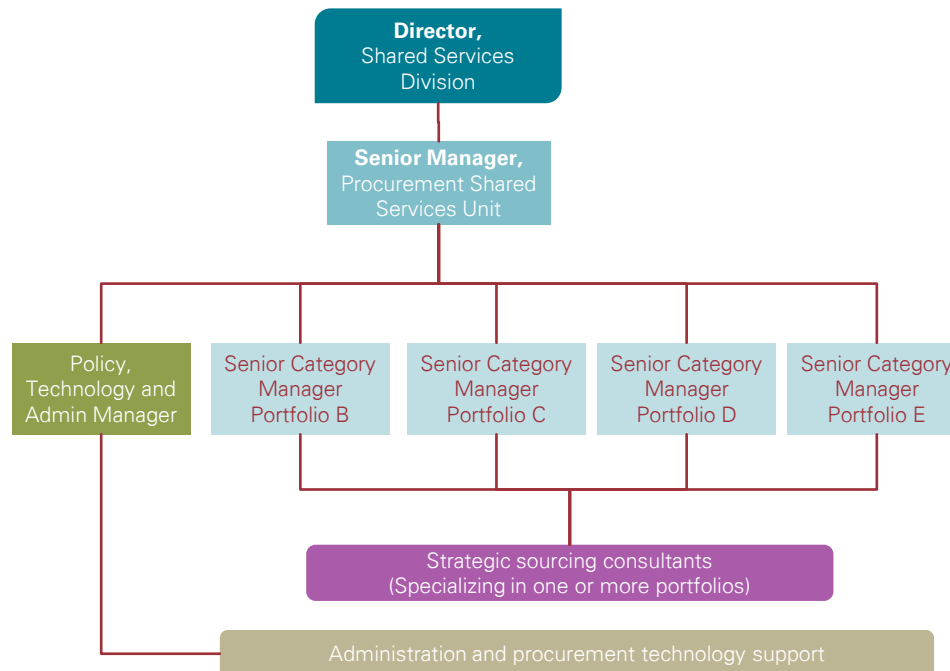
The proposed Procurement Shared Services Unit is expected to be made up of a team of Senior Category Managers who report to the Senior Manager of the Unit.

Each Senior Category Manager will be responsible for a portfolio of spend categories and will have a team of 'Strategic Sourcing Consultants' and analysts that report to them. These resources would have the responsibility to manage all aspects of one or more spend categories.

It is envisaged that there will also be support functions providing procurement intelligence and spend and database management etc.

The number of resources required to operate this model have not been examined in detail. It has been assumed that existing resources within the City and its agencies can be dedicated to the new Unit. A detailed analysis of the skills of current staff is required to ensure that this is feasible or whether additional staff may be required.

An outline of the proposed organization model for the Unit is shown below, with key skills, roles, and responsibilities described on the pages that follow:



Procurement – Category Management as a Shared Service

Role Synopsis – Senior Category Manager

Element	Description
Role	<ul style="list-style-type: none"> ■ Drive the development, implementation, and execution of strategic sourcing and procurement for a category of goods and services
Major Responsibilities	<ul style="list-style-type: none"> ■ Manage activities of their category ■ Oversee a team of Strategic Sourcing Consultants for their specified category ■ Understand market conditions, supplier markets, trends, and category technical requirements and specifications ■ Develop the long-term procurement strategy for their category in co-operation with key stakeholders ■ Monitor and drive analysis of overall spend for their category ■ Ensure effective implementation of procurement policy ■ Facilitate development of procurement plan and master workload schedule for their category ■ Identify opportunities to achieve best value, develop strategic alliances and implement leading practices ■ Lead major strategic sourcing initiatives for their category by leading a team that includes budget holders and 'users' of the goods or services. ■ Drive implementation of contracted agreements and ensure contract compliance and performance monitoring ■ Support contract negotiations as required
Authority	<ul style="list-style-type: none"> ■ To develop and implement strategic sourcing strategies for their categories ■ To lead RFPs and vendor negotiations ■ Sign contracts on behalf of client agencies and divisions ONLY with the appropriate budget holder(s) authorization

Procurement – Category Management as a Shared Service

Role Synopsis – Strategic Sourcing Consultant

Element	Description
Role	<ul style="list-style-type: none"> ■ Provide procurement solutions to meet client needs
Major Responsibilities	<ul style="list-style-type: none"> ■ Lead the development of sourcing strategies related to their sub-categories focused on customer service and total cost of ownership ■ Understand market conditions, supplier markets, trends, and sub-category technical requirements and specifications ■ Develop the long-term procurement strategy per sub-category in co-operation with key stakeholders ■ Identify opportunities to achieve best value, develop strategic alliances, and implement leading practices ■ Coordinate and conduct strategic procurements on behalf of the region ■ Engage appropriate stakeholders (function and region) to participate in procurement activities ■ Facilitate development of and reviews technical requirements and evaluation criteria from clients ■ Write tender documents (e.g., RFP, RFI, RFQ, etc.) in consultation with clients ■ Ensure participating suppliers are qualified and conduct appropriate due diligence ■ Lead negotiation of agreements and contracts with suppliers, such that user requirements are met in a cost-effective manner ■ Prepare agreements and contracts with suppliers ■ Ensure appropriate supplier audit and performance control are in place ■ Determine and manage the supplier relationships within the portfolio in terms of performance, quality, and cost ■ Monitor implementation of contracted agreements and manage contract compliance and performance monitoring
Authority	<ul style="list-style-type: none"> ■ To publish RFP, RFI, RFQs etc with written authority from the Senior Manager

Procurement – Category Management as a Shared Service

Role Synopsis – Policy, Technology and Admin Manager

Element	Description
Role	<ul style="list-style-type: none"> ■ Promote the adoption of leading practice in procurement across the City Council and agencies.
Major Responsibilities	<ul style="list-style-type: none"> ■ Provide advice and guidance to divisions and agencies on all aspects of procurement ■ Promote the adoption of and contribute towards the development of modern procurement methods, particularly e-procurement tools ■ Assist with the development and implementation of procurement training for managers and others involved in procurement ■ Manage a team of procurement administrators ensuring they provide the level of service required by the Senior Category Managers and Strategic Sourcing Consultants ■ Carry out reviews of service provision for specific functions and to support projects established for best value reviews and business process re-engineering exercises ■ Ensure auditable systems and procedures are in place for all procurement activity and that probity is maintained ■ In co-operation with colleagues from other directorates and agencies, ensure the support and continued development of the procurement elements of the City Council and other agencies' websites and intranet pages ■ Assist with the development and promotion of the City Council's procurement strategy and policies
Authority	<ul style="list-style-type: none"> ■ To develop and with appropriate sign-off implement the procurement strategy and policies

The table at right list some of the areas of expertise, skills, and abilities desired in a procurement professional and the associated level of experience desired for each role. At a high-level, the Procurement Shared Services Unit must contain varying degrees of experience and skill in the following areas:

- Category Management
- Sourcing
- Contract Law and Regulations
- Purchasing
- Supplier Management
- Cost Management
- Policy
- Leadership

Table 29 – Skills Matrix

Skill, Attribute or Area of Expertise	Senior Category Manager	Strategic Sourcing Consultant	Policy, Technology & Admin Manager
Category Management			
Market Analysis	Expert	Proficient	Basic
Spend Analysis	Advanced	Proficient	Basic
Savings Plans	Expert	Proficient	Basic
Procurement/Capacity Planning	Expert	Proficient	Basic
Collaboration	Expert	Proficient	Basic
Sourcing			
Strategic Sourcing	Expert	Advanced	Basic
Business Requirements	Expert	Advanced	Basic
Tender Document Preparation	Advanced	Advanced	Basic
Tender Process	Advanced	Advanced	Advanced
Supplier Evaluation & Selection	Expert	Advanced	Advanced
Negotiation	Expert	Proficient	Basic
Contract Law and Regulations			
Federal, provincial and municipal regulations	Expert	Proficient	Advanced
Organization terms and conditions	Expert	Advanced	Advanced
Supplier terms and conditions	Expert	Proficient	Advanced
Contract development	Expert	Proficient	Advanced
Purchasing			
Transactional Process	Proficient	Proficient	Basic
Exception Handling	Proficient	Proficient	Basic
Supplier Management			
Supplier Assessment/Segmentation	Expert	Proficient	Basic
Supplier Performance Management	Expert	Proficient	Basic
Supplier Development	Expert	Proficient	Basic
Supplier Relationship Management	Expert	Proficient	Basic
Contract Management	Expert	Proficient	Basic
Cost Management			
Cost Analysis	Expert	Proficient	Basic
Cost Management Approaches	Expert	Proficient	Basic
Cost Targets	Expert	Proficient	Basic
Policies			
Financial	Expert	Proficient	Advanced
Procurement	Expert	Advanced	Expert
Leadership and Management			
Leadership	Expert	Proficient	Advanced
Project management	Expert	Proficient	Advanced
Stakeholder management	Expert	Proficient	Advanced
Facilitation	Expert	Proficient	Advanced
Problem solving	Expert	Proficient	Proficient
Customer orientation	Expert	Proficient	Advanced
Communication	Expert	Proficient	Advanced
Risk analysis	Expert	Proficient	Advanced
Influencing	Expert	Proficient	Advanced

Performance Metrics:

- Savings achieved by agency
- Request response times (days)
- RFP turn-around times (days)
- Number of calls conducted by buyers per year
- Number of contracts that have expired
- Number of contracts that will expire within the next 6 months
- Number of contracts that have been extended
- Number of innovations proposed by Unit
- Value of savings achieved by Innovations (as opposed to normal procurement activity)

The Unit will measure and report performance in terms of benefits, service, and costs – these will be monitored and used to assess the Unit's performance.

Service Standards

A formal Service Level Agreement (SLA) should be established between the Procurement Shared Services Unit and each City agency and division, separately. It should be recognized that different agencies will have different service requirements and for the Unit to be successful, it must ensure it delivers the same standard as the service currently delivered by the agencies' current procurement divisions. In some cases the City of Toronto PMMD division provides some services to some City agencies and this would form the basis of the new arrangement with the Unit, but it should be recognized that the Unit will be providing all the procurement services (not just those that the agency 'picks-and-chooses') so the Unit will have to agree on a more extensive SLA. The service standards that should be in the SLA include:

- Response times to request for support with an RFP
- Turn-around times for preparing and publishing an RFP
- The process for renewing contracts that are nearing expiry and the maximum allowable percentage of contracts that have expired at any one time (where the Unit has been informed of the existence of the contract)
- The process for authorizing the extension of a contract and the maximum percentage of contracts that are in an "extended" state at any one time
- The number of innovations proposed by the Unit each year (as a proportion of the number of contracts or spend managed by the Unit on behalf of the agency)
- The value of savings achieved (as a proportion of spend) each year and the definition of savings
- The extent to which an RFP is assessed by customers to meet their individual needs

Payment Mechanisms

Payment will be on the basis of an agreed contribution from each City division and agency that receives a services from the Unit. The payment mechanism will consist of a fixed fee that can be adjusted (up or down) by the Unit exceeding or failing to meet it's service targets. These service targets and this adjustment will be specific to each agency serviced. Any excess funding will be returned to the agencies serviced by the Unit (on a pro-rata basis) and any deficit will be carried over with the Unit's budget being adjusted to pay off the deficit the following year. As agencies will be required to pay for the full cost of the Unit, the Unit will need to put measures in place to manage its costs to keep in line with general budget increases/decreases at the City.

Opt in/out mechanisms

Mechanisms should be established for agencies and the City to opt in or out, but these should be relatively strict. Agencies should need to specify the commercial or service related reasons for opting out and should be approved by the governing committee. Vendors will be less inclined to give the best value to the Unit, if they believe they can contract directly with the agencies, thus the Unit needs to be able to tell vendors it manages the spend. However, the agencies need to be able to meet their own requirements and to ensure the Unit is motivated to do so, the agency should have the ability to opt out or withhold payment.

Benefits	Drawbacks
<p>Improved procurement services provided to the City's agencies resulting in:</p> <ul style="list-style-type: none"> ■ Improved contracts and management of contract – leading to better services from vendors ■ Reduced 'total cost of ownership' for goods and services contracted, with savings realized within 18 months ■ Better and more innovative solutions to goods and services delivered by vendors ■ Shorter elapsed times for running RFPs and tenders due to an increasingly proactive approach to tendering and pipeline management ■ Less contracts being un-intentionally extended ■ More spend under contract and ultimately reduced risk for the agencies 	<ul style="list-style-type: none"> ■ Agencies must formally recognize the cost of procurement services (by paying fees to the Unit), whereas at present they may be using staff not allocated to procurement to deliver procurement services ■ While the majority of Unit staff will be sourced from PMMD, additional support may be sourced from City agencies. Consequently agencies may have difficulty "extracting" staff to move to the Unit and/or may have difficulty reducing the staffing costs to cover the fees now paid to the Unit ■ Moreover, labour relations, human resource, and legal issues may arise from the transfer of staff from PMMD and City agencies to the Unit ■ Requires some agencies to invest staff resources on the premise that savings will be the payback for both operating and any capital costs ■ The proposed model represents a significant business process and structural organizational change with change management complexities and considerations for PMMD, agencies, and divisions ■ Not all participants will realize the same quantum of savings and benefits ■ Restrictions may be imposed that do not currently exist

Enablers

- Transparency of spend data from all agencies and City divisions
- Low cost support tools (in order for the Unit to develop and drive a medium and long term strategy):
 - Spend consolidation and analysis tool
 - Contract's database and reporting tool
 - Service Level capture and reporting tool
 - Tools for communication between staff located at the different agencies (for example desk-to-desk video conferencing)
- Agreed-upon mechanisms for capturing spend, contract and vendor performance information from the agencies on a routine basis.
- Interest and approval for agency staff to participate as staff in the Unit
- Sufficient skills, capability and experience for all staff likely to transition across to the Unit
- Change Management
 - Since the majority of staff to populate the Unit will come from the City of Toronto's PMMD division, the most significant change management requirements will be the need to focus on changing the current PMMD's 'ways of working'.
 - The Unit will need to provide services to City agencies in a manner that suits the agency, rather than 'force fitting them' to the current ways of working.

Dependencies

- Council and board approval and potential participation in governance model
- The new Joint Governing Committee will need to be established and SLA, objectives, fees, and budgets will need to be approved before the new Unit can be established
- The new Unit will require infrastructure (in the form of offices, IT hardware, payroll services, network and telephone services, etc.) and therefore will most sensibly be 'hosted' at one of the organizations. The obvious choice is the City of Toronto but consideration should be given to one of the other larger agencies, if only because it sends a signal that "something has changed" and people must therefore change their behaviors.
- Categorization of spend into 'A', 'B' and 'C' groups and agreement from all stakeholders on spend segmentation.
- Detailed business case, based on spend analysis, segmentation, and review of contracts to provide strong evidence of savings and potential value add of a dedicated Unit for strategic sourcing and category management

During the Challenge Session with key stakeholders from agencies and the City Purchasing division, the following additional challenges were raised – these must be considered in the design of the Procurement Shared Services Unit:

- The difference between category management and joint procurement is met with skepticism in some instances across City divisions. Training is required to introduce structured category management and strategic sourcing as a new approach to optimizing procurement and drive savings.
- If the proposed model were to involve a transition of staff from within the agencies, labor relations and union impact would need to be considered. Further, there may be resistance from senior procurement resources from agencies to change from the current service delivery model to the proposed shared service model – seconding of resources was proposed as a plausible solution to address this challenge.
- From an operational perspective, mechanisms would need to be implemented to enable the establishment of a master contract, with associated sub-contracts for each participating organization.
- City purchasing by-laws and procedures are more onerous compared to in-scope agencies. Additionally, the City has a fair wage policy which is perceived to make it difficult for the City to get the best price from the market. The design and governance model of the proposed Procurement Shared Services Unit would need to resolve these challenges. Key stakeholders proposed that legislative processes related to public sector procurement may be a hindrance and the proposed Procurement Shared Services Unit would need “non-binding” processes and procedures.

Procurement – Category Management as a Shared Service

Estimate of Savings Potential

Categories of Potential Savings

It should be expected that the Unit will achieve savings in both third party spend reduction and reduced overall operational budgets (when compared to the combined cost of the procurement resources across the agencies at present).

Type of savings	Estimated Addressable Spend (\$M)	Estimated Annual Savings Potential	
Procurement savings on external spend from: <ul style="list-style-type: none"> - retendering - negotiation - substitute goods/services - improved specifications - demand management 	~ \$500 m	2%	~\$ 10 m

Assumptions

1. Third party spend savings: Industry benchmarks suggest an average annual savings of 3.4% of total spend. Allowing for the fact that the Unit will have a range of diverse agencies to service, the forecast has been set at 2%.
2. Labour: The median for public sector organizations is 93 FTE/\$billion and the top performers achieve 49FTE/\$billion. Therefore a reasonable target of 65 FTE/\$billion has been used.
3. It is anticipated that savings can be realized within 18 months of implementation. Timing of savings related to third party spend is dependent on the expiry dates of existing contracts.
4. A detailed analysis of existing contracts, expiry dates, values, commodities, and prices was not conducted by KPMG. Such analysis should be conducted during the detailed business case development.

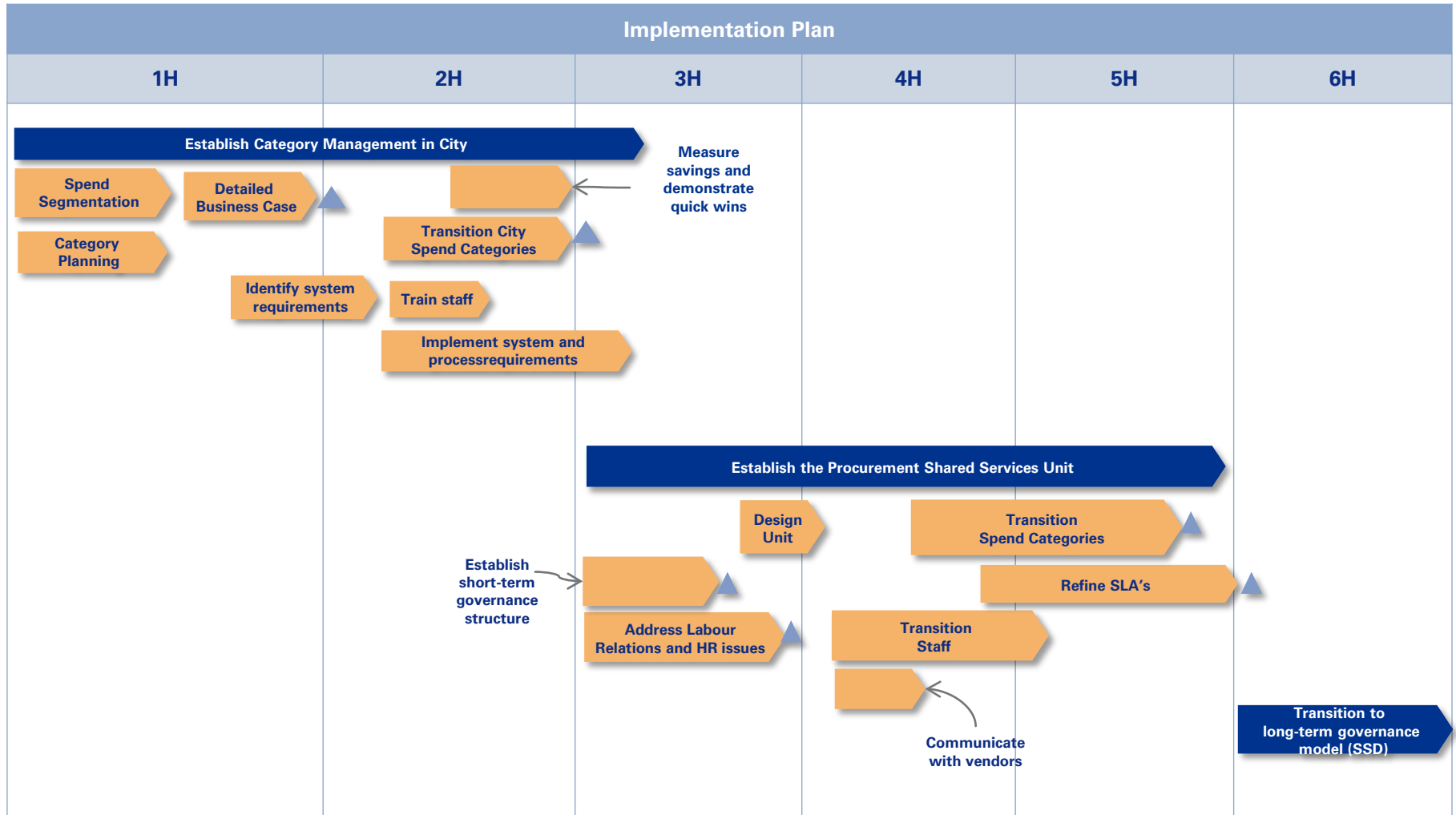
Implementation Plan

Category Management as a Shared Service

Procurement – Category Management as a Shared Service

Workplan & Milestones

	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Objective	Detailed design and implementation planning	Consultation	Implementation of category management in the City PMMD	Establishment of the Procurement Shared Services Unit short-term governance arrangement	Implementation of the Unit in a series of waves of categories
Key Activities	<ul style="list-style-type: none"> Spend analysis and segmentation Category planning and category savings opportunity identification Governance arrangements design and SLA development eProcurement systems review, process requirements and specification development Job/role description development Business case preparation and detailed blueprint design Implementation planning 	<ul style="list-style-type: none"> Consult and agree with unions on how to recruit/transition staff into the Unit 	<ul style="list-style-type: none"> Assess and select staff Train staff Agree upon staff objectives Transition City categories Select and implement eProcurement system Develop reporting Modify City governing board and agree upon standing orders for the board Develop reports, metrics, and KPIs 	<ul style="list-style-type: none"> Communicate agreed upon changes and implications to vendors Establish Unit governing boards and agree upon standing orders for the boards Develop reports, metrics, and KPIs 	<ul style="list-style-type: none"> Assess, select, and train staff Agree upon staff objectives Transition categories on a waved basis Demonstrate “quick wins” and savings Transition eProcurement system Develop reporting Establish routines for on-going category development and benefits delivery
Inputs	<ul style="list-style-type: none"> Spend data Organization charts Staff activities Contracts register and specific contracts Current RFP processes Procurement policies 	<ul style="list-style-type: none"> Job roles and staffing requirements Current staff terms and conditions 	<ul style="list-style-type: none"> Business case and category plans Agreed upon governance arrangements SLAs 	<ul style="list-style-type: none"> Business case Agreed upon governance arrangements SLAs 	<ul style="list-style-type: none"> Business case and category plans
Outputs & Milestones	<ul style="list-style-type: none"> Detailed business case implementation plan Specification and recommendation for eProcurement system Category savings opportunities and plans Business case sign-off Council and board approval 	<ul style="list-style-type: none"> Agreement from unions as to how to recruit/transfer staff to the new organization Agreement on staff terms and conditions 	<ul style="list-style-type: none"> Delivery of category benefits for the City 	<ul style="list-style-type: none"> Establishment of governing board Establishment of reporting protocols 	<ul style="list-style-type: none"> Delivery of category benefits Establishment of on-going category benefits delivery



▲ Significant milestone or decision point

While the Shared Services Division and Shared Services Secretariat will both play key roles during implementation, the following individuals and groups will also play major roles in the implementation of the operating model.

Entity	Role	Activities
Customers (i.e., the City and Agencies)	Provide guidance and resources to help the team develop the detailed plans and implementation plan	<ul style="list-style-type: none"> ■ Identify and document user requirements ■ Provide Unit and Secretariat with information and data, as required ■ Identify and dedicate resources to participate in Unit ■ Identify implication on existing roles and Collective Bargaining Agreements (CBA) ■ Assist in identifying and assessing skills and competencies among existing staff
Unions	Work with City Employee and Labour Relations Unit to ensure that Unit can be implemented within the constructs of existing or amended collective bargaining agreements (CBA)	<ul style="list-style-type: none"> ■ Negotiate and agree upon the method for staffing the new Unit ■ Work with the City to ensure alignment with CBA
Human Resources	Assist the Unit and Secretariat in identifying and managing the human resource and labour relations issues associated with the model	<ul style="list-style-type: none"> ■ Identify implication on existing roles and CBAs ■ Assist in identifying and assessing skills and competencies among existing staff ■ Assist in developing role descriptions ■ Assess and determine pay grades
Legal Services	Assist the Unit and Secretariat with any legislative or legal needs or issues	<ul style="list-style-type: none"> ■ Assist in identifying and assessing contract implications with existing suppliers ■ Develop standards terms and conditions for new contracts

Risk	Mitigating Action(s)
The Unit will have to serve several City agencies and may find it must compromise on the service offered to one agency in order to serve another.	<ul style="list-style-type: none"> ■ Service Level Agreements must be comprehensive and agreed upon with each agency. Failure to meet the SLAs should result in some form of penalty for the Unit to ensure it is incentivized to meet the SLAs
The Unit will have to comply to the public procurement requirements and may introduce overly ridged requirements in order to reduce risk of being challenged by vendors.	<ul style="list-style-type: none"> ■ The Unit should agree upon the approach and level of risk that each agency and the City is prepared to take. The Unit should point out the risks and agree upon the approach with each agency for each category
Agencies may not be prepared to pay the fees required to deliver the service they request.	<ul style="list-style-type: none"> ■ The service must offer increased value for the agencies, and this value must be several times greater than the cost to the agencies.
The Unit may be hindered from achieving its SLA requirements because the agencies' current procurement clients are unable or unwilling to support the Unit.	<ul style="list-style-type: none"> ■ Governance arrangements will be establish to prevent this. Similarly the allocation and/or return of the benefits achieved should be established so that the agencies and the City are motivated to work with the Unit
The agencies may be concerned that the City will get preferential treatment with the City being the largest consumer of the Unit's services.	<ul style="list-style-type: none"> ■ Service Level Agreements must be comprehensive and agreed upon with each agency. Failure to meet the SLAs should result in some form of penalty for the Unit to ensure it is incentivized to meet the SLAs for all agencies
Ability to attract, train, and retain high quality procurement specialists that will deliver quality services to the agencies.	<ul style="list-style-type: none"> ■ The selection of the Director to lead the Procurement Shared Services Unit should be considered in-depth. The experience and credibility of this senior individual will demonstrate to the marketplace and internally the significance and importance of this approach

Cost Factors

To implement this business model it is anticipated that one-time costs summing to approximately **\$500,000** may be incurred for such items as:

- Training of staff
- Remodeling to office facilities or other infrastructure related costs
- Professional services to assist in implementation
- Sourcing and assessment of an eProcurement system

One-time costs associated with the actual purchase of an eProcurement system have not been included in the figure above. However, it is assumed that the return on investment of such a purchase will outweigh the costs.

For the purpose of this analysis it has been assumed that the proposed model can be achieved using the resources and expertise existing within the City's PMMD and other agencies' procurement departments. Thus, it is anticipated that no changes will be seen to ongoing operating expenses. However, it is possible that costs could be incurred if the capacity, skills and abilities of existing staff are not deemed to be sufficient to operate the proposed model. These costs could relate to recruitment costs of new staff, severance costs of existing staff and any ongoing additional salary expenses.



cutting through complexity

Purchasing & Materials Management

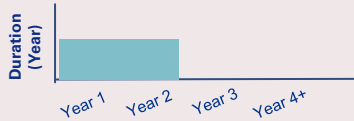
Rationalization of City Stores

Financial Impact

- This model may require some investment but it has not been possible to estimate the value of investment.
- The operational savings from rationalizing the stores will be off-set to a certain extent by the increased management of divisional stocks

Timing

- Planning can commence in 2012, with implementation and benefits realized in within 18 months



Benefits

- Reduced corporate stock, spoilage/shrinkage, and redundant stock
- Reduced space and transportation
- Improved stock profiles of divisional equipment and spares stocks

Drawbacks and Risks

- Dependency on vendors for consumables
- IT costs associated with automating the P2P processes and extending the number of stocking locations
- Potentially reduced flexibility in managing divisional stocks

Description

The opportunity for City Stores and PMMD consists of two parts:

- The rationalization of the corporate stores, the reduction of consumable products moving through the stores by significantly increasing the proportion of direct delivered products, and the automation of the P2P processes for these direct delivered products
- Utilizing the PMMD resources to manage divisional equipment and spares stocks held in depot and yards by introducing PMMDs stock management systems and disciplines.

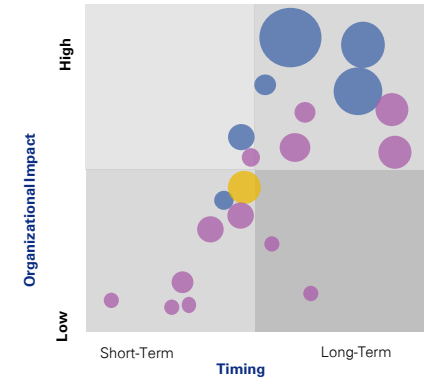
Rationale/Benefit

The TTC and TPS have already moved the majority of their corporate consumables to direct delivery and they have focused their supply chain resources on managing the high value stocks that have a direct impact on frontline services – thus ensuring their supply chain resources are adding the maximum value. The City should pursue a similar approach.

The main benefits will be reduced stock of corporate commodities and hence reduced stock spoilage, stock shrinkage, and redundant stock. In addition, the City may improve stock profiles of divisional equipment and spares resulting in reduced downtime (improved service availability) as well as reduced stock spoilage and redundancy and possibly reduced overall stock levels.

Key Considerations

- This initiative will require the City to contract with vendors that can offer direct delivery and can integrate with SAP to offer electronic P2P solutions (eP2P), however this is relatively standard technology
- The City's SAP must be configured to interface with vendors' ordering systems and to manage additional stocking locations at the divisional depots
- Divisions may have to accept increased stock controls in return for improved stock availability



City Stores - Rationalization

Current Service Delivery Model

Organization	Current State Storage Service Delivery
The City	<ul style="list-style-type: none"> The City stocks a range of consumables in four corporate stores across the City. These stores are managed by the Procurement and Materials Management Division (PMMD) and the consumables are distributed to requesters from across the City in all divisions, using the City's corporate fleet of transport vehicles The range of consumables stocked in these corporate stores includes: <ul style="list-style-type: none"> Stationery Printer cartridges Cleaning chemicals Personal Protective Equipment (PPE) Clothing There is very little racking within the stores; notwithstanding low ceilings, space usage is inefficient There are only 1 or 2 vendors for each category stocked and therefore little or no consolidation is required Separately each of the City divisions maintains stock in various locations relevant to the services they currently provide. For example, Transport Division maintains stocks of traffic management equipment, etc. A recent internal audit report¹ recommended that inventory management controls be increased on the traffic management equipment stocks and recommended that PMMD be used to implement these controls As part of PMMD's warehouse consolidation strategy, plans are in progress to relocate the 60 Brant Street stock and operation and the Corporate Pandemic Stockpile to a single 35,000 sq. ft. warehousing facility complete with full racking utilization. This initiative will make two City properties and storage facilities available for reutilization The volume of annual business related to the commodities that would apply to the proposed model are estimated to be approximately \$1.9m. PMMD is already managing direct delivery from supplier to user clients for 68% of the total purchase volume of the commodities considered in this report
Toronto Police Services	<ul style="list-style-type: none"> The TPS have three store locations across the City that are attached to vehicle garage services. The stores hold a minimum of vehicle spares (most of which are direct delivered from vendors on an 'as required' basis) as well as police uniforms, PPE, and some limited printed forms There was little or no overlap with the TTC. The categories of items stocked by the City are no longer stocked by the TPS and are direct delivered by the vendors
Toronto Transit Commission	<ul style="list-style-type: none"> TTC has one main warehouse with several local depots across the City. Vehicle and track spares are held in the warehouse and depots. There was little or no overlap with either the Police or the City. The categories of items stocked by the City are no longer stocked by TTC and are direct delivered by the vendors
Other Agencies	<ul style="list-style-type: none"> It is understood that none of the other agencies in the scope of this business case have stores of significant materiality

1. Auditor General's report "Inventory Controls Over Traffic Control Devices In Transportation Services" dated April 25, 2012

City Stores - Rationalization

Overview of the Proposed City Stores Model

Type of Service:

- Provisions of stock management services for both consumables and division equipment and spares.

In-Scope:

- Corporate stores, and divisional depots

Out of Scope:

- Agency stores

Value Proposition:

- Minimizing the stock of corporate consumables held in City stores and moving the administration and transport required to the vendors wherever possible.
- Utilizing the City stores stock management expertise and systems to manage the high value (and high risk) equipment and component stocks currently held by the City divisions

Model Description

The proposed model has two parts:

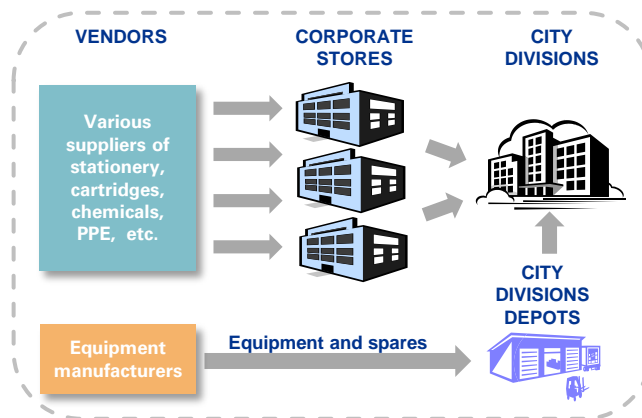
Part 1

- Many of the vendors of the consumables stocked in the City corporate stores will direct deliver individual orders. Indeed, many vendors are already providing this service to their other customers, and may therefore offer this service at a marginal cost (for most commodities it is anticipated that there would be no cost)
- The proportion of spend which is directly delivered will increase from 68% to approximately 90%, which is an industry benchmark
- The City corporate stores should be rationalized to hold a very limited stock of commodities that cannot be readily direct delivered
- Ordering activities can also be managed by suppliers, by allowing requisitioners to 'punch-out' from SAP to the vendor's website and place their orders directly. Most vendors for these commodities have a 99% on-time-delivery-in-full service and therefore invoicing can be consolidated and electronic with an automatic 3-way match in SAP (errors can be corrected and credited back the following month)

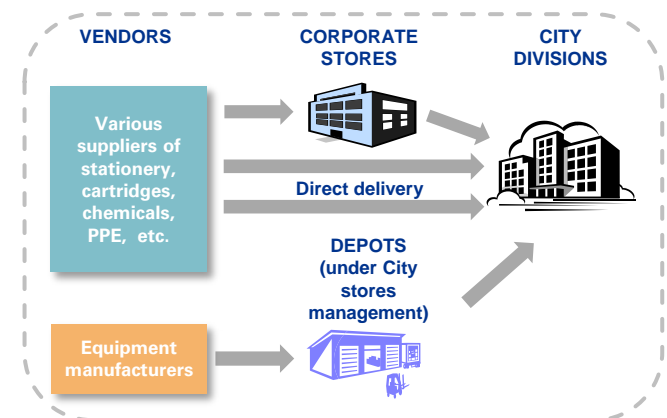
Part 2

- The City divisions are stocking high value equipment and spares relevant to their service (such as traffic management equipment in the Transport division) and in some cases stock management practices are not as strong as they should be. The City PMMD that currently manages the corporate stores should take responsibility for managing the division's stocks and apply good stock management practices ensuring they are correctly accounted for within SAP

Current State Operating Model



Future State Operating Model



1. Auditor General's report "Inventory Controls Over Traffic Control Devices In Transportation Services" dated April 25, 2012

	Entity	Interest in Proposed Service Delivery Model
Supplier	<ul style="list-style-type: none"> ■ Suppliers of corporate consumable product such as: <ul style="list-style-type: none"> – Stationery – Printer cartridges – Cleaning chemicals – Personal Protective Equipment (PPE) – Clothing ■ Manufacturers of equipment required by divisions 	<ul style="list-style-type: none"> ■ Many of these suppliers are set up to offer direct deliveries to their customers and often will offer delivery direct-to-the-desk ■ Typically these vendors will also have on-line ordering on their websites and have the ability to tailor the catalogue available to users based on their log-in ■ Commercial attractiveness ■ Equipment manufacturers may not see any change in the way they deal with the City once the PMMD commences managing the ordering and stocking of their equipment and spares, however if they do detect a change it will most likely be an improvement in the ordering and stock control process
Customer	<ul style="list-style-type: none"> ■ Customers to the City Stores are the divisions ■ City Treasurer and Internal Audit Division 	<ul style="list-style-type: none"> ■ While divisions will experience a change in the ordering process by 'punching-out' to the vendors websites and ordering on-line, customers will also experience greater freedom in their ordering ■ For the management of the divisions' equipment and spares the division should see a reduction in administration time for them (as the stores will take over the management of the stock) and the City Treasurer and Internal Audit will see an improvement in stock accuracy and control

Performance Metrics:

Direct deliveries:

- On-time-in-full delivery (%)
- Order-to-delivery times (days)
- The number of back orders
- Number of complaints

Corporate consumable stock:

- Stock accuracy (% + \$)
- Stock turns (days)

Directorate equipment and spares:

- Number of stock-outs
- Time lost to stock-outs (days)
- Value of stock (\$)
- Value of slow moving stock (\$ over 6 month)

Service Standards

- Service standards should be measured for each of the three types of services:
 - Direct deliveries from vendors for corporate consumables
 - The management of stocks and delivery by PMMD for the limited range of consumables where vendors do not (or perhaps will not) offer direct delivery
 - Management by PMMD of the high value equipment and spares held by the divisions in their depots and yards
- The objective of these metrics and KPIs should be:
 - *For the corporate consumables:* to confirm these products are delivered with the minimum of impact on the divisions and to highlight where things are going wrong, if they do
 - *For the division specific equipment and spares:* to monitor the balance between excessive stock (which introduces problems such as cash-flow issues, obsolescence, holding costs, and increased complexity) and stock availability to ensure services only suffer the minimum disruption because the right spares are available when required within acceptable lead-times

Payment Mechanisms

- For the direct deliveries from vendors:
 - *Pricing:* these vendors can offer tailored product pricing to encourage requisitioners to order products the Council may wish to encourage, for example 'green' products. In this way users are not overly restricted in what they can choose but are incentivized to purchase the preferred and pre-approved products
 - *Invoicing and payment:* vendors offer ways to automate the process through consolidated invoices and (because they have high levels of on-time-in-full delivery performance) automatic 3-way matching with errors being credited back the following month. Consolidated invoices can be uploaded electronically and will include all the cost centre, account code, and tax information required by the Finance Division. There are also a range of alternative solutions. P-cards could be embedded in the SAP ordering module to allow vendors to be paid by Visa instead, for example

Benefits	Drawbacks
<ul style="list-style-type: none"> ■ Reduce stock of corporate commodities and hence reduced stock spoilage/shrinkage and redundant stock ■ Reduce space requirements in the City corporate stores ■ Reduced transport requirements for the PMMD transport section ■ Staff are deployed to manage divisional stocks of higher value items and add greater value to the City by improving the management of these items ■ Improve stock profiles of divisional equipment and spares stocks resulting in reduced downtime (improved service availability) and possibly reduced overall stock levels ■ Better visibility and stock accuracy of these divisional high value stock items and reduced stock spoilage, redundancy ■ While City stores have no resale value, the space can be repurposed for other City use, potentially resulting in savings 	<ul style="list-style-type: none"> ■ Potential reduction in the range of commodities supplied, because it may be necessary to contract with fewer suppliers to ensure there is sufficient demand to support direct deliveries ■ To better manage the divisional high value stocks, PMMD will need to introduce a number of disciplines of stock management, which may be more restrictive than the divisions have been used to (e.g., booking items out, perhaps requiring authorization to remove items from stock, etc.)

Enablers

- Clients in all agencies and divisions have access to SAP
- The move to direct deliveries and the reduced stock and warehouse space requirements is largely within the control of PMMD in terms of tendering/negotiating these contract and service requirements
- The City's SAP must be configured to interface with vendors' ordering systems and to manage additional stocking locations at the divisional depots in order to facilitate 'punch-out' from SAP to vendor website. However, this is relatively well established technology
- For PMMD to take control of and manage the divisional stocks of equipment and spares, SAP will have to be configured to establish stock control procedures for the divisional depots and yards. PMMD may also need to consider how best to manage these additional locations
- The City's SAP and Accounts Payable systems are able to automatically reconcile with invoices issued by vendors

Dependencies

- Moving to direct delivery will be dependent on being able agree contracts with vendor who offer these services. This may require re-tendering the contracts
- SAP does have the functionality for punch-outs to vendor systems and uploading e-invoices, but no evaluation has been made of the configuration requirements or whether the City has the required modules
- The impact and level of effort imposed on clients is deemed to be reasonable within their current roles and capacities

Categories of Potential Savings

There are likely to be some savings from this initiative, however these have not been evaluated and may be off-set to a certain extent by the additional costs in managing the divisional equipment and spares stocks. Overall, the net benefit will be improved stock contract and frontline services, with PMMD adding more value to the City.

Category	Item
Operating	<ul style="list-style-type: none"> ■ Reduced operating cost from a reduced number of corporate stores ■ Reduced administrative costs from improved eP2P processes. ■ Reduced consumable product pricing from improved P2P processes, reduced administration and improves cash flow for vendors
Labour	<ul style="list-style-type: none"> ■ Potential reduction in PMMD staff, with the administrative P2P processes being automated
Capital	<ul style="list-style-type: none"> ■ While City stores have no resale value, the space can be repurposed for other City use, potentially resulting in savings.

Assumptions

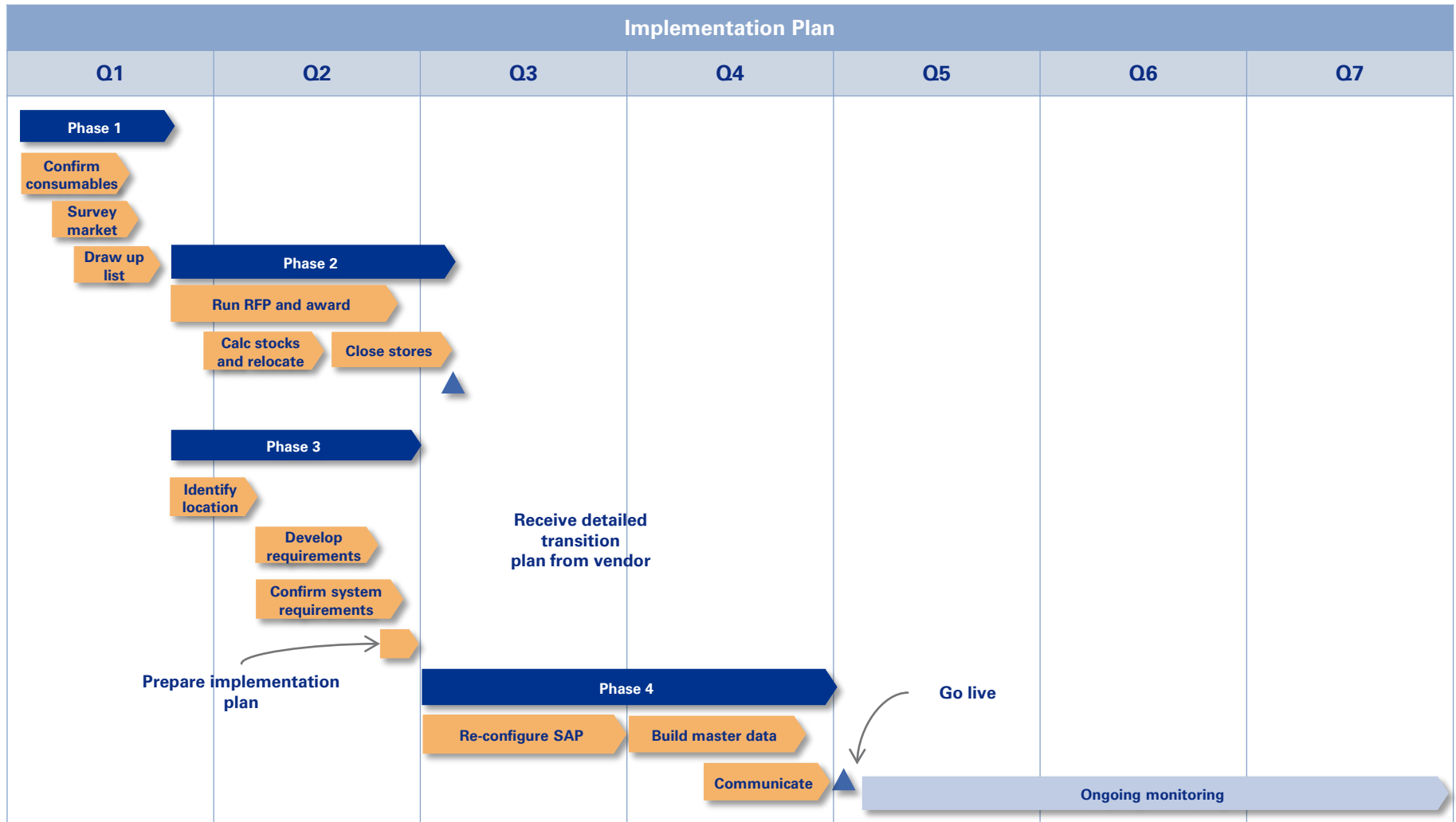
1. The items above are an estimate of the likely costs. It will not be possible to evaluate the actual costs until a more detailed implementation plan is developed.

Implementation Plan

Outsource Storage Operations

City Stores - Rationalization Workplan & Milestones

	Phase 1	Phase 2	Phase 3	Phase 4
Objective	<ul style="list-style-type: none"> Identification of consumables to direct deliver 	<ul style="list-style-type: none"> Contract for direct delivery and downsize the corporate stores locations 	<ul style="list-style-type: none"> Design and agree upon the implementation of improved stock management processes and systems for divisional equipment and spares 	<ul style="list-style-type: none"> Implementation of PMMD stock management disciplines at divisional stocking locations
Key Activities	<ul style="list-style-type: none"> Confirm consumables managed by the corporate stores Assess market and establish which categories could be direct delivered Draw up a comprehensive list of items, specification, annual consumption volumes, and pricing (e.g., a baseline) 	<ul style="list-style-type: none"> Prepare RFP documentation Publish RFP Receive and evaluation responses Award contracts and manage implementation of direct delivery Calculate reduction in stock requirements (re-calculate optimum maximums/minimums for remaining stock) House stock in most appropriate location and close remaining locations 	<ul style="list-style-type: none"> Identify all main divisional stocking locations and confirm the equipment and spares held at these locations Survey current stock management systems and procedures , agree upon specific implementation plan to add stocks onto SAP, and introduce PMMD stock management disciplines Confirm the system requirements and agree upon the organizational arrangements Prepare detail plan and gain agreement 	<ul style="list-style-type: none"> Re-configure SAP (as required) Build product master data file Re-organize and train PMMD staff as required Communicate and train divisional staff in the new systems Establish governance arrangements
Inputs	<ul style="list-style-type: none"> Product master data files Order consumption volumes Market research Vendor information gathering sessions Product price files 	<ul style="list-style-type: none"> Baseline from Phase 1 Vendor responses Survey of store locations 	<ul style="list-style-type: none"> Current stock and stock management systems at divisional locations IT to advise on SAP requirements 	<ul style="list-style-type: none"> Detailed implementation plan from phase 3 Possibly external SAP support Possibly external project management
Outputs & Milestones	<ul style="list-style-type: none"> Confirmed consumable product categories for direct delivery Comprehensive baseline of items, specification, consumption volumes , and prices for each category 	<ul style="list-style-type: none"> Agreed contract for direct delivery Reduced number of stores locations Accurate maximums/minimums and re-order quantities for the consumables stock that remains 	<ul style="list-style-type: none"> Main divisional areas where PMMD will take responsibility for managing the stock. An agreed upon and detailed implementation plan 	<ul style="list-style-type: none"> Implemented stock management disciplines for divisional equipment and spares



▲ Significant milestone or decision point

The following individuals and groups will play major roles in the implementation of the operating model.

Entity	Role	Activities
PMMD	Lead model implementation	<ul style="list-style-type: none"> ■ Identify the consumable categories for direct delivery ■ Run RFPs or negotiate as required and agree contracts ■ Manage implementation ■ Implement good stock management practices
I&T Division	Re-configure SAP	<ul style="list-style-type: none"> ■ Re-configure SAP and liaise with vendors to implement the 'punch-outs' to vendor websites and receipt of e-invoices ■ Re-configure SAP and set up additional stock holding locations as required
Vendors	Agree to direct deliver products	<ul style="list-style-type: none"> ■ Work with IT to set up 'punch-outs' and e-invoicing ■ Work with PMMD to perfect direct deliveries
City Treasurer	Ensure increase controls are working and workable	<ul style="list-style-type: none"> ■ Approve the detailed implementation plan and make resources available ■ Support the implementation of these actions with advise and support

City Stores - Rationalization Risk Mitigation Plan

Risk	Mitigating Action(s)
The direct delivery service from vendors is not to the standard currently offered by City stores	<ul style="list-style-type: none"> ■ The contracts should be established with clear service standards and levels and penalties for poor performance should be agreed upon ■ The contract should also have exit clauses for persistent poor performance ■ The stores offer weekly delivery routines, whereas vendors of these types of product typically offer next day. There could therefore be an increase in service quality
The IT department are unable to arrange 'punch-out' to vendor websites and receipt of e-invoices	<ul style="list-style-type: none"> ■ 'Punch-out' is a relatively standard technology, however if IT doesn't have the skill sets they can be hired-in ■ There are also a range of alternative solutions. P-cards could be embedded in the SAP ordering module to allow vendors to be paid by Visa instead, for example
Vendors don't have web-enabled purchasing or can't provide e-invoices	<ul style="list-style-type: none"> ■ A requirement to have or a commitment to establish these technologies should be built in to the contract
Flexibility in accessing, ordering, and managing divisional equipment and spares is reduced with the implementation of PMMD stock management disciplines	<ul style="list-style-type: none"> ■ Careful consideration to the operational requirements of the divisions should be taken into account before designing and implementing the stock management procedures ■ PMMD should spend time studying the TTC and TPS stock management arrangements to learn how they maintain operational flexibility whilst controlling stocks ■ Additionally, there are various forms of inexpensive technologies that can be deployed to help improve flexibility, such as RFID barcode scanning, etc.

Cost Factors

A detailed cost analysis and identification has not been conducted. A list of cost categories and items is listed below. Major categories of transition costs include project and training costs associated with the rationalization of the corporate City stores and IT development costs associated with the implementation of e-P2P processes and the creation of additional stocking locations in SAP. One-time implementation costs include project costs to identify the products for direct delivery preparing and running the RFPs.

Cost Category	Item
Operating	Training
	Configuration of SAP (might be capitalized)
	IT costs in configuration of additional stock locations in SAP and building stock master data files for divisional stocks
	Ongoing SAP licensing costs for new or additional users
	Increased operating costs associated with operating divisional stock locations
	De-commissioning corporate stores
Labour	Severance costs if staff are reduced
Capital	Fitting divisional stocking areas
	Retro-fitting the remaining corporate stores to be a more efficient use of space

Communication Strategy

Target Audience	Stakeholder Perspective	Impact Rating (H,M,L)	Frequency of Interaction (Frequent, Moderate, Low)	Medium(s) of Interaction
Customers of City Stores	<ul style="list-style-type: none"> Want a simple and reliable process for ordering consumables 	Medium	<ul style="list-style-type: none"> Moderate: Explain why, when, and how changes are happening; get input from key users 	<ul style="list-style-type: none"> Email to most staff Face-to-face meetings with key users (e.g., admin staff)
Divisional Operations Managers	<ul style="list-style-type: none"> Need to ensure equipment and spares are available when required 	High	<ul style="list-style-type: none"> Frequent: They should be involved in the implementation of the new stock management procedures to ensure they (a) understand why controls are in place and (b) play their part in designing those controls 	<ul style="list-style-type: none"> Weekly face-to-face meetings with nominated leads for operations
Internal Audit	<ul style="list-style-type: none"> Ensure satisfactory controls are implemented for divisional stock management 	Low	<ul style="list-style-type: none"> Low: Input into design and review of process before implementation 	<ul style="list-style-type: none"> Email and occasional meetings

Records Management

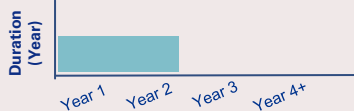
Alternative Service Delivery of Storage Operations

Financial Impact

- This model may require a one-time cost of up to \$213,000
- The projected operational savings are estimated at ranging from \$175,000 to \$355,000 per annum

Timing

- Planning can commence in 2012, with implementation and savings realized within 2 years



Benefits

- Ability to utilize a specialized and well-established records management business model with a reduced overall operating cost
- Operational risks are transferred from the City to the third party service provider

Drawbacks and Risks

- Variable pricing mechanisms from service providers may introduce financial uncertainty or additional variable costs to the customers.
- Confidential and proprietary information could be exposed if reasonable authentication or other security measures are not employed.

Description

The model proposes that operations and management of the City's two records storage centres be provided by a third party record management service provider who will work directly with customers for the storage and management of their records.

The 3rd party will perform records retrieval, transportation and destruction, as instructed by the owner's schedule, while custody and control of the two records storage centres is retained by the City. Corporate Information Management Services will maintain its current role in the development of information and records management policy, standards and procedures, and oversight for implementation, while also taking on the role of overall vendor and contract management.

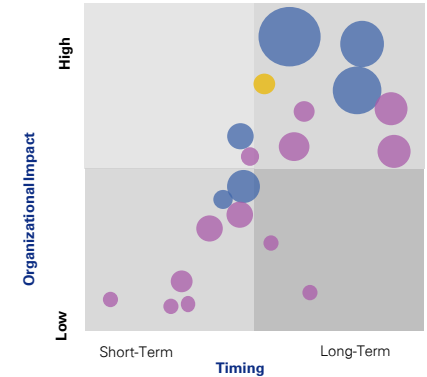
A variation of the proposed model could include selling the two City storage facilities and storing records in a third party storage facility.

Rationale/Benefit

Currently, 16 FTEs operate two storage centres on behalf of the City and select agency clients. These FTEs perform such activities as filing, retrieval and destruction. It is hypothesized that records storage operations is more efficiently delivered by a specialized records storage operations provider, and that the City's role is better focused on strategic policy development and implementation.

Key Considerations

- Training of the service provider to ensure familiarity and understanding of client requirements and records schemas
- Records storage is considered integral to operational business processes and activities. Thus, current service levels must be maintained or improved
- Pricing mechanisms should enable customers to budget accurately while balancing the requirement for commercial viability of the service provider
- Labour relations challenges resulting from a reduction of staff
- A limited number of staff must be retained to support contract and vendor management



City of Toronto – Corporate Information Management Services (CIMS)

The City's Corporate Information Management Services (CIMS) is the corporate lead for:

- Development of information and records management policy, standards and procedures, and oversight for implementation
- Security and integrity of inactive records
- Archival preservation
- Administering the legislated requirements outlined in MFIPPA (Municipal Freedom of Information and Protection of Privacy Act) and the Personal Health Information Protection Act (PHIPA) (for those organizations with Health Information Custodians (HIC))
- Managing the lifecycle of records in compliance with legislated requirements, including managing and operating two storage facilities
- Providing direct retrieval service to the public in the Archives' Research Hall at no direct cost to the public

Table 30 – City of Toronto Records Storage Facilities

Facility	Attributes	Approximate # of Stored Boxes	Square Footage	Appraised Facility Value	Staff Complement
14 Dyas Road	<ul style="list-style-type: none"> ■ Stores records which are generally not intended for long-term storage ■ Some archival records are stored here ■ No climate control features 	250,000	22,000	\$6.435 million	<ul style="list-style-type: none"> ■ 1 Supervisor ■ 6 Staff
255 Spadina	<ul style="list-style-type: none"> ■ Climate controlled ■ Stores the majority of the Archives \$31 million collection of archival records 	100,000	11,000	\$13 million	<ul style="list-style-type: none"> ■ 1 Supervisor ■ 11 Staff

- The storage facilities currently vary between 95-99% capacity, with 379,179 total boxes stored at both facilities
- Approximately 86% or 326,000 of the total boxes belong to the City
- On average, 3,760 boxes are retrieved each month and 1,500 boxes are re-filed per month
- In 2012, the Records Centres is budgeted to have gross expenditures of \$1.879 million, and revenues of \$55,000

Organization	Current State Storage Service Delivery
Exhibition Place	<ul style="list-style-type: none"> ■ Store some records in the City's records centre ■ EP employs 1 Manager / Archivist and 1 Records Technician ■ Annual ExPlace budget for the records management service = \$187,290, however, EP provides records management and archival services to the CNEA at an annual charge back of \$117,771 ■ EP had 53,000 records at end of 2011, including 385 archival collection items ■ 2,533 new records were requested in 2011 ■ Current turnaround time for response to client is less than 24 hours
Toronto Parking Authority	<ul style="list-style-type: none"> ■ Store records in the Old City Hall's garage/parking area at no cost to TPA
Toronto Police Services	<ul style="list-style-type: none"> ■ Store 22,912 boxes of records in the City's records centres and receive transfer and retrieval services from CIMS ■ No SLA or chargeback for these services exists ■ Other TPS records are stored on-site at corporate offices, where space exists
Toronto Transit Commission	<ul style="list-style-type: none"> ■ Store all records (28,035 boxes) in the City's records centre. Storage services include pickup services and circulation services ■ Current SLA indicates that records may be stored in City facility or a 3rd party facility ■ In 2011, TTC published a call for records storage services, which ended with TTC cancelling the call and continuing to use City-managed records storage. However, it should be noted that this call and the associated pricing that was returned included utilizing a third party's facility, which is not contemplated in the current proposed model.
Toronto Public Health	<ul style="list-style-type: none"> ■ Store all records in the City's records centre. Storage services include monitoring, tracking, retrieving, transferring, maintaining, retaining, and disposing of TPH records according to retention schedules or trigger events ■ In 2010, CIMS completed 1200 retrieval or storage requests for TPH ■ The City charges an annual fee of \$83,210 for a dedicated records analyst (1 FTE) and for retrieval, re-files, etc.
Toronto Public Library	<ul style="list-style-type: none"> ■ Department heads at TPL are responsible for storing their own documents. There are no FTEs designated to Records Management ■ Limited storage space exists at a TPL archive/reference library ■ The library has adopted the City of Toronto's records classification scheme and has a records management policy.

Type of Service:

- Off-site records storage

In-Scope:

- Records storage operations

Out of Scope:

- All other CIMS functions
- Facility custody and control (see variation proposed on following page)
- Storage of files currently stored in City file rooms
- Storage of Councilor and Accountability Officer records

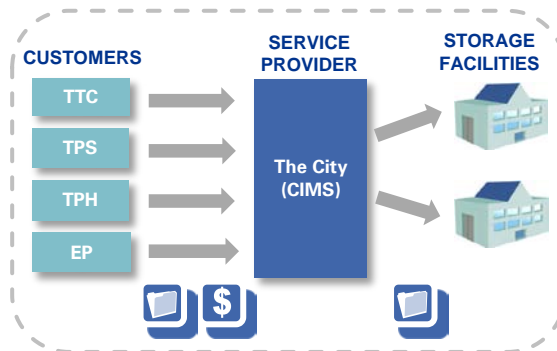
Value Proposition:

- Records storage operations is more efficiently delivered by a specialized third party records storage and management provider. The City's role would be focused on strategic policy development and implementation.

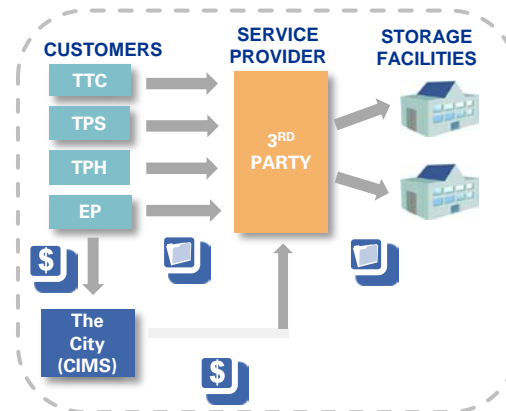
Model Description

- Operation and management of the City's two records storage centres is provided by a third party record storage service provider. The third party performs records retrieval, transportation and destruction, as instructed by the owners' (e.g., City, agency, etc.) schedules.
- The third party record storage provider will also maintain an inventory of stored records, and manage the lifecycle of records in compliance with legislated requirements.
- CIMS will manage the third party procurement on behalf of the agencies based on defined requirements and perform ongoing vendor contract management.
- CIMS will maintain its current role in the development of information and records management policy, standards and procedures, and oversight for implementation.
- The City will retain custody and proprietary control of the two records storage centres.
- Agencies and divisions will work directly through the third party for their day-to-day storage requirements (e.g., arranging storage retrievals, filing, pick-ups, etc.).

Current State Operating Model



Future State Operating Model



Variation of the Proposed Model

- A variation of the proposed model could include selling or repurposing the Dyas Road facility and storing records in a third party storage facility.

Key Considerations:

- Initial feedback from CIMS indicate that this variation could be plausible for the 14 Dyas Road facility, but is not feasible for the 255 Spadina facility, which has been retrofitted and designed specifically to house the majority of the City's archives. However, one must balance ongoing potential costs savings of this model against the sunk costs which have been put into the City facilities.
- In many instances, timely access to records is considered integral for operational business processes. Thus, consideration must be paid to how third party off-site storage could impact business processes.
- When contacted to assess the conceptual feasibility of the proposed model, third-party service providers in the GTA admit that it is more common for records to be stored in their facilities, but that they have an interest in discussing and assessing the feasibility of the proposed model.

	Entity	Interest in Proposed Service Delivery Model
Supplier	<ul style="list-style-type: none"> ■ Third party records storage operations provider. Examples include Iron Mountain, Filebank, Recall, etc. 	<ul style="list-style-type: none"> ■ Ability to leverage existing assets and infrastructure while applying a well-established business model. ■ Commercially attractive business model.
Customer	<ul style="list-style-type: none"> ■ Any agency or division currently utilizing the City's storage centres. This includes: <ul style="list-style-type: none"> – City divisions – TPH – TTC – And to some extent TPA, TPS, and EP ■ Any organization that is required to submit records retention schedules for approval by Council and the City's external auditor under the City of Toronto Act:2006. 	<ul style="list-style-type: none"> ■ Sustained or improved services, including: <ul style="list-style-type: none"> – Expediency – Customer service – Secure and controlled storage space ■ Reduced staffing & operational costs. ■ Potential to incentivize better records management and retention practices, depending on the cost model.

Stakeholder	Role	Decision Making	Reporting Relationship
Joint Governance Committee	Chaired by CIMS with representatives from agencies, the Joint Governance Committee is the body responsible for overseeing the performance of the supplier and fulfillment of contractual standards and the method by which the customer's voice is included in decision making.	The Committee will be responsible for making or approving strategic decisions regarding any changes to the supplier contract (e.g., pricing, payment, termination, etc.) and monitoring supplier performance in accordance with the service levels described in the contract.	The Committee will report to the City Clerk, through CIMS.
The City – CIMS	S. 217-7(A) of Chapter 217, of the City Of Toronto's Municipal Code requires the Director of Records and Information Management to provide Records Centre services to the City and separate institutions such as City agencies, boards and commissions by special arrangement. The City Clerk is ultimately accountable for this service.	It is advised that major or strategic decisions regarding the supplier contract and standards be escalated to the Joint Governance Committee for discussion. All other minor issues relating to contract and vendor management may be resolved at the discretion of CIMS.	In this model, CIMS is the first point of escalation and contact for any contractual concerns or issues from the supplier or customers. Any amendments or persistent issues relating to the supplier contract should be escalated to the Joint Governance Committee for review and decision making.
Customer (City Agencies and Divisions)	Day-to-day, direct interaction with the supplier, including attempts to resolve minor service issues.	Customers will continue to make independent decisions regarding their storage requirements and work directly with the supplier to fulfill these requirements.	While the customer will deal directly with the service provider for service request and minor issues, ongoing issues relating to the supplier should be raised with CIMS and escalated to the Joint Governance Committee at CIMS' discretion.

Performance Metrics:

- On-time delivery (%)
- On-time pick-up (%)
- Compliance with disposal procedures
- Storage capacity (%)
- Customer satisfaction
- Number of inactive boxes
- Number of new boxes of records created
- Number of boxes managed

Service Standards

A contract should be established with the third party service provider that stipulates standard terms and conditions including, service standards, the cost of services, invoicing methods, escalation mechanisms, etc.

It is expected that the service standards that currently exist between CIMS and its customers will be matched or exceeded by the third party service provider. Such standards include¹:

- Respond to requests for records storage and retrieval within 1 business day.
- Pickup of new boxes will occur within five business days of the service provider receiving the request.
- Retrievals will be delivered to the customer within four business days of receipt of the file request. CIMS will provide procedures for initiating requests for stored records.
- Summary reports or inventories of stored records will be provided to the customers within 2 business days.
- Upon receipt of written authorization, the service provider will destroy records in accordance with the customer's record destruction guidelines. Requests for records dispositions will be processed within 30 business days. The service provider will forward a copy of the destruction certificate relating to the customer.

Payment Mechanisms

The payment mechanism applied to the customers will depend on the payment mechanism employed in the supplier contract. There are multiple payment mechanisms that could be applied to a third party record management service provider, each with different behavioural implications. For example, CIMS currently charges some of its customers a fee per unit stored. This payment model provides an incentive for the customers to reduce the number of units stored. An alternative payment mechanism could include a flat rate charged to the City by the supplier for all record management services. This payment mechanism does not incent the organization to reduce its stored records. In either scenario, it is also possible that transactional charges may be applied for such activities as retrieval and delivery. Transactional charges could change organizational behaviour relating to storage and accessing records and in some instances help drive a greater shift towards eRecords. Lastly, it is also plausible that the City and third party service provider could enter into an "efficiency transfer" arrangement, whereby the vendor would receive a proportion of the value of any efficiencies that they are able to realize.

1. Standards are sourced from a service level agreement between the City and TTC and serve as an illustration only. Different agencies will have different service standards which must be negotiated with the service provider.

Benefits and Drawbacks

Benefits

- Potential to increase customer service levels and increase compliance with records management policy.
- Potential to realize cost savings.
- Ability to leverage a records storage operations system that will lead to increasingly efficient business (e.g., filing) processes, distribution, and physical organization of records.
- There is an opportunity for those agencies which do not currently have access to a records inventory management system to leverage the proprietary system of the third party.
- The City becomes focused on strategic policy development while non-core records management activities conducted by a service provider with specialized expertise.
- City real estate assets are retained.
- Operational risks shift from the City to a third party.

Drawbacks

- Customers may currently access their records numerous times, free of charge. Going forward, there may be charges associated with accessing documents which will introduce a variable and potentially unwieldy cost.
- The service provider may offer and charge for unnecessary services (e.g., 24/7 access) which are not required by all customers.
- Severance costs will be incurred relating to the elimination of current storage centre personnel.
- The trust and confidence expressed by the agencies in the integrity and service quality provided by the City may be difficult to replicate with an outside provider.
- Likely to result in challenging labour relations issues.
- The business knowledge, history and experience of current records centre staff will be lost.
- The City's procurement of services is limited to a maximum of five years without Council approval to extend the vendor. This would require the re-issuing of an RFP and potentially change in service provider every five years. Drawbacks and costs may be experienced if vendors are changed in the future.

Enablers

- Implementation of a common records schema across agencies would enable the outsourcing of storage operations to a third party.

Dependencies

- An RFI is issued by the Joint Governance Committee to validate the capacity and ability of the private sector to manage public records and the costs associated with the model.
- The proposed model is deemed to be aligned with legislation and regulations governing records management. Moreover, the services and operations of the third party must be deemed to be acceptable by the administrative and discretionary decision makers of records management within each agency (e.g., Health Information Custodian of TPH).
- Agencies support the proposed service delivery model and the associated benefits, drawbacks and risks.
- Security concerns are sufficiently addressed through authentication or clearance measures.
- Council and the governing bodies of the agencies approve the elimination of City staff associated with the model.
- It is recognized that some agencies store records in underutilized spaces and sites that are available to their respective organizations. Participation in the proposed model would come at a new cost to these organizations, as they currently do not pay for storage facilities. On the other hand, one must consider the risks and inefficiencies associated with the storage solutions and the opportunity cost associated with utilizing space for storage that would be better repurposed or disposed of. Thus, participation of new organizations (e.g., TPL) in the proposed model is dependent on further examination of the costs and benefits of their current vs. proposed storage solutions.
- Currently over 900 users access the City's LiveLink system. The data within this system will need to be transferred to the IT system of the service provider, or current records management systems will need to be integrated with the service provider's system in order to leverage the proprietary system utilized by the service provider.

Categories of Potential Savings

Currently, some organizations do not pay for storage centre services offered by the City and others pay \$4 per box per year. It is expected that the true cost of storage (per box) is more than what is currently being charged to customers. It is also anticipated that the price charged per box by a third party service provider will be lower than the fully-loaded cost per box currently incurred by the City.

Category of Saving	Amount of Saving (\$)
Decreased labour costs	\$175,000 – 355,000 ^{2,3,4}
Total	\$175,000 – 355,000 ¹

Assumptions

1. Future state costs and savings are estimates. Actual costs will be informed by market responses to an RFI/RFP.
2. The average cost of labour for a City records storage clerk is estimated to be \$45,000 - \$50,000, including benefits and pension. Currently, 17 staff and 2 supervisors form the staff complement of the two City Records Centres. It is assumed that the average salary of a third-party records clerk is \$35,000 – \$40,000 per annum. Assuming the same number of staff (17) were retained in the proposed model, savings of \$85,000-\$255,000 could be achieved by using less expensive, third-party labour.
3. Additional savings could also be achieved if the staff complement were decreased. It is assumed that the third party will reduce staff by 10%, or approximately 2 FTEs (rounded up) with associated savings of \$90,000 - \$100,000.
4. It is assumed that all supervisors will be retained in the proposed model to perform contract management functions.

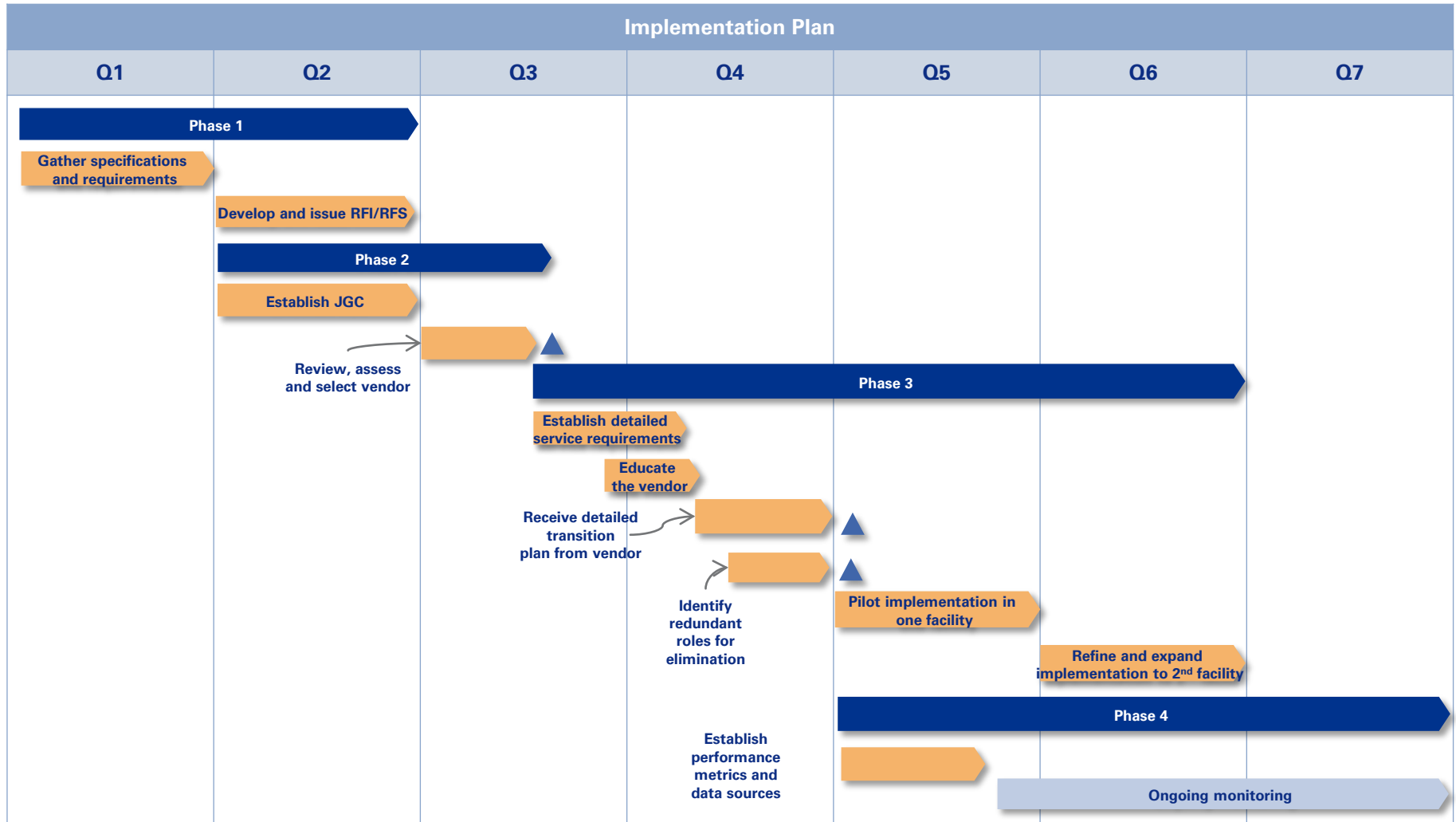
Implementation Plan

Alternative Service Delivery of Storage
Operations

Records Management – Alternative Service Delivery of Storage Operations

Workplan & Milestones

	Phase 1	Phase 2	Phase 3	Phase 4	
Objective	<ul style="list-style-type: none">Gain an understanding of the local records management market, including capacity, pricing and capability	<ul style="list-style-type: none">Procure a qualified service provider for the provision of records storage operational management	<ul style="list-style-type: none">Implement the new operating model of records storage operations	<ul style="list-style-type: none">Monitor operations and performance of the service provider	
Key Activities	<ul style="list-style-type: none">Gather specifications and requirements of records storage operations for the City and agencies, including service level requirements, and formal privacy and risk assessmentsDevelop and issue a Request for Information (RFI) or Request for Services (RFS) to determine the capacity and positioning of local records storage providers	<ul style="list-style-type: none">Establish a Joint Governance Committee (JGC) to participate in response evaluationReview and assess responses to RFS/RFI according to specified criteriaReceive approval to move forward with the selection of a vendorNegotiate general terms and conditions of the contract with vendor, including pricing and timelines	<ul style="list-style-type: none">Identify redundant roles and positions for eliminationEstablish a Terms of Reference for the JGCWork with the customers and the service provider to establish detailed service level agreementsEducate the service provider on current records storage operations, including records schemas, inventories, databases, processes, etc.	<ul style="list-style-type: none">Receive a detailed transition plan from the service provider, including specific proposed changes to operations and facilitiesReceive approval for the proposed transition plan, timelines and elimination of staffTransition operations to the service provider by piloting implementation in one facilityRefine and expand implementation to second facility	<ul style="list-style-type: none">Establish performance metrics and data sourcesConvene the JGC to review the performance of the service provider and to hear concerns and issuesAdjust SLAs, terms and conditions and operating processes to ensure that service requirements are met, as necessary
Inputs	<ul style="list-style-type: none">Detailed requirements received from internal City customers and agenciesSpecifications of facilities and inventory of recordsPrimary and secondary research to determine the tentative interest of service providers to participate in an RFI/RFS	<ul style="list-style-type: none">Responses from potential vendorsConsultation and advice from City Legal Services and PMMDApproval to award a contract	<ul style="list-style-type: none">Education on current operationsDetailed service level requirementsGuidance and approval from JGC	<ul style="list-style-type: none">JGC meetings and guidancePerformance data	
Outputs & Milestones	<ul style="list-style-type: none">Detailed understanding of City and agencies' current and future requirements for records storageRFI or RFS	<ul style="list-style-type: none">Joint Governance CommitteeService providerTerms and conditions of serviceApprovals from boards, council and other necessary stakeholders	<ul style="list-style-type: none">Service Level AgreementsJGC Terms of ReferenceDetailed transition planReduced staffImplementation of a new operating model	<ul style="list-style-type: none">Performance metrics	



Significant milestone or decision point

The following individuals and groups will play major roles in the implementation of the operating model.

Entity	Role	Activities
CIMS	The role of CIMS during transition is to act as the business content knowledge owner, to manage the selection and support the implementation of a new storage service provider.	<ul style="list-style-type: none"> ■ Gathering specifications and requirements from clients ■ Developing an RFI/RFS ■ Identify roles for elimination, in conjunction with the SSC ■ Educate the vendor on current operations, service levels and requirements for the future ■ Work with the service provider to identify performance data sources
Shared Service Centre (SSC)	The role of the SSC is to oversee and drive the implementation of the operating model.	<ul style="list-style-type: none"> ■ Provide a dedicated resource to support project management ■ Establish a Joint Governance Committee and assist the committee to create a terms of reference (TOR) ■ Assist CIMS to identify redundant roles within storage centres ■ Assist CIMS in crafting a communication plan ■ Review the service provider's proposed transition plan and work collaboratively with CIMS to leverage the plan and create an accompanying internal project plan
Joint Governance Committee	The JGC will play a role in selection and monitoring of the service provider.	<ul style="list-style-type: none"> ■ Assist CIMS in the selection of a vendor ■ Establish performance metrics ■ Monitor service levels and performance of the service provider
PMMD	The role of PMMD is to guide and support CIMS in the development and issuance of an RFI/RFS for third party records operations services.	<ul style="list-style-type: none"> ■ Identify vendors of records, if available ■ Develop standard procurement templates and documentation
Legal Services	The role of Legal Services is to guide and support CIMS in the creation of legal documentation required for the operating model.	<ul style="list-style-type: none"> ■ Develop terms and conditions of contract

Risk	Mitigating Action(s)
Confidential and proprietary information is exposed, regulatory or legislative requirements breached, or unauthorized access to or use of information	<ul style="list-style-type: none"> ■ Ensure reasonable requester authentication or other security clearance measures be enforced on the staff of the vendor ■ Perform due diligence and take care when evaluating a provider. For example, ensure the storage provider maintains system logs and audits, and has the capability to detect unauthorized access, and that the storage provider has sound policies and procedures that reflect and are appropriate for the type of information stored ■ Ensure that the contract outlines conditions for access to and use of information, and that information cannot be used for any purpose other than that outlined in the contract ■ Ensure the storage provider understands the legislative responsibilities in relation to the City and agencies' information
Interruption in service during transition or implementation	<ul style="list-style-type: none"> ■ Ensure that the vendor's transition plan clearly demonstrates an understanding of client requirements and that sufficient actions and contingencies are identified for continuation of services
Significant investment may be required in order for the vendor to achieve process efficiencies	<ul style="list-style-type: none"> ■ During the request for information process, request vendors to stipulate their typical facility specifications and to identify their preliminary expectations for retrofit or adjustment of City facilities
Frequency of access to information may be reduced	<ul style="list-style-type: none"> ■ Ensure that the contract outlines access requirements, including an agreed period within which access requests are satisfied and any costs associated with access ■ During procurement and due diligence phases, ensure agency access requirements can be met by prospective providers
Records storage operations provider may go out of business	<ul style="list-style-type: none"> ■ Perform due diligence when selecting a provider to ensure the vendor is financially and operationally sound ■ Consider maintaining City facilities as the location for storage centres ■ Ensure that any databases or inventories can be easily transferred to the City or to an alternate service provider.

Risk	Mitigating Action(s)
Inappropriate or ineffective destruction of records	<ul style="list-style-type: none"> ■ Ensure the contract stipulates what disposal action is to take place and when, which disposal processes are permitted, and requirements for recording disposal actions. ■ If records are to be returned to the agency, ensure no other version remains with the storage provider.
Customers of the City's Records Centres may stop storing records with the City, or may find other internal spaces to store their records	<ul style="list-style-type: none"> ■ Customers with concerns regarding the safety of their records or the cost of services with a third-party service provider may choose to cease storing records with the City. To mitigate this risk, the Joint Governance Committee should work together to define their security and customer service requirements during the RFI/RFP process.
The information management program and operational services of the City and its customers are adversely impacted by outsourcing storage operations	<ul style="list-style-type: none"> ■ Effective operations of the records storage centres is considered critical to the information management program and to operational services. Operational clients should be engaged to assist in developing service level requirements and agreements to ensure that their needs are addressed in the service provider contract. Moreover, operational business processes which rely on records must be mapped and understood by the service provider prior to implementation.

Cost Factors

Major categories of transition costs include severance costs associated with the elimination of staff working in the storage centres. One-time implementation costs are estimated at \$191,000 - \$213,000 while ongoing operational costs have not been quantified.

Cost Category	Item	Cost
Operating	-	-
Labour	One-time severance costs (17 FTEs)	\$191,000 - \$213,000 ²
Capital⁴	-	-
Total	One-time (implementation) costs	\$191,000 - \$213,000¹
Total	Ongoing (annual) costs⁵	-

Assumptions

1. Future state costs and savings are estimates. Actual costs will be informed by market responses to an RFI/RFP.
2. Severance is estimated at 25% of annual average salary ranging from \$45,000 - \$50,000 for 17 staff. However, this cost does not take into consideration deployment and 24-month wage protection for permanent employees receiving layoff notices as stipulated in the Articles of the Collective Agreement with CUPE.
3. Implementation of EDRMS by the agencies is considered an optional enabler of the proposed operating model, not a requirement. Pilot implementation of EDRMS will not begin until Q3 2013. Implementation of EDRMS could require one-time costs associated with training, system interfacing or integration, professional services, hardware, etc. Those costs have not been quantified in this analysis.
4. It is possible that the third-party service provider may require that the storage facilities be upgraded in order to align with their operating models. It is assumed that any capital costs relating to the operating environment of the facility (e.g., retrofitting) will be assumed by the service provider.
5. Ongoing operational costs will be incurred related to the cost of the contract with the service provider. These costs have not been quantified.

Communication Strategy

Target Audience	Stakeholder Perspective	Impact Rating (H,M,L)	Frequency of Interaction (Frequent, Moderate, Low)	Medium/Media of Interaction
Records Centre staff	<ul style="list-style-type: none"> ■ Desire to deliver and maintain high customer service levels ■ Desire to maintain employment with the City 	High	<ul style="list-style-type: none"> ■ Frequent – Staff implicated by the model should be alerted to the decision to move forward with implementation and informed of key dates for future communication and decision making as soon as possible 	<ul style="list-style-type: none"> ■ In-person, by management ■ Internal meetings ■ Briefing letters
Labour Groups	<ul style="list-style-type: none"> ■ Goal of maintaining or increasing the number of City employees and enforcing the stipulations of the collective agreements 	High	<ul style="list-style-type: none"> ■ Moderate – Unions should be engaged early in the process and kept abreast of major decisions and milestones 	<ul style="list-style-type: none"> ■ In-person, by management ■ Briefing letters
Customers	<ul style="list-style-type: none"> ■ Desire to maintain or improve service levels without interruption or increased risk 	Medium	<ul style="list-style-type: none"> ■ Moderate – The customer's voice will be represented on the Joint Governance Committee, which will be involved in decision making and defining client requirements throughout the implementation process 	<ul style="list-style-type: none"> ■ In-person, via the JGC ■ Briefing letters
CMO	<ul style="list-style-type: none"> ■ Desire to maintain or improve customer service levels while increasing efficiency and decreasing costs 	Medium	<ul style="list-style-type: none"> ■ Low – The CMO should receive status updates and briefings on the progress of implementation and performance outcomes of the operating model. 	<ul style="list-style-type: none"> ■ Briefing letters

Real Estate

Rationalize Lessor Activities

Financial Impact

- This model may require an estimated ongoing costs of \$49,000
- The projected operational savings are estimated at \$207,000 – \$507,000 per year

Timing

- Planning can commence in 2012, with implementation within 1 year



Benefits

- Potential to increase revenue and decrease risk through a consistent approach to lessor activities
- Access to dedicated subject matter experts with well-established track records, processes and controls, and a focus on consistency across the corporate portfolio

Drawbacks and Risks

- Higher direct costs to agencies related to service fees charged by RES
- Agencies are currently satisfied with their service levels and perceive any loss of control or oversight over lessor activities to be a risk to existing relationships with tenants and revenue

Description

The model proposes to consolidate the lessor activities currently conducted by all agencies within the City's Real Estate Services' (RES) Leasing & Site Management (L&SM) Unit. Examples of lessor activities include: negotiations and tenant management, air rights, lease abstracting, and lease administration. Lessee activities would remain as is. Agencies perceived to be in-scope for this model include TTC and TPA. This model could also potentially be expanded to City divisions (e.g., Parks and Recreation).

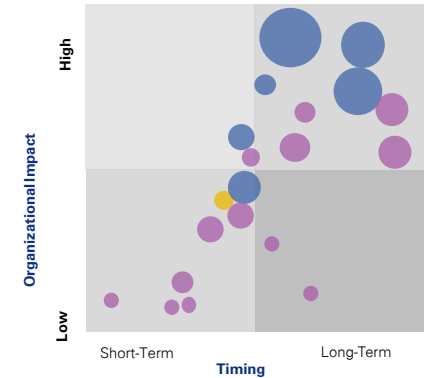
A variation of the proposed model could be considered which involves formally offering the services of the Leasing & Site Management group to other agencies to be used optionally, at their discretion.

Rationale/Benefit

Currently, the in-scope agencies perform their own lessor activities with limited line of sight or understanding of the tenants, agreements and approaches employed by other agencies. The proposed model seeks to increase consistency across the corporation and to reduce risk and increase revenue through central delivery of lessor services. Moreover, the model will enable strategic planning and portfolio optimization and enhance organization effectiveness. The City's L&SM unit administers lessor activities, financial and landlord/tenant functions for over 1500 City leases - a figure representing more than ten times the volume of leases currently administered by the collective in-scope agencies.

Key Considerations

- More information and data is required in advance of implementation in order to develop a detailed business case and value proposition
- The definition of the operating model, service level, and processes will be a collaborative exercise between the RES and its potential customers
- During implementation, great consideration must be paid to ensuring that service levels are clearly articulated and that enforcement mechanisms exist
- Moreover, sufficient knowledge transfer must take place between agencies and RES to ensure that relationships with tenants are maintained



Real Estate – Rationalize Lessor Activities

Current Service Delivery Model

Organization	Current State Service Delivery
The City	<ul style="list-style-type: none"> ■ The Leasing & Site Management team of RES includes 19 FTEs and is responsible for acquiring leased properties (land and/or buildings) to meet City clients' requirements; leasing-out City-owned properties for interim use by third parties; and managing financial and landlord/tenant functions. ■ The City manages approximately 1,500 leases.
Toronto Transit Commission	<ul style="list-style-type: none"> ■ 1.25 FTEs perform retail leasing activities: 1 Commuter Parking & Leasing Coordinator and 1 Leasing Officer with a total labour cost of \$118,750. These individuals are responsible for leasing TTC office space and the retail leasing program. ■ 1.25 FTEs conduct property agreement activities with a total labour cost of \$136,250. ■ TTC is the lessee of 7 office, 4 industrial and 7 community liaison office locations. ■ Retail leasing generates approximately \$4 million annually through 150 retail locations in 70 subway stations, occupying 32,000 sq ft of space.
Toronto Parking Authority	<ul style="list-style-type: none"> ■ Manages the real estate activities of over 200 properties with a compliment of 3 full-time employees. ■ The VP of Development and Marketing develops a variable amount of leases per year. ■ Some leasing activities are currently outsourced to brokerage firms, including environmental assessments, surveys, appraisals, brokerage, and property management. ■ Leasing activities are considered to be extremely important levers to the TPA in successfully implementing its development strategy. While the lease portfolio is a small proportion of the overall revenue generation of the TPA, it can be essential to the financial performance of a specific property.
Exhibition Place	<ul style="list-style-type: none"> ■ 0.2 of an FTE is responsible for internal tenant management. ■ Currently, EP has leases with 15 separate tenants. ■ Typically, leases are long-term and perceived to be complex in nature. Leases over 4 years must be approved by the EP Board and City Council. ■ The annual value of tenant leases for 2012 is \$4,235,223.
Toronto Public Health	<ul style="list-style-type: none"> ■ All leasing activities are performed through the City.
Toronto Police Services	<ul style="list-style-type: none"> ■ All leasing activities are performed through the City.

Table 31 – Current Leasing Profiles

Organization	Category of Revenue	Total Revenue (2012 Budget)	# of Lease Agreements	Total Square Footage of Leased Space
TTC	Property agreements	\$4,675,581	31	Unknown
	Subway concession rent	\$4,226,869	28*	32,000
TPL	Annual rent	\$1,400,000	36	40,000
TPA	Annual rent	\$1,348,434	38	35,313

*TTC has agreements with 28 different business entities, each of which may have several different rented locations

Real Estate – Rationalize Lessor Activities

Overview of the Proposed Shared Service Model

Type of Service:

- Lease management

In-Scope:

- Lessor activities: broker retention, negotiations, tenant management, air rights, lease abstracting, lease administration, critical date reporting, market analysis, etc.
- Lease database

Out of Scope:

- Lessee activities (e.g., lease audits, workplace strategies, broker retention, landlord relationship management, invoice review, and payment processing, etc)

Value Proposition:

- The proposed model seeks to increase consistency across the corporation to reduce risk and increase revenue

Model Description

- Lessor activities currently conducted by all City agencies are consolidated within the City's Real Estate Services' (RES) Leasing & Site Management Unit (L&SM). Examples of lessor activities include: broker retention, negotiations and tenant management, management of air rights, lease abstracting, and lease administration.
- RES would bring specialized expertise to lessor activities and seek to ensure that retail tenants are managed in a consistent and optimal manner through the application of common standards, tools, knowledge repositories and lease documents (e.g., offer to lease, lease, amending agreements, etc.). RES currently utilizes SAP RE which would be leveraged to improve reporting and process visibility as well as the creation of a City wide database.
- Agencies would be responsible for the creation of specific requirements, specifications and constraints to be provided to RES for conduct of the lease activities.
- Agencies currently performing lessor activities and affected by the proposed model include TTC and TPA. It is proposed that 1 FTE be transferred to RES from TTC's Real Estate and Development complement, and that TPA utilize RES for leasing services as opposed to external brokerages. Exhibition Place is excluded from the proposed model as the lessor activities which they conduct are considered to be core to their business model.
- All lessee activities currently performed by agencies will remain as is. However, when leases are created for terms greater than ten years, agencies should strongly consider engaging the City's RES in an advisory capacity. In addition, a leading practice should be established for agencies to consider City owned vacant sites before entering into leases for external properties.

Real Estate – Rationalize Lessor Activities

Overview of the Proposed Shared Service Model

Type of Service:

- Lease management

In-Scope:

- Lessor activities: broker retention, negotiations, tenant management, air rights, lease abstracting, lease administration, critical date reporting, market analysis, etc.
- Lease database

Out of Scope:

- Lessee activities (e.g., lease audits, workplace strategies, broker retention, landlord relationship management, invoice review, and payment processing, etc)

Value Proposition:

- The proposed model seeks to increase consistency across the corporation to reduce risk and increase revenue

Variation of Model

- Initial feedback from real estate representatives from the in-scope agencies included concerns around losing control over their lessor activities. To address this concern, a variation of the proposed model could be considered which involves formally offering the services of the Leasing & Site Management group to other agencies to be used optionally, at their discretion.
- This variation may still offer the benefits of shared information and technology as well as the potential to increase revenue, but will likely not realize the same level of savings if all agencies do not opt-in or if FTEs are maintained within the agencies.

The City's current relationship with the Toronto Public Library is an example of how the proposed model could be operationalized for other agencies.

- For the past 12 years, TPL has utilized the City's RES for advisory services relating to leasing issues, appraisals, market rates, and to negotiate all leases.
- TPL reimburses the City \$40,000 per year for 14 hours per week of services. However, also included in this fee are services to assist TPL in negotiations where TPL is the tenant.
- Minimal capacity is maintained within TPL to oversee lessor activities. Specifically, 0.33 of an FTE performs the following lessor-related activities (the percentage of time dedicated to the activities is listed in parentheses):
 - Represent TPL interests during lease negotiation (15%)
 - Determine allocation of costs to tenants (15%)
 - Address tenant issues (45%)
 - Collect revenue (10%)
 - Draft leases (15%).
- It is plausible that RES could take on even greater workload by performing many of the activities listed above for TPL, however, it is understood that some degree of capacity must be maintained on the client side to represent TPL's interests during negotiations, manage facilities and property staff and to respond to tenant issues. For example, RES could perform the billing and collection function utilizing the City's SAP RE capabilities. The use of SAP would facilitate the process, assist audit function, maintain database integrity and provide process visibility.
- TPL holds 36 leases with tenants of library buildings and grosses total revenue from rent of \$1.4 million.

Real Estate – Rationalize Lessor Activities Suppliers & Customers of the Service

	Entity	Interest in Proposed Service Delivery Model
Supplier	<ul style="list-style-type: none"> ■ The City's Real Estate Services Division, Leasing & Site Management Unit. 	<ul style="list-style-type: none"> ■ Increased line of site and improved control over lessor and lessee activities. ■ Ability to leverage existing processes, standards and expertise to ensure a consistent approach and service level to tenants of City buildings. ■ Improve understanding and awareness of real estate activities being undertaken by agencies ■ Improved governance with a consistent approach taken to the approval process, and presentation and approval by Council ■ Facilitate development of a holistic real estate strategy and enable portfolio planning through a single database
Customer	<ul style="list-style-type: none"> ■ Any agency currently performing lessor functions. This includes: <ul style="list-style-type: none"> – TPA – TTC ■ Any agency that wishes to lease City owned property in the future. 	<ul style="list-style-type: none"> ■ Sustained or improved service delivery standards: <ul style="list-style-type: none"> – Time to produce an offer to lease – Time to resolve tenant issues – Accuracy of market analysis – Dedicated resources who are accessible and responsive ■ Sustained ability to attract and retain tenants at competitive market rates to agency assets.

Stakeholder	Role	Decision Making	Reporting Relationship
Supplier (RES – Leasing & Site Management)	<p>The role of the Leasing and Site Management group will involve:</p> <ul style="list-style-type: none"> ■ Conducting market analysis and research for the development of lease content, including terms & conditions through internal resources or retention of third parties ■ Conducting negotiations with tenants ■ Tenant management and dispute resolution ■ Escalating issues requiring action from Facilities Management, Legal Services, agencies, or others ■ Developing lease abstracts for use by agencies ■ Maintaining a critical date reporting and lease administration database ■ Reporting on performance metrics ■ Providing advisory services and oversight for leases over 10 years 	<p>The City will have final decision making authority over the content of the lease agreements, including establishing standard form of lease documentation and amending clauses.</p>	<p>The Manager of Leasing & Site Management is responsible to the agencies for delivering the service standards stipulated in the SLAs.</p> <p>Performance issues that arise and cannot be resolved with the Manager of L&SM should be escalated to the Director of Real Estate Services.</p>
Customer (City Agencies)	<p>Customers of RES will be consulted on the content and terms and conditions of lease agreements as well as their desired performance objectives. They will identify operational considerations and constraints.</p>	<p>Customers have decision making authority over their lease objectives (e.g., revenue objectives) and where the terms of the lease as contemplated have operational implications, but not over the final terms and conditions of a lease.</p>	<p>Customers of agencies will deal with the Manager of L&SM for issues relating to their leases.</p>

Performance Metrics:

Centres of Excellence should be able to demonstrate that they are delivering the valued results that justified their creation through the use of output metrics. For lease management, such metrics include:

- Turnaround time
- Response time
- Revenue from leased facilities
- Initiation costs (e.g., legal and broker fees)

Service Standards

It is imperative that existing service standards experienced by agencies be sustained or improved to achieve buy-in for the proposed service delivery model. To ensure that suitable service levels are met, RES must engage potential clients to determine their expectations and negotiate feasible service level agreements.

Existing service level agreements employed with agencies (e.g., between RES and TPL), must be strengthened to ensure the provision of sufficient levels of services. Specifically,

- A **Roles and Responsibilities** section should not only state the role of RES, but also the service level standard associated with the role. Moreover, the SLA should specify where the proposed lease has operational implications for the client and the associated decision making authority and roles around this.
- A **Reporting** section should state the metrics used to measure and track performance of the service supplier as well as the frequency with which the customer should expect to receive performance reports.
- A **Problem Resolution** section should detail problem solving protocols, escalation processes, and individuals responsible for service delivery of each major role or service line.
- Appropriate **Performance Metrics** should be defined, along with the mechanism and schedule of their measurement and reporting.

Payment Mechanisms

Currently, RES uses inter-divisional charges (IDCs) on a quarterly basis to charge customers for planned expenditures and work performed. For example, TPL is currently charged a flat fee for assistance received from RES with respect to leasing transactions. Another form of reimbursement could include receiving a percentage of gross revenue earned from the rental properties. It is recommended that a charge-back method continue to be utilized as the volume of agency leases is low, and it ensures that RES will only receive reimbursement for actual costs incurred.

Revenue received from leases with external tenants will continue to flow to the respective agency, as it does today.

Benefits	Drawbacks
<ul style="list-style-type: none"> ■ Allows customers to maintain focus on strategic real estate activities that are core to their business, as opposed to tactical lessor activities which are not a core function of many agencies. ■ Sustained or improved service delivery standards (e.g., turnaround time), through the use of enforceable SLAs. ■ Potential to increase revenue for City agencies. ■ Potential reduced staffing and operational costs, in some instances. ■ Reduced risk, legal costs and issues of dispute through the use of consistent terms and conditions and approach to both retail and commercial tenant leases. ■ Ability to organize all lessor information in a lease database (i.e., SAP RE) which can later be used for data analytics, decision support, and lease audits. ■ Access to dedicated subject matter experts with well-established track records, tested processes and controls, and a focus on consistency across the corporate portfolio. ■ Provides a flexible and scalable staffing model to flex up or down as leasing activities change. 	<ul style="list-style-type: none"> ■ Some agencies may experience higher costs as the personnel currently performing lessor activities on a part-time or ad hoc basis will not be eliminated and reimbursement to RES will be required. ■ Agencies are reliant on the expertise of those who are not intimately familiar with the asset or the functions. ■ Tenants may be confused as to the role of the agency vs. the City and direct their complaints directly to agency personnel rather than RE lease administration. ■ RES' policies and procedures are perceived by some agencies to be more bureaucratic, restrictive, and slower than current processes within the agencies.

Enablers

- Executive buy-in from the City and agencies
- Use of the SAP RE system

Dependencies

- Agency buy-in and participation
- Agency agreement with service level standards and charge back rates proposed by RES
- Demonstration of value-add services and requisite expertise that RES has to offer agencies
- Validation of business case, costs, and savings of the proposed model
- Demonstrated resource capacity and expertise within RES
- RES demonstrates an understanding of the operational requirements and issues experienced by the agencies, as they relate to leasing activities
- The cost and benefit of sharing IT solutions and platforms must be justified for the volume of leases that each agency has
- When considering a common IT system, consideration must be paid to the interconnectivity and dependency of any real estate system on the financial system of an organization

Categories of Potential Savings

- Increased revenue through coordinated and consistent negotiations with retail and commercial lessors
- Decreased costs associated with current contracts for lessor activities outsourced to external brokerages by TPA

Category of Saving	Amount of Saving (\$)
Increased rental revenue	\$200,000 - \$500,000 ¹
Decreased operating expenses related to brokerage fees incurred by TPA	\$7,000 ²
Total	\$207,000 - \$507,000

Assumptions

1. Currently, the total rental revenue grossed from in-scope agencies is \$10.25 million. It is assumed that the proposed operating model could result in additional rental revenue of 2-5% per year. As a result, it is expected that savings of approximately \$200,000 - \$500,000 could be achieved.
2. Currently, TPA outsources some lessor activities to external brokerages. Data provided by TPA indicates that annual leasing fees are approximately \$7,000 per year.

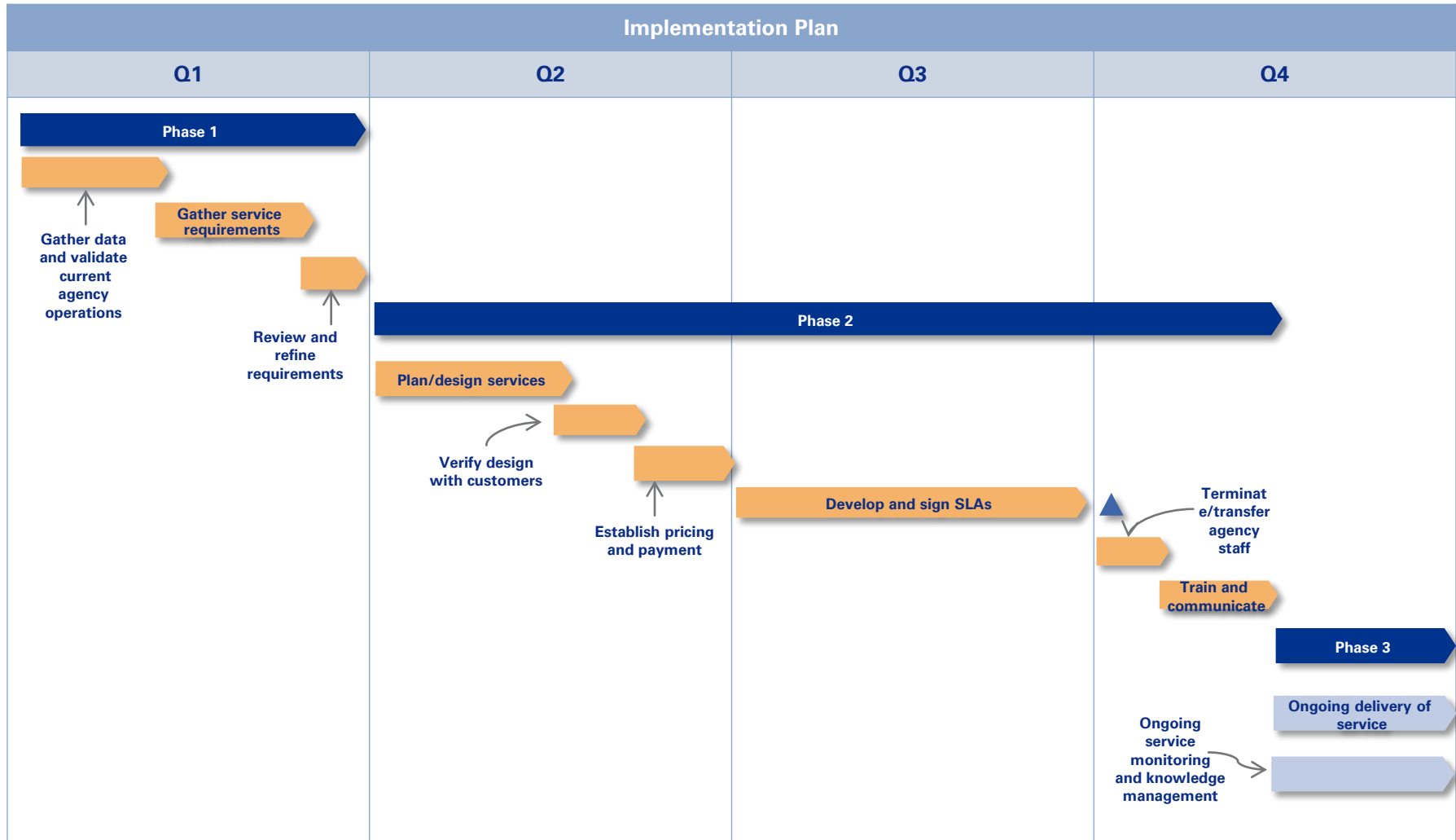
Implementation Plan

Rationalize Leasing Activities

Real Estate – Rationalize Lessor Activities

Workplan & Milestones

	Phase 1	Phase 2	Phase 3
Objective	<ul style="list-style-type: none"> Validate operations of agencies to identify those services, processes, or functions that could potentially be transferred to RES 	<ul style="list-style-type: none"> Develop the approach to be taken to deliver services and begin to transition to provision of services by RES 	<ul style="list-style-type: none"> Transfer service and successfully deliver service to applicable agencies
Key Activities	<ul style="list-style-type: none"> Validate the current operations and applicable activities to be considered in the proposed model Gather further data (e.g., existing contracts) to support the implementation of the model and understanding of current services Identify impacted people and processes Meet with clients to gather service requirements Review proposed requirements and respond to clients 	<ul style="list-style-type: none"> Plan and design provision of services Verify proposed design with customers, including confirming any assumptions Determine and agree upon pricing and payment mechanisms Develop service level agreements and a service evaluation tool Define and disseminate new business processes Transfer or eliminate staff conducting lessor activities within agencies Train clients and impacted staff on new business processes and systems 	<ul style="list-style-type: none"> Deliver service Verify that service commitments are being met Correct any issues or problems, including modifying the service delivery processes or model Perform ongoing management and monitoring of the service levels and relationship Implement knowledge management processes and feedback loops to ensure that agencies are apprised of tenant transactions
Inputs	<ul style="list-style-type: none"> Data and information describing the current operations, clients, and business of the customer agencies 	<ul style="list-style-type: none"> Meetings and collaboration between RES and agencies Business process maps 	<ul style="list-style-type: none"> RES staff Meetings between the supplier and customer Knowledge or customer relationship management software
Outputs & Milestones	<ul style="list-style-type: none"> Business requirements Desired outcomes Risk assessment 	<ul style="list-style-type: none"> Service level agreements Reduced staff complement across agencies Training and communication materials 	<ul style="list-style-type: none"> Refined lessor services Tenant revenue



▲ Significant milestone or decision point

The following individuals and groups will play major roles in the implementation of the operating model.

Entity	Role	Activities
Director, Real Estate Services	The Director is responsible for driving the adoption of the operating model following approval from the City Manager. His role will include further socialization of the model with executives from the implicated agencies and ultimate accountability for the successful transition of services.	<ul style="list-style-type: none"> ■ Meet with clients to gather service requirements and determine the L&SM's ability to meet requirements ■ Oversee the planning and design of provision of services ■ Approve service level agreements, including pricing and performance measurement terms ■ Work with agencies to identify and recommend redundant staff to be transferred or eliminated
Leasing & Site Management staff	The staff of the L&SM unit are responsible for designing, planning, and providing the services stipulated in the operating model.	<ul style="list-style-type: none"> ■ Gather further data to develop a detailed business case demonstrating the value of the operating model ■ Develop service level agreements and all deliverables required for the implementation of the model ■ Define and disseminate new business processes ■ Train clients and implicated staff on new business processes
Executive representatives from implicated agencies	Executive representatives from each in-scope agency will work with L&SM to define the terms and conditions required for the proposed operating model to be successfully implemented in their organizations.	<ul style="list-style-type: none"> ■ Provide further information and data, as requested by L&SM ■ Determine feasibility of proposed model based on detailed business case ■ Meet with L&SM to define service requirements ■ Identify implicated people and processes

Real Estate – Rationalize Lessor Activities

Risk Mitigation Plan

Risk	Mitigating Action(s)
Mistakes or weaknesses in the approach or business model of RES are made on a greater scale, across multiple agencies	<ul style="list-style-type: none"> ■ Each agency should review and validate the alignment of RES' approach to delivering lessor services with their respective expectations and requirements. In so doing, any risks or issues with the operational model should be flagged for action prior to implementation. ■ RES should determine what is needed in order to scale their current service delivery model.
Operational nuances and requirements of each agency are not understood by RES	<ul style="list-style-type: none"> ■ During the due diligence stage and prior to signing service level agreements, each agency should endeavor to outline and train the L&SM service delivery teams on pertinent operating knowledge required to successfully deliver lessor services. This could include sharing background documentation such as process maps or procedural manuals, or "shadowing" operational staff.
Poor performance of RES will affect the financial performance of the City and agencies	<ul style="list-style-type: none"> ■ Service level agreements should clearly state the agreed upon revenue objectives of the client and any repercussions or escalation protocols related to performance. ■ Client agency to identify operational concerns/ constraints for inclusion in the lease negotiations.
Agencies are currently satisfied with their own services and performance levels and perceive any loss of control or oversight over lessor activities to be a risk to existing relationships with tenants	<ul style="list-style-type: none"> ■ Similar to the operating knowledge described above, knowledge transfer is required between the client and service provider in order to ensure successful delivery of services to both the client and the tenant.

Cost Factors

It is estimated that this model would result in ongoing operating costs of \$49,000 related to compensation paid to RES for their services.

Cost Category	Item	Cost
Operating	SAP RE Suite license fees	0 ¹
	Total service fees charged by RES to TPA	\$49,000 ²
	Total service fees charges by RES to TTC	0 ³
Labour	-	-
Capital	-	-
Total	One-Time (Implementation) Costs	-
Total	Ongoing (Annual) Costs	\$49,000

Assumptions

1. Currently, the City utilizes the Real Estate suite of SAP. It is assumed that the model can be implemented using existing licenses the City has with SAP RE.
2. TPL currently has a service level agreement with the City for the provision of leasing activities. TPL pays an average of \$1110 per lease per annum for services rendered by RES. It is assumed that the increased scope of activities proposed in this operating model (as compared to those services currently received by TPL) could increase costs to \$1,300 per lease. If this benchmark fee is applied to the 38 leases of TPA, total service fees sum to approximately \$49,000 per annum for TPA. No new or additional fees are contemplated for TPL.
3. It is assumed that 1 FTE will be required to service the needs of TTC. This FTE could be transferred from TTC, with labour costs continuing to be paid by TTC, or RES may dedicate its own resource and a charge back model may be used.

Communication Strategy

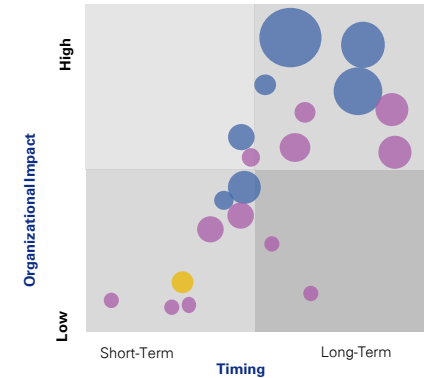
Target Audience	Stakeholder Perspective	Impact Rating (H,M,L)	Frequency of Interaction (Frequent, Moderate, Low)	Medium(s) of Interaction
Clients	<ul style="list-style-type: none"> ■ Desire to understand operating model and costs ■ Desire to maintain autonomy and independence with respect to lessor activities ■ Desire to meet or exceed revenue targets ■ Desire to receive timely, efficient and cost effective customer service 	Medium	<ul style="list-style-type: none"> ■ Frequent – Interaction and communication with potential customers is key to the successful execution of the model. Communication should begin in the early stages of implementation when RES should seek to communicate its value proposition and obtain customers, and extend well beyond implementation when RES should communicate its ongoing performance. 	<ul style="list-style-type: none"> • In-person interviews and meetings • Briefing letters • Performance status reports
Implicated Staff	<ul style="list-style-type: none"> ■ Desire to deliver and maintain high customer service levels ■ Desire to maintain employment with the City 	High	<ul style="list-style-type: none"> ■ Frequent – Staff potentially implicated by the model should be alerted to the decision to move forward with implementation and informed of key dates for future communication and decision making as soon as possible 	<ul style="list-style-type: none"> • In-person, by management • Internal meetings • Briefing letters
Labour Groups	<ul style="list-style-type: none"> ■ Goal of maintaining or increasing the number of member and enforcing the stipulations of the collective agreements 	Low	<ul style="list-style-type: none"> ■ Moderate – Unions should be engaged early in the process and kept abreast of major decisions and milestones 	<ul style="list-style-type: none"> • Briefing letters
Tenants	<ul style="list-style-type: none"> ■ Ongoing responsiveness and high customer service from landlord 	Low	<ul style="list-style-type: none"> ■ Low – Tenants should be engaged following approvals and formal decisions to move forward with the operating model. Communication should stress changes to roles, responsibilities, business process, and day-to-day service, as well as new communication protocols and contacts, if any. 	<ul style="list-style-type: none"> • In-person, by management • Briefing and training documentation

2.2 Tier 2 Operating Models

This section of the report describes the shared service opportunities proposed for adoption which were categorized as “Tier 2”. The section is organized by function and by operating model. A similar structure and headings are applied to each operating model.

Description

The City and all of its agencies currently offer training opportunities to their employees in order to develop technical, management, and personal skills. While most of the training provided is specifically tailored to the needs of each organization and its people, a portion of the offered curriculum is generic in nature, including leadership skills, managerial competencies, behavioural traits, etc. Furthermore, some technical training is also widely applicable to many organizations, such as general computer use, Office applications, trades, health and safety, and regulation/legislation related courses. We recommend that such training be provided as a shared service to the City and its agencies in the future. Curriculum development and training activities could be coordinated through the HR Division of the City, expanding its current scope to connect and engage various agencies. Where economically sensible, the City or agencies would utilize their own training and educational workforce, while retaining the ability to supplement its own capacity with generic training contractors.



Rationale / Benefit

The new shared service generic learning function would reduce the need to plan, coordinate and execute training activities that are not unique to their respective organization. Moreover, with an expanded scope, the City could better deploy and utilize its staff trainers and negotiate better pricing for external generic learning contractors.

Benefits

- Improved focus on specialized training for agencies
- Better utilization of City and agency training resources (space and personnel)
- Potential for better pricing with increased economies of scale (individual agencies no longer will have to procure training resources on a small scale)
- Consistent approach (content development, delivery, evaluation) to generic training across the City

Drawbacks and Risks

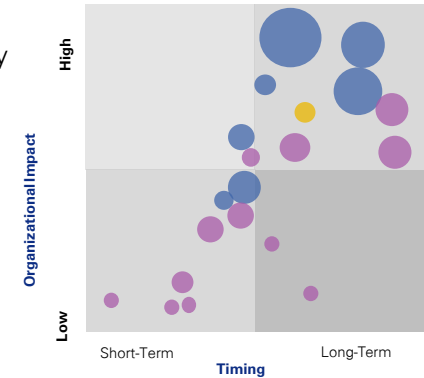
- Existing agency contracts with training organizations may delay immediate implementation – agencies will commence participation upon contract expiry

Key Considerations

- Agencies will need to clearly delineate and segregate generic training from specialized technical training they currently undertake
- Agency needs (demand for services, type of training) need to be taken into account by the City when coordinating curriculum and timing of courses
- A payment mechanism will need to be set up between the service provider and customers (e.g., budgetary item, inter-departmental charge, etc.) to reimburse the service provider for training of agency employees
- Current agency employees delivering generic training may need to be shared or transitioned to the service provider

Description

The Human Resources functions in the City and its agencies are relatively similar in mandate and focus; however, they appear to be quite distinct in their use of information systems that enable and support their activities. This is largely a result of uncoordinated approach the agencies employed as they matured to their current state of operations. Thus, several systems now exist, including employee records, recruitment management, learning management, virtual training, time and attendance, and payroll systems, each with its own license costs, maintenance costs, and upgrading/development costs. We recommend that the City adopt a leadership role in standardizing HR information systems across agencies, incorporating their needs into the development and implementation of common platforms and applications. As the City's own systems come up for renewal or upgrade (e.g., the Time and Attendance system, which is currently up for renewal), the City's HR and IT stakeholders need to work closely with in-scope agencies to incorporate their requirements into a City-wide solution.



Rationale/Benefit

A standardized set of HR information systems across the City and agencies would allow for a common approach to HR management, eliminate the need to support several competing solutions in parallel, and reduce IT operating costs for the participating organizations. It would also potentially enhance services to employees, as smaller agencies gain access to functionality that they wouldn't otherwise afford on their own.

Benefits

- More modern, functional systems for HR across the City and agencies
- Consistent approach to HR management
- Lower maintenance and upgrade costs, potentially lower license fees
- Improved services to employees

Drawbacks and Risks

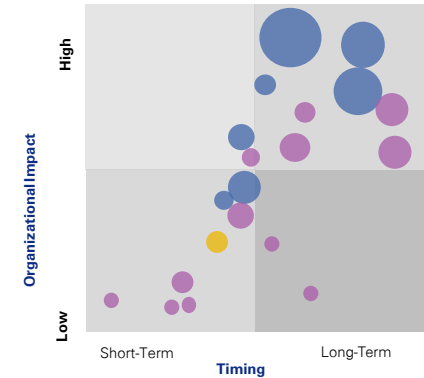
- Business requirements of agency organizations may be materially different from the City (complexity, privacy, etc.), making it difficult to implement a common solution
- Agencies may need to customize applications for their own use, leading to further fragmentation and higher costs

Key Considerations

- The business needs and technical requirements of agencies need to be reflected in the common HR system the City implements. This could be done through a joint HRIS working group – a body of City and agency HR and IT representatives with a mandate to define common requirements. A review of the business requirements of the City and its agencies regarding how each currently rely on and utilize their current information systems and identification of future information system needs will need to be conducted prior to making a determination on what specific savings and other positive results could be achieved.
- The cost of common systems should be shared among the City and participating agencies on a proportionate basis (i.e., number of employees, budget)
- System changes should be implemented with minimal impact on employees to reduce potential business disruptions

Description

Under the Ontario Occupational Health and Safety Act (OHSA), organizations such as the City and its agencies must carry out a range of legal obligations related to employee well-being in the workplace. This entails protection of workers, provision of relevant information and support, development and implementation of policies and procedures, and executing programs that fall under the Act. Currently, agencies manage health and safety (H&S) as part of their HR function, with minimal coordination and information sharing among their peers and the City. We recommend implementing a shared services model for the provision of occupational health and safety services, to be led by the City's HR division. The services would entail development of H&S policies and procedures, interpreting and advising agencies on new legislation, and supporting agencies' HR departments in the implementation of H&S programs. Site and organization specific processes (posting of policies, joint H&S committees, supervisory duties) would remain with respective agencies, as per provincial legislation.



Rationale/Benefit

By implementing a centralized common occupational health and safety function across the City, participating agencies can shift focus and resources to more specialized employee support functions, while still meeting the legislative requirements of the OHSA. Furthermore, such an arrangement would reduce or eliminate the development of duplicative programs, policies, and procedures, thereby reducing costs and increasing standardization.

Benefits

- Reduced costs and elimination of duplicative activities across agencies
- Improved consistency and standardization of policies and procedures
- Enhanced focus on strategic HR services
- Concentration of H&S expertise within the City, leading to provision of better guidance, advice, and support

Drawbacks and Risks

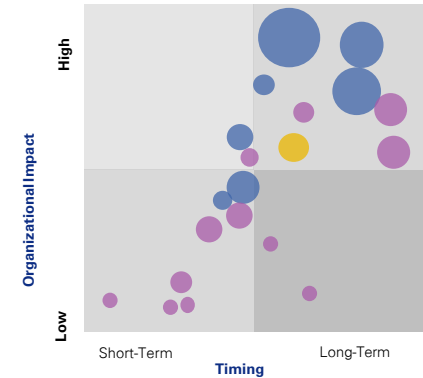
- The legislative requirements of the OHSA need to be analyzed to determine whether a shared service arrangement is consistent with provincial legislation
- In critical situations, H&S expertise may not be available on site at agencies

Key Considerations

- Occupational health and safety functions at some agencies may be highly specialized, due to the nature of the employee work (e.g., police officers, bus drivers, nurses, etc.). This organization-specific expertise needs to be retained within agencies. One of the first steps in implementation should be determining which H&S functions and expertise can be centralized and which must be maintained locally.
- The application of OHSA to shared service models should be understood prior to consolidating H&S functions across agencies
- In certain instances, development of H&S programs, policies, and procedures will need to take into account agency specific requirements and circumstances. Thus, some customization of generic H&S work products may need to take place to make them relevant to participating agencies

Description

Payroll and benefit administration functions are some of the most transactional activities in an organization. Often, they are one of the first candidates for a shared service or an outsourcing arrangement. However, the vast majority of agencies in the scope of this review run their own payroll and administer benefits for their employees with internal staff. While City's Payroll, Pension, and Employee Benefits (PPEB) has demonstrated its ability to deliver payroll, and benefits services amongst a complex organization with many different business rules, collective agreements and in accordance with legislation, interviews and analysis of the PPEB Division suggest that the City is currently not mature enough to take on transactional payroll-related activities from agencies. PPEB is preparing for a technology-enabled transformation, which when implemented would significantly enhance the division's capacity to operate as a shared services organization. This journey is expected to take up to five years. We recommend that as a result of the envisioned transformation, the PPEB (or similar functional agency) become the provider of payroll and administration services for agencies. Hence, new business processes and technological supports need to be incorporated into the transformation plan to create and sustain such capacity.



Rationale/Benefit

Performing duplicative payroll and benefit administration functions across multiple agencies is much costlier than operating them using a centralized or shared model. Instituting one organization responsible for this activity across the City could substantially lower payroll costs, reduce errors and improve consistency and service levels for employees. This model allows agencies to gain access to modern payroll and benefit systems and efficient processes.

Benefits

- Lower payroll and benefits administration costs
- Streamlined, consistent, efficient business processes
- Greater economies of scale
- Improved business case for new systems due to larger pool of employees
- Improved service levels and reduced error rates

Drawbacks and Risks

- Complexity of agency employee contracts and work arrangements (e.g., forward pay for police officers) may hinder full adoption of shared service
- Legacy Time and Attendance systems may pose technological challenges
- The PPEB transformation will require initial investment in new technology and process redesign

Key Considerations

- PPEB needs to operate as a highly efficient service provider in order to deliver benefits to agencies. Alternatively, a shared service agency with the same function needs to be created to be able to operate as a business within the City
- Service level agreements between the City and participating agencies need to be put in place to measure performance levels and costs
- Time and attendance systems across agencies need to be consolidated or integrated with the City's payroll system for full process automation
- Various benefit arrangements across agencies will need to be respected and reflected in the flexibility of the shared services model
- For some agencies (e.g. TPL), portions of the payroll functions are currently contracted out to third party providers

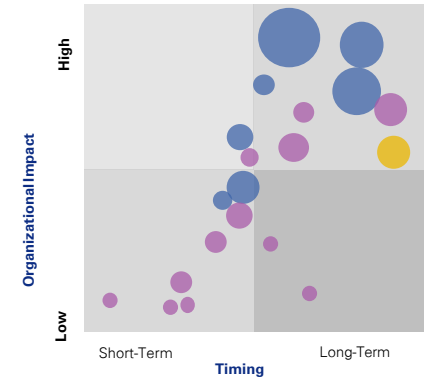
Description

As an extension to the proposed infrastructure shared service unit, we recommend the establishment of a seconded project team with the objective of implementing an application rationalization program. The purpose of this team will be to design the future target state of the application landscape, and identify potential applications for consolidation. This team may leverage and expand upon the rationalization exercise which began in September 2011 within the City to include agencies as well. It is expected that this team be comprised of representatives from organizations participating in the proposed shared service model and be governed by the same governance structure as the proposed shared service unit. Working in collaboration with infrastructure consolidation program, this team is expected to take advantage of centralized infrastructure once consolidation is complete and leverage this to identify opportunities for sharing applications, consolidating license agreements, and driving towards standard systems. In the interim, it is suggested that working groups be formed to utilize and build upon the Business Capabilities Model developed by the City's Enterprise Architecture group to begin identifying and assessing domain areas of common business processes and the potential for standardizing applications.

Some of these areas identified by stakeholders during the course of this study include the following areas: Time and Attendance; Geographical Information; Work Order Management; Capital Project Management; Financial Accounting; Learning Management; Document Management.

Rationale/Benefit

Rationalizing applications and standardizing to shared applications where there are common business needs provides an opportunity to realize financial benefits through reduced costs for enterprise licensing and support. Further, this standardization of processes and applications is the foundation required to establish competency centers for functional areas and applications, which is expected to result in potentially improved service delivery and staff development.



Benefits	Drawbacks and Risks
<ul style="list-style-type: none"> ■ Reduced application maintenance, upgrade, and support costs ■ Ability to build critical mass of competence for supporting applications ■ Opportunity to conduct application rationalization in unison with standardization of hardware/infrastructure ■ The implementation of an IT rationalization program may result in additional funding for individual IT departments to support the initiative 	<ul style="list-style-type: none"> ■ Unique business processes of different organizations may not provide the commonalities required for standardizing applications ■ Standardizing common processes may have a potentially large change impact on individual organizations and involve significant change ■ Risk of cultural resistance to standardization, augmented by perceived fears of loss of autonomy over systems and processes ■ Risk of reduced service levels without sufficient SLAs

Key Considerations

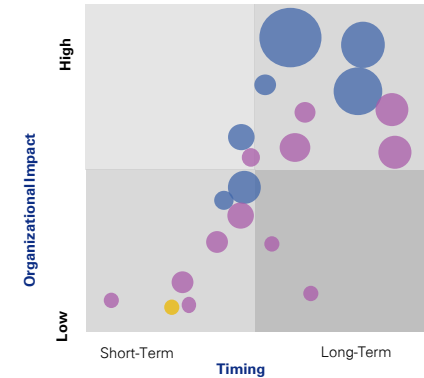
- The establishment of a common IT infrastructure is considered a strong enabler of common applications
- As an enabler and potential first step, the City and its agencies may seek to understand the cost to operate and maintain their current applications
- The implementation team must be comprised of representatives from participating organizations, potentially including business areas, and be an extension to the proposed infrastructure shared service model
- Infrastructure consolidation is a key enabler as it provides the ability to easily capture the application landscape at the infrastructure level – this data is a critical success factor for driving discussions and presenting business cases for standardizing to shared applications for common functional areas
- This is a need for a dedicated and structured program that seeks to identify common functions, drive standardization of processes, and develop business cases

Insurance and Risk Management – Use of City Insurance by TPA

Summary of Proposed Operating Model

Description

The majority of agencies in the scope of this review maintain insurance through the City. Rather than procuring insurance from an external provider, the City pools risk across its divisions and agencies and covers losses through its own reserves. Divisions and agencies covered by the City pay a premium for this service through a budgetary transfer. Only TTC and TPA procure their own insurance. While TTC has a specialized set of risks, which warrant its own insurance arrangement, the TPA has a standard risk profile, which could be covered by the City's insurance. If the City can provide insurance on similar terms for an equal or lower premium than TPA is currently incurring, we recommend the TPA adopt the City's insurance program. In this case, the onus lies with the City's Insurance and Risk Management Unit to demonstrate a business case that TPA can agree is of equal or superior benefit for their participation. The payment would be made from TPA to the City through a budget transfer.



Rationale/Benefit

The City, due to its size and diversity of programs, is able to manage risks across a wide variety of divisions and agencies. Providing insurance services to TPA would not significantly alter the City's risk profile, and, therefore, the incremental premium is likely to be lower than what TPA is currently paying in the market. Benefits to the TPA would include lower insurance premiums, while the City is able to broaden its client portfolio, thereby pooling risks better.

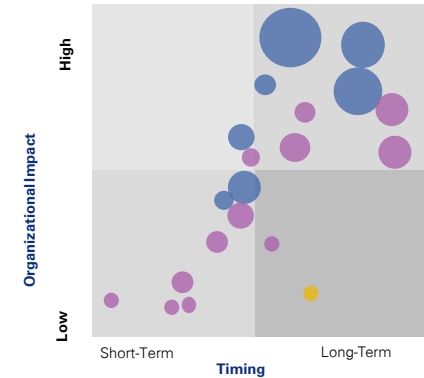
Benefits	Drawbacks and Risks
<ul style="list-style-type: none"> ■ Potential for lower insurance costs for TPA. Even with equal costs, it is a perceived benefit to have money stay within the City as opposed to buying insurance from the private sector ■ Revenue source for the City from TPA premiums ■ Spreading of risk to a larger base of insured organizations 	<ul style="list-style-type: none"> ■ City may not fully account for all risks associated with insuring TPA, leading to an appearance of lower price but with relatively smaller coverage scope ■ A claim by TPA may result in a significant loss to the City ■ TPA considers its current claim processing to be highly effective and efficient. The City may deliver different levels of service to TPA's current standard. ■ If partnership with the City proves unsuccessful, there may be costs and drawbacks associated with re-entering the private insurance market again.

Key Considerations

- City and TPA need to be confident that the coverage terms and conditions are comparable to the current scope of insurance in order to make an informed decision
- City may need to account for potential loss provisions with additional coverage of TPA

Description

Currently the TTC carries a number of insurance policies, including Property, Boiler & Machinery, Crime, Automobile, and Fiduciary, as well as Excess Liability (over \$5M deductible). Some of these are specialized to TTC's operations and environment, while others are relatively common. In addition to paying premiums for these policies (non-construction insurance is approximately \$3.8M), TTC also employs services of a broker. It is proposed that TTC work with the City on the procurement of insurance products (i.e., rationalizing broker services), as well using the City's insurance for the coverage of non-specialized policies. Specialized insurance for property should be provisioned by a separate insurer, as the nature of the asset and risks is very distinct from those faced by the City. The City and TTC should work jointly to identify the exact coverage areas and required terms to ensure that specialized operational risk remains with TTC and its insurers, while general risk is transferred to the City through this arrangement. Based on identification of areas and terms, the City should develop a proposal to TTC to provide insurance coverage, and, upon agreement, underwrite the policies.



Rationale/Benefit

The TTC would likely experience a reduction in premiums (contingent on a proposal/business case from the City). The City would be able to expand its coverage reach and recognize TTC premiums as revenue. Both the City and the TTC could experience reduction in brokerage fees due to economies of scale and rationalized approach to insurance procurement.

Benefits	Drawbacks and Risks
<ul style="list-style-type: none"> ■ Lower insurance costs for TTC ■ Revenue source for the City from TTC premiums ■ Lower brokerage fees ■ Spreading of risk to a larger base of insured organizations 	<ul style="list-style-type: none"> ■ City may not fully account for all risks associated with insuring the TTC, leading to an appearance of lower price but with relatively smaller coverage scope ■ Rationalization of brokers may not offer specialized transportation expertise for TTC ■ A claim by TTC may result in a significant loss to the City

Key Considerations

- The City should develop a comprehensive proposal to the TTC on the coverage terms, conditions, and premiums, incorporating its ability/capacity to take on a greater degree of risk. This recommendation is contingent on the City premiums being lower than what TTC currently pays.
- The City may need to deploy additional resources associated with the development of a proposal / business case (a temporary expense) and providing insurance policies (likely a permanent resource). These should be considered as part of the expense in the business case calculations.
- Risk profile of City assets and policies may change substantially with this model, as it take on a significant operational entity as an insured client.
- The successful broker will need to provide specialized account expertise to the TTC to identify and gain access to transportation focused underwriters.

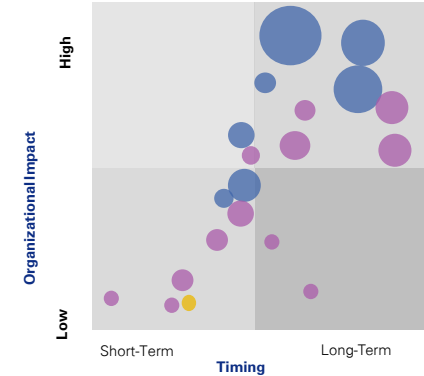
Summary of Proposed Operating Model

Description

The model proposes that in-scope City agencies that currently do not have an internal audit function within their organization should utilize the City's Internal Audit Division (IAD) for their respective compliance, assurance and business risk consulting needs.

Agencies that are potential customers of this model include TPL, TPH and EP, which do not possess extensive internal audit capabilities. While it is understood that the IAD is currently being utilized by some of the organizations listed above, this is not the case for all agencies and the City is not used exclusively in all cases. Moreover, this model could be extended to other agencies which are out of scope for this review (e.g., TCHC).

It is proposed that IA services be charged back to the agency based on the time and effort required for the services rendered.



Rationale/Benefit

Currently, some agencies do not perform internal audit activities or do so on an ad hoc basis. In other instances, agencies may outsource their audit needs to external professional service firms. The internal audit division has the capacity and expertise required to assist agencies to identify and address their audit requirements while reducing organizational risk and increase service levels.

Benefits

- Increased compliance and decreased risk for organizations that do not currently procure internal audit services
- Access to an internal audit service provider with knowledge and understanding of City agencies
- Long-term savings could be realized through a reduction in risk, increased compliance, and increased efficiency

Drawbacks and Risks

- For those organizations not performing audit activities today there will be an increased cost associated with accessing a new service
- Potential cost associated with the addition of staff to build capacity within Internal Audit Division (IAD). Both cost categories are dependent on the demand for services, which is defined by the size and nature of the customer's organization and their respective risk profiles

Key Considerations

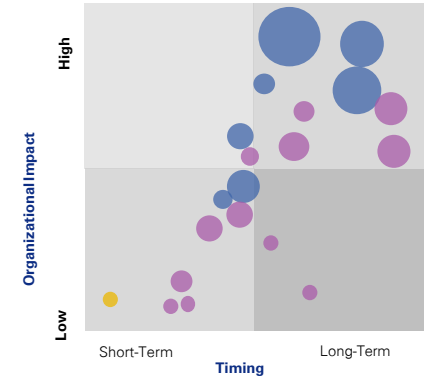
- Further discussions and data is required to understand potential candidates for the service
- IAD should market its services to assist customers to understand when and how IAD should be used
- Customers require assurance that IAD staff will be specifically dedicated to their organization in order to build and retain knowledge of the respective organization's risk profiles, operating models, history, etc.
- Clear and specific service level agreements must be developed and utilized with customers. This should include defining the customer or sponsor of the IAD findings, and defining expectations around response and actions on the part of the agency

Description

The model proposes to establish a Quality Assurance Centre of Excellence (CoE) within the City of Toronto to be accessed by staff currently performing quality assurance functions across the City. The scope and definition of quality assurance activities would be refined and validated by the members of the CoE, but could include activities relating to risk management, customer service, continuous improvement, value for money, and ensuring compliance with standards or legislation.

The CoE is a community of practice which meets at defined times (e.g., quarterly) with commitment from existing staff and the objective of increasing the maturity of quality assurance within the City by promoting collaboration and offering standards, methodologies, tools and knowledge repositories for the members. It is proposed that the CoE be run out of the City Manager's Office (CMO), in that the CMO would coordinate and drive the mandate of the CoE. However, representatives from multiple City divisions would work together to develop the content and outputs for the CoE, as well as participating in discussion forums.

A variation of the model proposes to expand the services and membership of the CoE to City's agencies, and to increase scope beyond quality assurance and continuous improvement (e.g., broader internal audit functions, etc.).



Rationale / Benefit

Currently, multiple divisions within the City conduct some level of quality assurance activities with varying degrees of maturity and expertise observed across these divisions. The model seeks to contribute to the maturity and standardization of quality assurance within the City, thereby improving service delivery levels and compliance.

Benefits	Drawbacks and Risks
<ul style="list-style-type: none"> ■ The adoption of leading practices and standards for QA across the City ■ Increased access to subject matter experts ■ Increased collaboration and sharing among City divisions 	<ul style="list-style-type: none"> ■ Participation in the CoE will require dedicated time and effort from members whose time is perceived to be at capacity ■ Accessing specialized resources may be complex given the shared funding arrangements of some divisions

Key Considerations

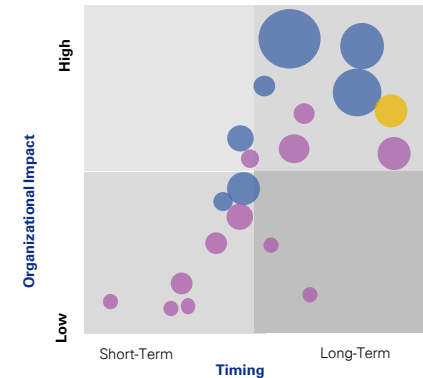
- Members must define current state gaps and areas of opportunity for the CoE to target
- Clear delineation of roles and responsibilities for the CoE, CMO and customers is required
- Managing the assignment of additional work and responsibilities to resources who are currently operating at capacity
- Marketing and communicating the objectives and directives of the CoE across the organization

Description

This model proposes to expedite the transition to digital records currently taking place at the City. It is understood that the City has a digital records strategy to move the City towards digital records through the implementation of stepwise initiatives (e.g., EDRMS implementation, digital image library, etc.). It is recommended that CIMS develop a business case to advance the implementation of digital records across the City and its agencies in the near future. To the extent possible, this model would see all information that is created in digital form, is also stored in a digital form. Moreover, this model is focused on creating a cultural shift in the operations and manner of business conducted by the City.

Rationale/Benefit

The City's storage facilities are currently operating at 95%+ capacity, with duplicate records existing in both physical and digital formats. It is inefficient to convert digital information to paper to store and manage it. Moreover, the current operating model will become increasingly impractical as the City becomes more reliant on digital technologies. Transitioning to a predominantly digital records environment means that records can be easily identified and located but also that they are trustworthy, authoritative, and able to withstand scrutiny.



Benefits

- Enables the City's Open Government agenda
- Reduce overlap and create one authoritative source for records
- Quicker access to and retrieval of information, leading to better-informed decision making, increased service delivery and reduced information silos
- Cost savings realized from less creation, storage, retrieval and handling of paper records

Drawbacks and Risks

- Implementation of the model requires significant planning and change management
- Reliance on digital records introduces risk related to information technology. For example, software or hardware malfunctions would cause major disruptions to a digital record environment
- Digital records management is dependent on the skills and ability of staff to operating in an electronic environment
- The proposed model is prone to data entry or filing errors
- Digital records can be vulnerable to unauthorized access, either by hacking or by lax security

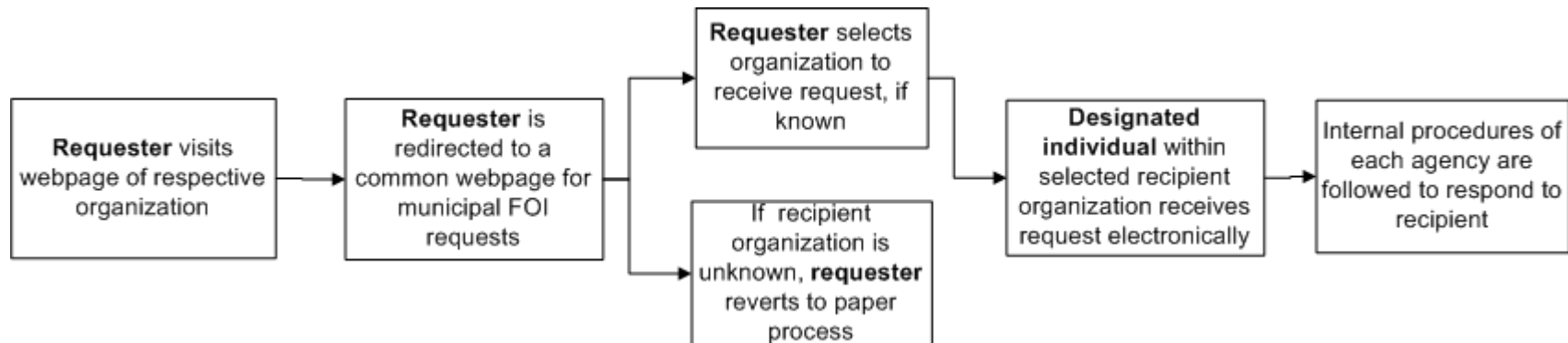
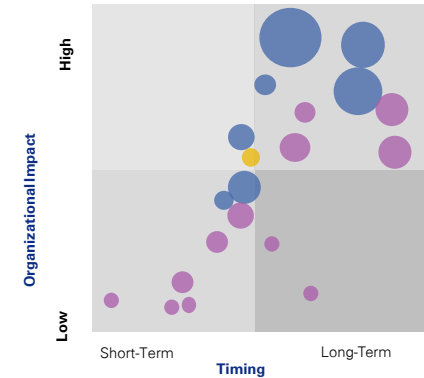
Key Considerations

- The cultural shifts and the management of change across the organizations would be substantial
- A cross-organization funding model would be needed to build, roll-out, and sustain the recommended transition
- A business case should be created to expedite the full transition to digital records, including identifying the resources required to implement the change and the specific records which are suitable for digitization
- Participating organizations may need to set aside their existing or planned digital information management initiatives in order to participate in EDRMS
- The City and agencies may need to commit resources to define and develop common requirements, standards, and components for the management of digital information
- Post-implementation, business processes should be revised to include electronic records and documentation
- A change in organizational structure is likely required to enable the implementation of the model (e.g., linking RM and IT)
- Significant corporate awareness and training is required to prepare the organization for the model
- The model may place increased requirements on multiple entities within the City (e.g., Internal Audit)

Description

The model proposes to automate and digitize the submission and intake of Freedom of Information (FOI) requests submitted by the public to the City and its agencies. As illustrated below, a common IT platform would be implemented in each organization to allow the public to submit FOI requests and payment using an online form which would automatically direct the request to the appropriate entity. Each agency would have their own intake back-office interface. The platform would enable refunds of payment, where appropriate. Information collected from the request would be automatically entered into a database owned by each entity, therefore eliminating the need for manual entry.

The proposed model does not change activities relating to preparing and submitting a response to an FOI request, nor does it affect the appeal process through the Information and Privacy Commissioner. Hardcopy applications and cash payments would continue to be accepted, in order to ensure that the process is accessible to all applicants. Moreover, applicants who are unsure as to which agency to direct their request would continue to submit their requests through the current process.



Rationale/Benefit

The six organizations in-scope for this review cumulatively process approximately 8,000 FOI requests per year, with the majority (65%) of requests submitted to TPS. The submission and intake processes are manual and involve redundant activities. Automation of the submission and intake process would ultimately lend itself to increased standardization, decreased manual processing, and increased service to the public. Moreover, this model is aligned with the City's Open Government agenda.

Benefits	Drawbacks and Risks
<ul style="list-style-type: none"> ■ Reduced omissions through controlled and standardized form fields leading to reduced communication and clarification between the applicant and entity ■ Increased ability to analyze and proactively respond to request trends as a result of inherent data analytical capability ■ Decreased manual entry of information by the requestor and municipal entity ■ Requests are accurately time stamped ■ Supports Open Government agenda and open data 	<ul style="list-style-type: none"> ■ Simplifying or enabling the submission of FOI requests could potentially increase the number of requests received ■ Paper and manual processes must be retained to support accessibility

Key Considerations

- The online platform must be aligned with the stipulations of *The Freedom of Information and Protection of Privacy Act (FIPPA)*, *The Municipal Freedom of Information and Protection of Privacy Act (MFIPPA)*, *The Personal Health Information Protection Act (PHIPA)* and the *Accessibility for Ontarians with Disabilities Act* and standards, including ensuring secure distribution of requests to the respective agencies
- The IT solution should be compatible with the technologies of all entities
- Sufficient communication is required with the Public regarding the implementation of the new request platform

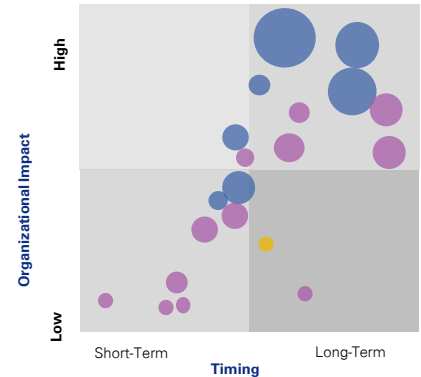
Description

It is proposed that a Joint Working Group be established to formalize a community of practice for records management practitioners across the City. While it is understood that some agencies i.e., TTC, EP, TPH, etc. have already adopted or replicated, to some degree, the City's records classification, standards, taxonomy and retention schedules (termed collectively as "Records Schema"), and that collaboration and consultation between the City and agencies exists on a working level, the proposed working group is specifically focused on formalizing these relationships and expanding the records schema to other agencies (e.g., TPL and TPA) and to a greater scope of records.

Moreover, the Working Group would operate on an ongoing basis, beyond the implementation of a common records schema to achieve other objectives and promote the profile of records management across the City.

Rationale / Benefit

Opportunities exist to formalize working relationships between organizations in order to approach records management in a consistent manner, ensure a standard service level across the City, reduce corporate risk, and to learn from the experience and lessons of others.



Benefits

- An ongoing forum is established to share and access information, to identify and drive strategic records management initiatives, and to continually increase the effectiveness and efficiency of records management across the City.
- Increased standardization and consistency of record systems across the City
- Reduced risk in organizations that are not currently implementing leading practices in records management

Drawbacks and Risks

- Significant time and effort may be required for a Joint Working Group to develop a common schema
- Risk of a lack of buy-in from participating agencies if the master schema is not perceived to be flexible or implementable

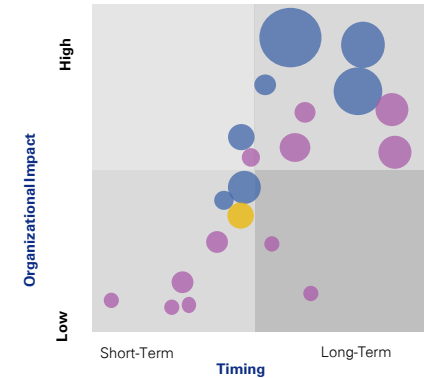
Key Considerations

- Members must define current state gaps and areas of opportunity for the Joint Working Group to target, including the necessity of a common records schema
- If implemented, training and communication of the new schema and associated changes to those responsible for records management within the divisions, departments and units of the in-scope organizations is required
- If implemented, City Council, Boards, and Commissions must have a sufficient understanding of the benefits and risks associated with reduced retention periods if legislative or regulatory change is required

Description

The model proposes that information regarding contract and vendor management and performance be shared across the City and its agencies for outsourced real estate services such as appraisals, tenant improvements and remediation. The City's RES will establish, own and manage an information system platform (e.g., SAP Real Estate Suite) in order to maintain a database of vendor records such as lists of reputable vendors and vendor performance assessments. Moreover, the RES will also collaborate with the real estate divisions of the City agencies to develop a common approach and leading practices to vendor management.

In some instances, RES could also provide vendor and contract management services to applicable agencies, including developing requests for services documentation and negotiating specifications on behalf of the agency.



Rationale/Benefit

Currently, real estate professionals across the City and its agencies are utilizing multiple vendors and implementing contracts with little communication or oversight across organizations regarding the performance of vendors. Implementation of this model seeks to ensure that agencies may learn from the experiences of others to reduce costs and risk by utilizing the services of a central and authoritative source of vendor information,

Benefits

- Potential elimination of duplicative activities currently taking place across agencies and the development of consistent standards for real estate services and products.
- Seeks to ensure that clients receive better products from vendors by maintaining a vendor database with an assessment of the performance of the vendor/ service provider
- Reduced or eliminated charges associated with poor quality or inaccurate work, as increased performance management would seek to weed out vendors of ill repute and reduce the need for work to be redone
- By leveraging SAP technology, this model provides improved visibility and control over vendors and related payments

Drawbacks and Risks

- Agencies may not perceive RES to have the skill and capacity required to effectively manage a database of contracts and vendors
- SAP is considered an important enabler for this model, however not all agencies currently utilize SAP

Key Considerations

- Great consideration must be paid to communicating and marketing the services of RES to agencies, and ensuring that agencies have access to the requisite technology (i.e., SAP RE).
- Customers must have input into the performance rating and shortlist of vendors and maintain autonomy in their selection of vendors.



Appendix A:

Leading Practice Review of
Shared Services in the Public
Sector

The City of Toronto has engaged KPMG to undertake a cross-corporate Service Efficiency Study on Shared Services. The purpose of this report is to examine shared service delivery models in other jurisdictions to understand the successes and challenges faced by these organizations from initiation through implementation of shared services.

We interviewed the following jurisdictions to gather their insights around their experiences with shared services:

Table 32 – Profiles of Jurisdictions

Jurisdiction	Employees (est.)	Focus of the Interview
City of Ottawa	12,000	Cross-Corporate Shared Service Model Public Works, Infrastructure, HR, IT, Communications
Province of Ontario	65,000	Ontario Shared Services Finance, HR & Payroll, Enterprise, Supply Chain
City of Los Angeles	32,000	HR and IT
City of Chicago	32,000	IT

We also investigated these jurisdictions to better understand different shared service models:

- City of New York
- Queensland State, Australia
- State of Michigan
- State of Florida
- Commonwealth of Pennsylvania
- City of Minneapolis
- State of Utah

Background

- In 2001, the City of Ottawa underwent amalgamation, which resulted in multiples of various corporate functions because most operating departments had their own functions built into their departments. The City decided to consolidate certain functions and developed a “Centre of Expertise” (COE) strategy with a goal to save money, increase accountability and establish a common focal point for each function. The functions in the COE model included clerk, IT, fleet, HR, facilities and property asset management.
- It soon became evident that the COE model presented challenges because there was too great a focus on governance, managing risk and enforcing regulations versus delivering services and establishing policies. The COE model became siloed and issues prevailed between the departments and the COEs, resulting in a creep back to the original model, as departments began to bring in their own resources.
- In 2009, the Auditor General recommended a transition to a shared services model. The goal was to leverage and build on the strengths of the COE model, while addressing gaps in governance, accountabilities, resource allocation, funding and service levels.

Approach

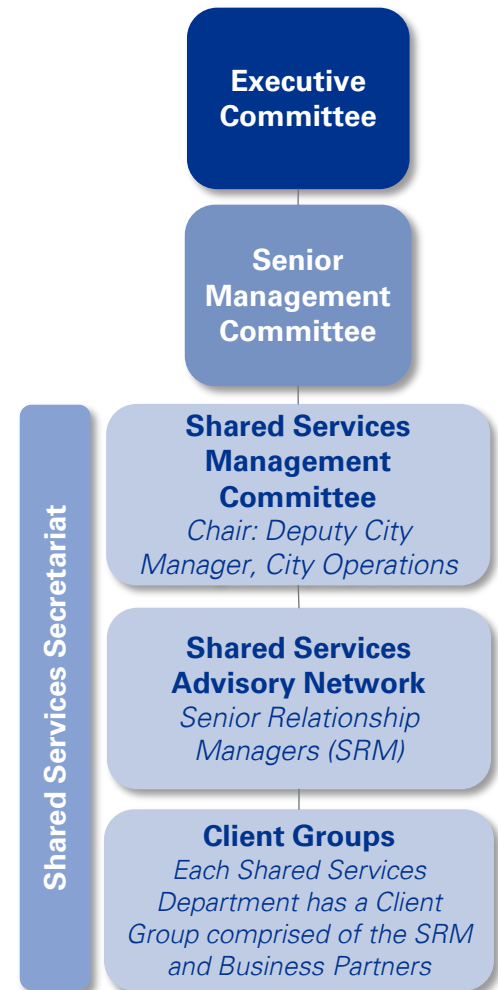
- **Determine what service level was needed by each department.** Previously, a standard set of services was offered by the COE, which refrained from taking into account the different needs of each department.
- **Identify which functions were most suitable for a shared services model.** It was decided that public works (fleet, parks, buildings, grounds), infrastructure services, HR, organizational development and performance, IT and corporate communications would be shared.
 - Did not include finance, legal services or clerks because they are governed by a specific legislative and policy framework and have a responsibility to manage risk and provide expert advice.
- **Determine cost allocation procedures.** It was decided that costs would be allocated depending on the function. For example, fleet is charged to all departments whereas IT, HR and corporate communications has its own budget approved by council.

Approach *continued*

- **Create a new governance structure.** This included the establishment of a Client Relationship Manager within the shared services department and a Business Partner within the client group. Business Partners liaise on behalf of their team with the Relationship Manager and bring them into discussions when needed.
 - **Business Partner:** develops departmental functional strategy, provides innovative functional solutions to support the department to achieve their business outcomes, determines business requirements for the development of new products or services
 - **Client Relationship Managers:** identifying client business needs and outcomes, aligning shared services products and services to achieve the desired business results, proactively identifying functional solutions to meet client needs, developing strategies to improve quality of relationship, negotiating service agreements
 - A **Shared Service Advisory Network** was also created to facilitate discussions. The linkages between the Shared Services and Operating Departments is integral to the success of the model.

Outcomes

- Significant financial savings
- Better alignment with corporate priorities
- Improved communication between shared service and operating departments



Shared Services Governance Structure

Source: City of Ottawa

Challenges

- Identifying which departments and agencies should be part of the shared services model and knowing when to remove those departments that are too specialized to share services
- Negotiating service level agreements (SLA) since all departments will have needs but they should be aligned with corporate priorities
- Balancing accountability with flexibility in SLAs because good relationships allow for fruitful discussions and negotiations
- Consolidating services while simultaneously dealing with a reduction in budget and FTEs

Lessons Learned

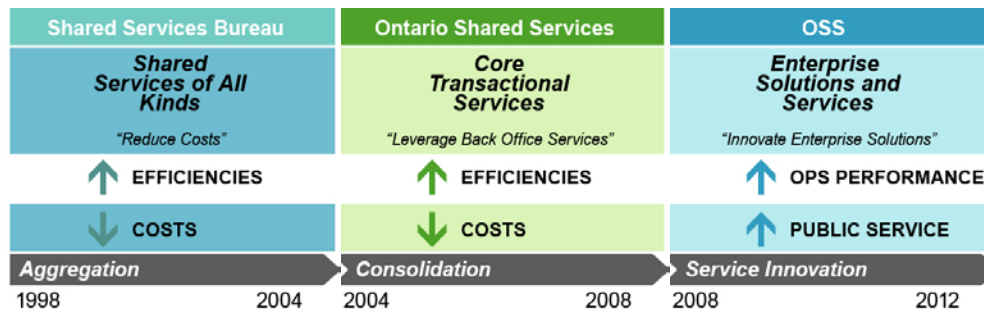
- Important to focus not only on governance, risk management and rule enforcement but also on implementing services, developing policies and achieving good customer service
- Need to address gaps in accountability, establish quality SLAs and maintain service levels in addition to finding efficiencies and maximizing resources
- Need to think about service excellence not just from the external client view but also internally (e.g., use internal customer satisfaction surveys)
- Shared service model does not need to be a cookie cutter model across each function
- Communication is key because you need to convince the leadership, departments and agencies that service levels will be maintained
- Shared services is as much a cultural shift as an organizational shift and it is important that people are responsive and have a sense of comfort and control
- Need to satisfy the leadership of the agencies that they are actually going to maintain their service level and that their needs are not as unique as they may think
- Using budget to convince agencies to buy-in to shared services

Background

- In 1998, a 33% budget reduction resulted in the creation of a Shared Services Bureau in order to find a way to quickly reduce costs and increase efficiencies across the Ontario Public Service (OPS). This evolved into Ontario Shared Services (OSS), which is part of the Ministry of Government Services and provides enterprise-wide employee and business support services. It is comprised of four divisions and one corporate branch:
 - Enterprise Financial Services Division
 - Pay & Benefits Services Division
 - Strategy and Enterprise Services Division
 - Supply Chain Management Division
 - Associate Deputy Minister's Office & Strategy and Resource Management Branch
- Today, OSS serves over 65,000 OPS employees and 61,000 vendors and employs 1,200 people who are located in six centres across the Province. In 2011/12, net operating and capital budget was \$185 million.

Approach

- **Determine which services should be transferred into the shared services model.** During the formation of the Shared Services Bureau in 1998, decisions needed to be made quickly because of imminent budget cuts. At this time, not all services were mandated and not all Ministries transferred their services. Staff remained in their Ministry locations but were moved over on paper.
- **Look for efficiencies to implement a consistent model.** Once functions had been brought together, OSS began to look for efficiencies and from 2004 to 2008, operations were consolidated from 22 locations to 6 and all supply chain functions and financial ERP were added.



Source: Province of Ontario

Approach *continued*

- **Identify which shared service model works best for each line of business.** The Province determined that routine, transactional services (e.g., pay and benefits) were easier to centralize, as were functions that could leverage economies of scale (e.g., procurement). Other services may be served better by a Centre of Excellence model, because some Ministries have more experience than others and are better equipped to deliver these services (e.g., Employee Health Safety and Wellness).
 - It was deemed that certain services should not be part of any Ministries' core business and could be run more efficiently in a shared service model (e.g., printing, insurance, risk, mail).
- **Establish a governance structure.** Most shared service divisions are responsible for and need to understand the business, issues, needs and key contacts for a portfolio of Ministries.
- **Determine the longer term priorities of the shared service organization.** Since 2008, the goal of OSS has been to add value into the organization, increase performance and improve public service. Priorities include: acting as a strategic business partner, delivering government priorities, leveraging systems, processes and business intelligence and contributing to finding efficiencies and savings for the Broader Public Service.

Outcomes

OSS has evolved from an organization providing back-office support to providing innovative enterprise solutions and has achieved the following since initiation:

- Reduction of 395 FTEs (26%) between 2004-05 and 2010-11
- Direct cost savings of \$38 million over the past five years with OSS
- \$227 million in government savings through shared services initiatives
- Decrease in OSS Contact Centre wait-time of 40%, despite new business added
- Met or exceeded all client service standards reported in 2010-11 and 2011-12
- Recognized by Harvard University as a leader in driving transformational change across government

Challenges

- Changing organizational culture and unwillingness of Ministries to embrace a shared service model
- Rationalizing and finding common processes and systems
- Lack of focused business model in the early stages
- Parallel processing (i.e., balancing changes with delivering services)
- Pooling services into a Centre of Excellence model will produce winners and losers because some Ministries will gain from those with more experience in that service, while others will feel less satisfied
- Realizing that there will be disruptions in service and it will take time to achieve cost savings and efficiencies
- Can be difficult to enforce without some leverage; for the Province, budget cuts were imminent whether or not OSS was implemented

Lessons Learned

- Make a strong case for change, determine who you need to champion this effort and set up a governance structure to drive it forward
- Need a robust change management and people strategy because it is easy to underestimate an employee's affiliation to their business areas and to the culture of their organizations
- Identify and assess opportunities service by service, function by function because there may be some opportunities which are ready for shared services and can be implemented quickly while others will take time
- Implementation should occur in phases based on the capacity of the organization to handle change while maintaining service delivery
- There may be many opportunities to streamline and standardize services but there could be barriers in policy, controllership, and collective agreements that will work against you
- There will likely be upfront investments to attain future savings

Background

- The City of LA has approximately 42 departments and bureaus headed by General Managers, advisory or controlling Boards, or Commissions. Assessing and implementing shared services models have been triggered by economic conditions and the need to find ways to provide services more effectively, efficiently and in a financially sustainable way.
- One of the first consolidation efforts occurred with the security services function. The City employed a Centre of Excellence model for security services by first consolidating security services among the departments into the General Services department. It was then decided to move all security services into the Police department because it is part of their core business and would professionalize the service.
- The City is now in the planning stage of consolidating IT services. This has been unsuccessful in the past and presents challenges because of unique applications in many departments. The City hopes to look at each department and determine what IT services are generic and could be served more efficiently in a centralized way.
- Over the past six months, the City has begun to consolidate HR functions in each operating department into its Personnel department to establish a shared services model. The Personnel Department is responsible for benefits, civil service exam testing, training and payroll.
- Consolidation of HR activities was predominantly driven by the Early Retirement Program. This is because many departments, particularly small ones, lacked Personnel staff and there was a limit on how many vacant positions could be filled on an annual basis. In addition, there was overlap between the Personnel department and the HR functions in each operating department. Thus, the General Manager of the Personnel department was tasked with finding a solution.

Approach

The focus of this section is on the recent consolidation of HR functions into the Personnel department.

- Phase the implementation approach. The City took a two-phased approach based on capacity and ability to maintain service delivery. During Phase One, 70 staff members were transferred to the Personnel department in two groups from May to July. This transformation occurred through changes in reporting structure, where all Personnel staff now report to the General Manager of the Personnel department. However, Personnel staff have not been physically moved because of a lack of capacity at this time. Phase Two of the model is scheduled for January 1, 2013 and will bring over 35 employees.

Approach continued

- **Leverage the departmental knowledge of staff.** In the short term, Personnel employees will still provide HR activities to the department they were originally part of because they have the institutional knowledge of the department. Over time, they will begin cross-training and working in teams providing services to a portfolio of departments.
- **Establish service level agreements (SLAs).** Developing SLAs ensures accountability and provides a negotiating platform. It allows for escalation to the CAO during budget periods if the SLA is not being upheld.
- **Determine cost allocation procedures.** In this case there is no cost recovery process because the Personnel staff were funded in each department's budget and this money was transferred to the Personnel department. Special funds for certain departments were also transferred over.
- **Monitor progress.** Moving forward, the City plans to monitor the new model and use time sheets to determine how much time is spent in each department to balance work load and allocate special funds appropriately.
- **Assess level of physical consolidation.** It is likely that the shared services model will include hubs of service, even if it is centralized under one department. This is because operating departments may continue to need a Personnel employee located physically in their department for other employees to raise issues to. Work load will also inform the level of physical consolidation needed. If certain departments are small, they will be able to share a Personnel employee.

Outcomes

While the City's shared service initiatives have been recently implemented, initial results include:

- Professionalization of security services in the Centre of Excellence model
- Standardization of services across the City (e.g., process for handling grievances or discipline)

Challenges

- Analyzing and evaluating all opportunities even if they may not seem viable helps to ensure a rigorous decision- making approach
- Using a structured and objective approach to minimize perceptions of “empire building” in certain departments
- Understanding and addressing concerns in an appropriate and timely manner
- Standardizing inconsistencies in the way departments and agencies handle processes and determining which practices are the most successful and aligned with corporate priorities
- Overcoming cultural issues and poor reputation of certain functions, especially if past initiatives have been unsuccessful

Lessons Learned

- Understand that implementing shared services can evolve over time and you have to have the opportunity to change the way you do something (e.g., new regulation, change in management, new technology)
- Important to engage people throughout the process
- Communication is key, especially with the people who are going to be impacted
- Look for opportunities to save money, however there should be other benefits to consolidation besides financial so consider these impacts (e.g., operational, political feasibility, # of employees impacted, ability to “professionalize” services)
- Implementing shared service models in stages and monitoring and evaluating progress to be leveraged in future stages

Background

- Chicago has 32 city departments and eight separate entities called sister agencies, which are under the purview of the Mayor but have a separate budget and organizational structure.
 - Sister agencies include Public Schools, City Colleges, Transit Authority, Housing Authority, Park District, Public Building Commission, Pier and Exposition Authority, Water Reclamation
 - Located within Cook County and has overlapping services, thus there are opportunities for increased collaboration. New leadership in both the City and County has paved the way for analysis of options for better integration.
- Chicago has a successful shared service business model and supporting infrastructure within its City departments for budgeting, procurement, HR and timekeeping as well as certain aspects of IT but seeks greater collaboration with its agencies and the County. Budget deficiencies and critical pension issues have exacerbated problems and amplified the need for finding cost savings and efficiencies.
- In IT, Chicago is in the midst of its shared service transformation as it moves towards greater integration with its departments, agencies and the County. There will always be specific applications for each department but the overall goal is to have one IT department to support business needs.
- Two IT shared service initiatives underway in the City include consolidation of GIS systems and data warehouse and ERP systems. Other projects in the planning stages are the consolidation of work management systems and asset management systems.
- Furthermore, the City is looking at potential models to move IT business functions to a full shared services model under a non profit agency model.

Approach

- **Determine the implementation approach.** There are four GIS systems within the City and one GIS system in the County, which shares a similar footprint as the City's. The consolidation of the GIS systems will involve a two phased approach:
 - Standardization of platform and data management policies across each GIS system
 - Consolidation into a single GIS function

Approach *continued*

- **Establish a stakeholder engagement strategy.** The City is taking a collaborative approach with stakeholders from each department to define the model prior to implementation.
- **Identify opportunities for improvement.** The plan is to assess and determine which functionalities should be maintained, recognizing that not all functionalities can be maintained as well as to look for opportunities to better deliver GIS functionalities.
- **Create the case for change.** The City is also undertaking a two-year shared service initiative to consolidate its data, data warehousing and ERP systems through the establishment of a Chicago Cloud. The initial scope is small with four tenants, including Public Safety, Civilian IT, Libraries and Public Schools. Leveraging the budget and personnel of the Public Schools is crucial to the success of this initiative. The plan is to create a successful business case based on the initial scope and then add in sister agencies, the County and other public entities/municipalities that cannot afford their own data management services.

Other Shared Services Initiatives

Workforce Investment, Retraining, Recruiting	<ul style="list-style-type: none"> ■ Moved to a common business service that was created as a third party non-government entity controlled by an elected Board ■ Enabled consolidation of resources and budgets of four entities but gives opportunity to cultivate grant donation, allowing for a stronger fund base and greater control ■ Officially launched July 1 after a year of implementation
HR	<ul style="list-style-type: none"> ■ Centralized for the City but separated from sister agencies because of extensive restrictions set on the City since it is controlled by a federal decree. ■ Looking for opportunities to consolidate from a business and technical perspective (e.g., HR IT systems)
Procurement	<ul style="list-style-type: none"> ■ City is employing joint procurement to get buying leverage but currently the sister agencies have separate procurement departments ■ Interest in moving to a common entity because laws are extremely consistent
Tourism	<ul style="list-style-type: none"> ■ Certain tourism activities were housed in City departments and some were housed in City sponsored non profit organizations but they were merged into one body that is City controlled but not City operated

Challenges

- Breaking down entrenched political and cultural barriers
- Recognizing that decisions cannot be made in a vacuum
- Coping with varied levels of engagement by each agency; some require a bigger cultural change while others may have minimal dependency on the function undergoing change so are less willing to participate
- Having strong leadership committed to shared service initiatives
- Determining when compulsory action is necessary and telling departments and agencies that they must come on board because funding will be removed

Lessons Learned

- Leveraging leadership's control over the budget and their understanding of economies of scale to push forward consolidation initiatives
- How aggressive collaboration is from a business perspective depends on each agency's leadership philosophy
- Stakeholder engagement is important; need to get many parties involved because impacts will be wide
- Starting with those who are willing participants to make a successful case study and once strong ROI is achieved, it will be more attractive for others to join the model
- Aligning individual agency and department motives with corporate priorities (e.g., match self interest with organizational goals)

Table 33 – Examples of Shared Service Initiatives and Outcomes

Transformation Program	Municipality	Functional Scope	Delivery Model	Outcomes
Transformational Journey Multifunctional transformation evolving over 3+ years	City of New York	Real estate, payments and revenue collection, fleet operations, HR, IT	Blended (shared service, centralization, outsourcing)	<ul style="list-style-type: none"> ■ Improved efficiencies ■ Cost savings ■ Improved governance ■ Improved customer service
	Queensland State, Australia	Finance, procurement, HR, document/records management, property and facilities, corporate systems	Shared services	<ul style="list-style-type: none"> ■ Economies of scale and skill ■ Expected annual savings of \$100m by 2012/13
Big Bang Single or multifunctional transformations implemented within 24 months	State of Michigan	HR with IT component	Shared services	<ul style="list-style-type: none"> ■ Increased self-service levels 400% ■ >97% customer satisfaction ■ \$28m cost savings over five years
	State of Florida	HR	Shared services (external vendor)	<ul style="list-style-type: none"> ■ \$45m cost savings over five year contract
	Commonwealth of Pennsylvania	HR	Shared services	<ul style="list-style-type: none"> ■ Improved service delivery (>97% accuracy) ■ >96% customer satisfaction ■ Annual cost savings of \$3.5m
Serial Progression Single functional transformations, often implemented in a series	City of Minneapolis	IT	Outsourcing (second generation)	<ul style="list-style-type: none"> ■ Improved service delivery ■ Improved governance ■ Better pricing schemes
	State of Utah	HR	Consolidation to shared services	<ul style="list-style-type: none"> ■ Improved service delivery ■ Improved efficiency

Table 34 – Take Away Messages for the City of Toronto

Drivers for Change	<p>Similar to the City of Toronto, the primary goal for implementing shared services in other jurisdictions is to achieve cost savings and deliver services in a more efficient manner. Other drivers that are relevant to the City include:</p> <ul style="list-style-type: none"> ▪ Greater focus on core business priorities ▪ Move towards increased accountability and improved governance structures ▪ Desire to improve internal and external client satisfaction ▪ Plan to enhance risk management practices ▪ New vision from leadership ▪ Developing transformational opportunities across the organization 	
Enablers	<p>Jurisdictions who have been successful in initiating and implementing a shared services model cited the following enablers as critical to achieving their objectives. The City of Toronto should consider these as it initiates its own projects:</p> <ul style="list-style-type: none"> ▪ Strong leadership who will push initiatives along ▪ Established governance structures ▪ Sufficient resources ▪ Change management ▪ Structured communication plans ▪ Metrics to measure success 	
Barriers	<p>All jurisdictions faced barriers during their shared services journey that needed to be addressed during the planning stages and throughout implementation. The City of Toronto should find ways to overcome these barriers early on in order to increase the chance of successful implementation.</p> <ul style="list-style-type: none"> ▪ Changing entrenched organizational culture ▪ Achieving buy-in from staff and management ▪ Aligning department and agency needs with corporate priorities ▪ Bringing together people and processes from departments and agencies with different cultures and methods ▪ Negotiating service level agreements ▪ Public sector bureaucracy ▪ Accepting that short term investments may be required to achieve long term savings 	
Key Successes	<p>While each jurisdiction chose different transformational paths, common successes that the City of Toronto may expect to achieve include:</p> <ul style="list-style-type: none"> ▪ Cost savings ▪ Operational efficiencies ▪ Improved service delivery 	<ul style="list-style-type: none"> ▪ Increased client satisfaction ▪ Improved governance ▪ Greater accountability

Interviews

- City of Ottawa, July 12, 2012
- City of Los Angeles, July 20, 2012
- City of Chicago, August 1, 2012
- Province of Ontario, August 3, 2012

Documents

- CGI. Modernizing New York City's Financial Management. 2010.
- EquaTerra. Assessing Market Trends in Human Resource Service Delivery in U.S. State and Related Public Sector Organizations. Feb 2009.
- EquaTerra. Case Study: EquaTerra Helps the City of Minneapolis Undergo Successful Second Generation Outsourcing Initiative. June 2008.
- Documents received from City of Ottawa.
- Documents received from Ontario Shared Services.
- Farrell, J and K Millen. Evolution of HR Service Delivery in the Public Sector: Shared Services Taking Center Stage. HR News Magazine. April 2012.
- Member Resources. City of Los Angeles Department of Personnel Consolidation. Engineers and Architects Association. (union representing City of LA employees)
- New York City Mayor's Office of Operations. Maximizing Efficiency in NYC Government: A Plan to Consolidate and Modernize Back-Office Operations. 2010.
- Patwell B, D Gray, S Kanellakos. An Innovative Approach to Fostering a Culture of Service Excellence in the City of Ottawa. Queens University Industrial Relations Centre. 2012.
- PriceWaterhouseCoopers. Shared Services Review. Review of the Model for Queensland Government. September 2010.
- Queensland Government. Shared Service Initiative Fact Sheet. October 2006.
- Shared Services Horizons of Value. Leadership Lessons on Accelerating Transformation to High Performance. John F. Kennedy School of Government. Harvard University. 2010.
- The Shared Services Experience. Report 2: Lessons from Australia. Australian Institute for Social Research. May 2007.



Appendix B:

Opportunities Considered but
Not Preferred

Over the course of the engagement, multiple opportunities were identified and considered for implementation. A number of factors contributed to the determination as to the whether an opportunity should move forward for analysis, including feedback from stakeholders during workshops, KPMG's experience, and the application of selection criteria designed by the Steering Committee. In the end, not all opportunities considered were preferred or recommended for implementation across the City. The following pages describe such opportunities and briefly explain the rationale for their exclusion.

Human Resources

One opportunity was considered under this function, but failed to demonstrate sufficient value or feasibility for implementation across the City. **Shared employment services, such as recruitment and dismissal of staff**, was thought to be infeasible in a municipal environment given the wide array of employee roles and unique requirements for service associated with these roles. Moreover, intimate operational knowledge and some level of relationship with employees are required to deliver such services as performance evaluation.

Insurance and Risk Management

It was initially proposed that the City and TTC pool their funding to finance their respective risks. The proposed opportunity involved the **consolidation of insurance pools for claims against the City and the TTC**. Instead of having separate funding for the settlement of claims brought forward against the two organizations, only one joint funding source would be used. The model sought to address a perception which was raised during the functional workshop which alluded to adversarial relationships between TTC and the City when both parties are named as defendants in claims. This opportunity was drafted for the Steering Committee's consideration and received preliminary analysis before data was received which did not support the business case for such a model. Given that the data did not substantiate the proposed change, the model was not considered for further consideration or analysis. Going forward, issues relating to accountability for claims where TTC and the City are named as defendants could be addressed through mutually agreed upon set of decision criteria and a formalized triaging process.

Real Estate

A model was considered and presented to stakeholders during the functional workshop which proposed **centralizing all real estate-related services, activities and personnel** within the City of Toronto. It was proposed that the City would perform or source all real estate services on behalf of the City agencies. Dedicated personnel would be allocated to service specific agencies, including capturing all service requirements and developing an understanding of the organization's operations as they relate to real estate. Discussions with key stakeholders revealed concerns regarding the City's capacity, expertise and service levels. In addition, multiple agencies, such as TPA and EP, consider real estate services a core component of their business model as it directly or indirectly generates revenue for their agency. Moreover, real estate services are highly integrated with operations for some agencies. For these same reasons, it was also perceived that transactional real estate activities could not be outsourced to external firms or brokerages.

Internal Audit

An opportunity that was considered for implementation across the City was a **centralized and consolidated internal audit function** serving all City divisions and agencies. The opportunity proposed to consolidate (and potentially reduce) internal audit staff from across the City and its agencies to create a single entity for internal audit services. The model did not move forward for further consideration and is not considered preferable due to the specific operational requirements of two of the larger agencies within scope, TPS and TTC. There was little evidence that would suggest that such an arrangement would be beneficial to all participating organizations. TPS quality assurance function is mandated by the Police Services Act (PSA), while the value of other Internal Audit and Quality Assurance functions (e.g., TTC, TPH) lies in the knowledge of organization's specific operations, policies and procedures, as well as in the direct relationship with the agency executives. Pooling all internal audit resources into one entity would likely disrupt these relationships and distance auditing professionals from each entity's operations. We believe that the benefits from such an arrangement would not be substantial. Specific barriers which inhibit this model include:

- Differing risk profiles among agencies, requiring differing levels of internal audit services;
- Differing security clearance requirements of auditors;
- Legislative requirements stipulated in the Police Services Act which require TPS to maintain an internal quality assurance function performed by uniformed officers; and
- The requirement for a high level of knowledge and understanding of operational processes and procedures within each agency.

Overall, it is perceived that the issues listed above prevent the standardization of working papers, processes and overall consolidation of the function. These issues are also perceived to preclude internal audit activities from being outsourced to external professional services firms. Moreover, a centralized model was not observed in any jurisdiction that was reviewed during this engagement.

Information Technology

The proposed IT shared service model which involves consolidation of IT infrastructure is considered a stepping stone and first step towards multiple shared service opportunities for the future. One such model (which was not recommended in the current shared services report but which could be considered for the future) is the **centralization of PC Support Services**.

Shared application development and maintenance was considered, but does not lend itself to shared services as it is highly specific to the unique needs of individual organizations, departments and units.

Purchasing and Materials Management

An option that was considered and discussed with participants during the functional workshop was the **storage of goods and materials for all entities in a common set of facilities**. The facilities would be managed by one entity but utilized and accessed by all in-scope agencies. Both common (e.g., janitorial supplies) and unique materials (e.g., ammunition) were proposed to be consolidated, with specific sections of the storage facility allocated to the unique items of each agency. This model was not supported by workshop participants and did not proceed for further analysis because of the highly integrated nature of certain materials and goods with the organizations' operations. For example, materials and equipment of TPS are currently stored in the same facilities as their fleet, creating a one-stop-shop for officers. Exhibition Place must maintain a minimum inventory of materials ready at hand in order to meet the immediate demands of their on-site tenants and customers. Other organizations, such as TTC, do not store non-core materials, but rather have the materials directly ordered and shipped to the consumers. Ultimately, common warehousing was perceived to significantly impede the responsiveness and ability of organizations to deliver core services.

With respect to **centralized procurement services**, our assessment of the current state service delivery structure, input from stakeholders, past experience, and review of leading practices suggest that implementing shared services models that centralize transactional activities across the City and agencies would incur significant implementation costs associated with aligning IT systems and procurement processes. As a result, we did not focus on identifying opportunities in this realm of procurement.

A range of other model options were considered to deliver the procurement requirements of the City and its agencies. The general feeling amongst key stakeholders was that **a procurement consortium** was a feasible solution. Consortia are structured with staff from existing organizations and therefore any work related to a consortium is additional to the staff's regular scope of activities. This implies that consortium priorities are not always the highest among participating organizations, typically resulting in delays and slow response times. Decisions are usually made by a committee of participants from diverse organizations and can often be challenging and time consuming. Furthermore, because all (or most) organizations must agree on the categories in scope, typically the less complex and lower value categories are managed, therefore limiting the potential savings opportunities. While a consortium could be implemented with a relatively low degree of resistance, such a model will not deliver significant cost savings to the City.

Instead, to attain sustainable cost savings and make better purchasing decisions, we recommend implementing a shared service procurement model, employing category management and strategic sourcing approaches. Unlike a consortium, a shared service unit has the benefit of clear lines of governance and responsibility, while being focused, responsive, and agile. In the next section, we describe this model.

Legal Services

Rationalization and consolidation of Legal functions within the City and the TTC were considered as part of analysis. Stakeholder feedback collected during interviews and workshops suggested that the activities performed by the two organizations do not overlap significantly. The City focuses on municipal law, employment law, real estate, and planning and development, among others. TTC primarily handles defense of claims filed against the organization. Thus, pooling the two groups is unlikely to generate significant synergies, but will cause transitional issues (such as pensions, pay equality, etc.)

Records Management

One model explored, but not adopted during this study was the **centralization of the records management function** such that records management activities would be administered and managed by one entity with a pooled set of resources. While this model would address gaps and weaknesses in the records management practices of some agencies, it was considered prohibitive for others whose records management operations are prescribed by legislation and do not lend themselves to the application of common processes.



Appendix C:

Summary of Engagement
Activities

Various key stakeholders representing the City and its agencies were engaged to provide insight and feedback into the detailed approach, work streams and analysis throughout the project, as described in detail below. The stakeholders, as well as their respective levels of engagement, were directed by the Steering Committee and City of Toronto Project Manager. Stakeholders were engaged through two primary mechanisms at various points throughout the duration of the project: interviews and workshops.

“Boot Camp”

Before engaging stakeholders on an individual basis, all stakeholders and functional leads were brought together in one setting for a Shared Services “Boot Camp”. The boot camp was 3 hours in duration, with **over 60 participants** from all organizations and functions. The objectives of the boot camp were to:

- Develop a common understanding of shared services and other service delivery options
- Review the multiple paths and approaches to achieve the right service delivery model
- Review methodologies used to identify appropriate service delivery models
- Review benefits, drawbacks, challenges, successes and lessons learned from other municipalities

Interviews

One-on-one interviews were held with the executives or administrative heads of each agency, as well as the leads of each in-scope function in order to inform our understanding of the current state of the functions and to receive preliminary input regarding the identification of opportunities for shared services.

The following table summarizes the **67 individuals engaged** via interviews, listed by function and organization. In some instances, a single individual acted as the lead for multiple functions; these individuals have been italicized in the table on the next page.

Appendix C

Summary of Engagement Activities - Interviews

Table 35 – Summary of Interviews

Function	City	TTC	TPA	TPS	TPH	EP	TPL
Executive		• Chief Financial and Administrative Officer	• President	• Chief Administrative Officer • Deputy Chief of Police, Corporate Command	• Acting Medical Officer of Health • Director, Finance & Administration	• Chief Executive Officer • Chief Financial Officer	• City Librarian
HR	• Executive Director, HR • Director, Labour Relations • Director, Employment Services • Director, HR Systems • Director, Organizational Development and Learning • Director, Occupational Health & Safety	• Head of Human Resources	• Director, Human Resources	• Director, HR/Labour Relations	• Manager, People Services		• Director, Human Resources
IT	• Chief Information Officer • Director, IT Strategic Planning & Architecture • Director, Business Enablement & Client Services • Director, IT Portfolio Management • Executive Director, Technology Infrastructure Services	• Head of IT	• Director, Planning & Analysis	• Director, IT Services	• Manager, Information & Technology		• Director, IT & Facilities
Internal Audit	• Director, Internal Audit • Auditor General and 3 Directors • Business Management Analyst, Toronto Water • Manager, Broad Operations, Children's Services • Director, Employment & Social Services • Manager, Operations & Support Services, Shelter Support and Housing • Project Consultant, Shelter Support and Housing	• Audit Manager • Head of Audit	• Auditor	• Manager, Audit & QA • Senior Advisor, Audit & QA	• Manager, Finance		• Director, Finance & Treasurer
Records Management	• Executive Director, Corporate Information Management Services • Director, Information Access	• Head of Commission Services	• Chief Financial Officer	• Manager, Records	• Manager, Information Management Services		• Director, Human Resources
Legal	• City Solicitor	• Head of Legal	• Vice President, Real Estate and Development	• Lead Counsel	• Manager, Finance		• Director, Human Resources
Real Estate	• Director, Real Estate Services • Manager, Policy & Appraisals	• Head of Property Development		• Director, Finance & Administration	• Manager, Administrative Operations		• Director, Finance & Treasurer
Insurance and Risk management	• Manager, Insurance & Risk Management	• Head of Finance & Treasurer • Director, Treasury Services • Compliance Insurance Administrator	• Chief Financial Officer	• Lead Counsel	• Manager, Finance		• Director, Finance & Treasurer
Procurement & Materials Management	• Director, PMMD • Manager, Corporate Purchasing Policy & QA • Manager, Materials Management	• Head of Materials and Procurement	• Chief Financial Officer	• Director, Finance & Administration	• Manager, Finance		• Director, Finance & Treasurer

Workshops

Many of the same key stakeholders from each function were later engaged following interviews in a workshop format. The objectives of the workshop series were to:

- Understand the realm of possible opportunities for shared services and shared service delivery models
- Engage representatives from all in-scope agencies to play an active role in shaping the future delivery of services
- Discuss the unique business requirements of each agency relating to the opportunities
- Identify the enablers and supporting structures required to successfully implement the opportunities

One workshop was held for each function, resulting in a total of **eight** workshops. The participants of each workshop are listed on the following page.

Appendix C

Summary of Engagement Activities - Workshops

Table 36 – Summary of Workshop Participants

Function	City	TTC	TPA	TPS	TPH	EP	TPL
HR	<ul style="list-style-type: none"> • Executive Director, HR • Director, Labour Relations • Director, Employment Services • Director, HR Systems • Director, Organizational Development and Learning • Director, Occupational Health & Safety 	<ul style="list-style-type: none"> • Head of Human Resources 	<ul style="list-style-type: none"> • Director, Human Resources 	<ul style="list-style-type: none"> • Manager, Benefits & Employment 	<ul style="list-style-type: none"> • Manager, People Services 	<ul style="list-style-type: none"> • Manager, Human Resources & Labour Relations • Chief Financial Officer 	<ul style="list-style-type: none"> • Director, Human Resources
IT	<ul style="list-style-type: none"> • Chief Information Officer • Manager, Business Enablement & Client Services • Manager, Business Transformation • Director, Solutions Development & Sustainment • Executive Director, Technology Infrastructure Services 	<ul style="list-style-type: none"> • Head of IT • Director, Project Management 	<ul style="list-style-type: none"> • Director, Planning & Analysis 	<ul style="list-style-type: none"> • Director, IT Services • Manager, IT Governance • Manager, Customer Service • Manager, Enterprise Architecture 	<ul style="list-style-type: none"> • Manager, Information & Technology 	<ul style="list-style-type: none"> • Chief Financial Officer • Manager, IT 	<ul style="list-style-type: none"> • Director, IT & Facilities
Internal Audit	<ul style="list-style-type: none"> • Director, Internal Audit 	<ul style="list-style-type: none"> • Audit Manager • Head of Audit 	<ul style="list-style-type: none"> • Auditor 	<ul style="list-style-type: none"> • Manager, Audit & QA 	<ul style="list-style-type: none"> • Manager, Finance 	<ul style="list-style-type: none"> • Chief Financial Officer 	<ul style="list-style-type: none"> • Director, Finance & Treasurer
Records Management	<ul style="list-style-type: none"> • Executive Director, Corporate Information Management Services • Director, Information Access 	<ul style="list-style-type: none"> • Head of Commission Services 	<ul style="list-style-type: none"> • Stock Keeper 	<ul style="list-style-type: none"> • 3 Representatives from Records Management 	<ul style="list-style-type: none"> • Manager, Information Management Services 	<ul style="list-style-type: none"> • Records Manager 	<ul style="list-style-type: none"> • Director, Human Resources
Legal	<ul style="list-style-type: none"> • City Solicitor 	<ul style="list-style-type: none"> • Senior Solicitor 	<ul style="list-style-type: none"> • Vice President, Real Estate and Development 	<ul style="list-style-type: none"> • Lead Counsel 	<ul style="list-style-type: none"> • Business Management Consultant 	<ul style="list-style-type: none"> • Chief Financial Officer 	<ul style="list-style-type: none"> • Director, Human Resources
Real Estate	<ul style="list-style-type: none"> • Director, Real Estate Services 	<ul style="list-style-type: none"> • Head of Property Development 	<ul style="list-style-type: none"> • Manager, Development 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> • Supervisor, Administrative Services 	<ul style="list-style-type: none"> • Chief Financial Officer 	<ul style="list-style-type: none"> • Director, Finance & Treasurer
Insurance and Risk management	<ul style="list-style-type: none"> • Manager, Insurance & Risk Management 	<ul style="list-style-type: none"> • Director, Treasury Services • Manager, Claims 	<ul style="list-style-type: none"> • Chief Financial Officer 	<ul style="list-style-type: none"> • Lead Counsel 	<ul style="list-style-type: none"> • Manager, Finance 	<ul style="list-style-type: none"> • Chief Financial Officer 	<ul style="list-style-type: none"> • Director, Finance & Treasurer
Procurement & Materials Management	<ul style="list-style-type: none"> • Director, PMMD • Manager, Corporate Purchasing Policy & QA • Manager, Materials Management 	<ul style="list-style-type: none"> • Head of Materials and Procurement 	<ul style="list-style-type: none"> • Chief Financial Officer 	<ul style="list-style-type: none"> • Manager, Procurement 	<ul style="list-style-type: none"> • Manager, Finance 	<ul style="list-style-type: none"> • Chief Financial Officer • Manager, Purchasing 	<ul style="list-style-type: none"> • Director, Finance & Treasurer

“Challenge Sessions” and Follow-Up Interviews

Once preliminary models were identified and developed, key stakeholders impacted by each of the models were engaged to vet the model feasibility and receive feedback from stakeholders. In order to gather this feedback, follow-up interviews or “challenge sessions” were held with the implicated stakeholders.

While the interviews and “challenge sessions” produced feedback and considerations to be incorporated into the operating models, the recommended models remained conceptually cogent and endured to be presented for consideration by the Steering Committee. Significant points of concern and trends in the sentiments of stakeholders regarding each of the “Tier 1” Operating Models were documented and presented to the Steering Committee for review and consideration.

Follow-up interviews were held with the following **fourteen** individuals. Participants of **six** Challenge Sessions are listed on the following page.

- Leading Edge Consultants (External Consultant)
- Director, Pension, Payroll and Benefits (City)
- Director, Labour Relations (City)
- Executive Director, HR (City)
- Chief Executive Officer (TTC)
- City of Toronto Auditor General
- Director, Strategic & Corporate Policy, City Manager’s Office (City)
- Manager, Materials Management (City)
- Director, Purchasing and Materials Management (City)
- City Clerk (City)
- Executive Director, Corporate Information Management Services (City)
- Director, Real Estate Services (City)
- Chief Information Officer (City)
- Manager, Insurance and Risk Management (City)

Table 37 – Summary of Challenge Session Participants

Function	City	TTC	TPA	TPS	TPH	EP	TPL
HR	<ul style="list-style-type: none"> • Executive Director, HR • Director, Labour Relations 	<ul style="list-style-type: none"> • Director, Employee Relations 	<ul style="list-style-type: none"> • Director, Human Resources 	<ul style="list-style-type: none"> • Director, Human Resources • Deputy Chief of Police, Corporate Command 	-	<ul style="list-style-type: none"> • Chief Executive Officer 	<ul style="list-style-type: none"> • Director, Human Resources
IT	<ul style="list-style-type: none"> • Chief Information Officer • Director, Solutions Development & Sustainment • Executive Director, Technology Infrastructure Services 	<ul style="list-style-type: none"> • Head of IT • Director, Project Management 	-	<ul style="list-style-type: none"> • Director, IT Services • Manager, IT Governance • Manager, Customer Service 	<ul style="list-style-type: none"> • Manager, Information & Technology • Director, Finance and Administration 	<ul style="list-style-type: none"> • Chief Financial Officer • Manager, IT 	<ul style="list-style-type: none"> • Director, IT & Facilities
Internal Audit	<ul style="list-style-type: none"> • Director, Internal Audit • Business Management Analyst, Toronto Water • Manager, Broad Operations, Children's Services • Director, Employment & Social Services • Manager, Operations & Support Services, Shelter Support and Housing • Project Consultant, Shelter Support and Housing 	-	-	-	-	-	-
Records Management	<ul style="list-style-type: none"> • Executive Director, Corporate Information Management Services • Director, Information Access 	<ul style="list-style-type: none"> • Head of Commission Services 	<ul style="list-style-type: none"> • Stock Keeper 	<ul style="list-style-type: none"> • 3 Representatives from Records Management 	<ul style="list-style-type: none"> • Manager, Information Management Services 	<ul style="list-style-type: none"> • Records Manager 	<ul style="list-style-type: none"> • Director, Human Resources
Real Estate	<ul style="list-style-type: none"> • Director, Real Estate Services 	<ul style="list-style-type: none"> • Head of Property Development 	<ul style="list-style-type: none"> • Vice President, Real Estate and Development • Manager, Development 	-	-	-	<ul style="list-style-type: none"> • Director, Finance & Treasurer
Procurement & Materials Management	<ul style="list-style-type: none"> • Director, PMMD • Manager, Corporate Purchasing Policy & QA • Manager, Materials Management 	<ul style="list-style-type: none"> • Head of Materials and Procurement 	<ul style="list-style-type: none"> • Chief Financial Officer 	<ul style="list-style-type: none"> • Manager, Procurement 	<ul style="list-style-type: none"> • Manager, Finance 	<ul style="list-style-type: none"> • Chief Financial Officer • Manager, Purchasing 	<ul style="list-style-type: none"> • Director, Finance & Treasurer



Appendix D:

Glossary of Terms

The following acronyms are used in the body of this report.

Acronym	Meaning
CBA	Collective Bargaining Agreement
CBA	Collective Bargaining Agreement
CIMS	Corporate Information Management Services
CMO	City Manager's Office
CoE	Centre of Excellence
COTA	City of Toronto Act
EDRMS	Electronic Document Records Managements System
EP	Exhibition Place
FIPPA	Freedom of Information and Protection of Privacy Act
FOI	Freedom of Information
FTE	Full-Time Equivalent
HIC	Health Information Custodian
H&S	Health and Safety
HRTO	Human Rights Tribunal of Ontario
HVAC	Heating, Ventilation and Air Conditioning
IAD	Internal Audit Division
ICCU	Internal Control and Compliance Unit
JWG	Joint Working Group
L&SM	Leasing and Site Management
LR	Labour Relations

Acronym	Meaning
MFIPPA	Municipal Freedom of Information and Protection of Privacy Act
OLA	Operating Level Agreements
QC&A	Quality Control and Assurance
PHIPA	Personal Health Information Protection Act
PMMD	Purchasing and Materials Management Division
PPEB	Pension, Payroll and Employee Benefits
PSA	Police Services Act
RES	Real Estate Services
RFI	Request for Information
RFP	Request for Proposal
SLA	Service Level Agreement
SSS	Shared Services Secretariat
TCO	Total Cost Owner
TOR	Terms of Reference
TPA	Toronto Parking Authority
TPH	Toronto Public Health
TPL	Toronto Public Library
TPS	Toronto Police Services
TTC	Toronto Transit Commission



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