TORONTO

STAFF REPORT
ACTION REQUIRED

Results of the Shared Services Study – City Agencies

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

SUMMARY

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

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

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

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

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

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

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

RECOMMENDATIONS

The City Manager recommends that City Council:

1. Authorize the City Manager and the City's Executive Director of Human Resources to lead the development of a labour relations and collective bargaining strategy for the City and its agencies going forward, in consultation with City agencies, and report the strategy to the City's Employee and Labour Relations Committee for approval in principle;

2. Following approval in principle of the strategy by the City's Employee and Labour Relations Committee, request the City Manager and the City's Executive Director of Human Resources to bring forward the strategy to the relevant agency boards, or the Labour Relations Committees of the boards under delegated authority, for their consideration and approval;

3. Refer the following shared service opportunities to the City Manager to commence implementation in 2014 and to report further as required:

    a) Share generic training and learning functions;
    b) Coordinate and standardize common health and safety functions;
    c) Enhance the use of the City's Internal Audit Division for compliance, assurance and business risk consulting services by agencies that do not have their own audit resources;
    d) Establish a Quality Assurance Centre of Excellence to leverage tools, templates and specialized skills, coordinate work plans and share best practices; and
    e) Continue to rationalize the City stores and increase direct delivery of consumable goods and automate P2P (purchase to pay) processes.

4. Request the City Clerk to provide as a best practice, the City's online submission application for Freedom of Information requests to interested agencies when it becomes available;

5. Request the Chief Corporate Officer to work with the Chief Executive Officers of the Toronto Transit Commission and Toronto Parking Authority regarding the possibility of the City providing lessor services to their agencies;

6. Request the City Manager and Deputy City Manager and Chief Financial Officer, to work with the Chief Executive Officers of the Toronto Transit Commission and Toronto Parking Authority, to insure the Toronto Transit Commission and the Toronto Parking Authority under the City's insurance for non-specialized policies and exclusive of claims, where the City is able to provide similar coverage for a lower cost and report further as required;

7. Refer the following shared service opportunities to the City Manager for further due diligence and consultation with City agencies and report back to Executive Committee with a multi-year shared service implementation plan and after consideration by boards of affected City agencies:

   a) share procurement of common goods and services and implement strategic sourcing;
   b) standardize human resource information systems and share payroll and benefits administration;
   c) share common information technology infrastructure with a focus on infrastructure management, data management and storage;
   d) rationalize information technology applications;
   e) coordinate real estate contract and vendor management through an information technology platform; and
   f) establish a change management centre of excellence to support the implementation of shared services and other major City change initiatives.

8. Request the City Clerk, in consultation with the City Manager and the Chief Information Officer, to include in the Information Management Strategy for the City, a plan to transition to managing digital records and phased-in implementation to include City agencies; and

9. Request that this report be forwarded to the boards of the agencies included in the Shared Service Study for their consideration.

Financial Impact

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

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

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

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

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

DECISION HISTORY

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

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

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

At its meeting on April 3 and 4, 2013, in consideration of AU10.12 Results Arising from the Shared Services Study Related to Internal Audit and Jurisdictional Research Respecting Funding Models for Accountability Functions, Council received a report for information on shared service opportunities related to internal audit and funding models for accountability functions. The report provides the City Manager's review and assessment internal audit consolidation opportunities by the City and its agencies. The analysis for this functional area was accelerated ahead of this report in order to respond to Council's direction (AU10.12 Results Arising from the Shared Services Study Related to Internal Audit and Jurisdictional Research Respecting Funding Models for Accountability Functions).

ISSUE BACKGROUND

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

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

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

COMMENTS

1. Study Scope

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

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

The study deliverables included:

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

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

2 KPMG Study Methodology and Approach

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

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

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

3. KPMG Review of Other Jurisdictions

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

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

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

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

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

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

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

4. KPMG Key Study Findings

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

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

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

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

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

5. City Manager's Review of the KPMG Opportunities

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

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

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

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

a. Implement and Report Further as Required

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

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

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

KPMG has proposed the development of a labour relations and collective bargaining strategy on a go forward basis to enhance coordination and communications between with the City and its agencies. KPMG recommends that the strategy takes into account the City's current and future fiscal environment, macroeconomic trends and changes, workforce dynamics and other factors related to terms and conditions of employment including compensation. They recommend that the strategy be developed in close collaboration with City agencies and be directed by the City's Employee and Labour Relations Committee. Under this model, City agencies will continue to be responsible for day-to-day labour relations activities including grievances.

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

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

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

Pool generic training and learning

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

Expand the use of the City's Internal Audit Division

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

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

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

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

Establish a Quality Assurance Centre of Excellence

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

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

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

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

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

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

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

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

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

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

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

b. Implement Pending Further Due Diligence and Planning

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

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

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

c. No Further Action Required

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

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

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

6. Developing a Shared Service Implementation Plan

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

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

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

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

The City Manager recognizes that resources to sustain and manage this change will be important. Dedicated resources will be identified for the initial stages of this work and budget impacts reported as required. Longer term resource requirements will be further considered and addressed through the development of a multi-year shared service implementation plan.

CONTACT

Rob Rossini, Deputy City Manager and Chief Financial Officer
Phone: 416-392-8773; Fax: 416-397-5236; Email: rrossin@toronto.ca

Lynda Taschereau, Executive Director, Strategic and Corporate Policy
Phone: 416-392-6783; Fax: 416-696-3645; Email: ltascher@toronto.ca

Fiona Murray, Director, Corporate Policy
Phone: 416-397-5214; Fax: 416-696-3645; Email: fmurray@toronto.ca

SIGNATURE

____
Joseph P. Pennachetti
City Manager

ATTACHMENTS

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

Appendix A

Summary of Current Shared Services

Service	Exhibition Place	Toronto Parking Authority	Toronto Public Health	Toronto Public Library	Toronto Police Service	Toronto Transit Commission
Legal services[1]	✓	✓	✓	✓	✓	✓
Purchasing services[2]	✓	✓	✓	✓	✓	✓
Insurance and Risk Management	✓	X	✓	✓	✓	X
Records storage in City records centres[3]	X	X	✓	X	✓	✓
Real estate services[4]	X	X	✓	✓	✓	X
Internal audit services[5]	✓	X	✓	X	X	X
Human resource/labour relations services	✓ [6]	X	✓	X	X	X
Information and technology services and infrastructure	X	X	✓	X	X	X

✓ City provides service to agency
X The City does not provide service to agency

[1] The City's Legal Services Division provides legal support for real estate transactions to all agencies. In addition, it provides all legal services to Exhibition Place and Toronto Public Health, municipal law expertise to Toronto Public Library and Toronto Parking Authority; and contract, claims and employment law expertise to Toronto Police Service.

[2] Procurement and Materials Management Division informally collaborate with all agencies for the purchase of select commodities, and provide a full range of procurement services to Exhibition Place and Toronto Public Health.

[3] Corporate Information and Management Services store all records for Toronto Public Health and Toronto Transit Commission, and the Toronto Police Services. All records are stored in the City's two records centres.

[4] Real Estate Services provides a full range of real estate services to Toronto Public Health and Toronto Police Service, and some lessor services to Toronto Public Library.

[5] Internal Audit provides a full range of internal audit services to Exhibition Place and Toronto Public Health. KPMG did not recommend shared internal audit services for agencies with an existing internal audit function or specific operational requirements such as Toronto Police Service and Toronto Transit Commission.

[6] The City's Human Resources Division recently executed a Service Level Agreement with Exhibition Place to provide labour relations services, including bargaining, to the agency.

Appendix B

Results of the Shared Services Study
Disposition of KPMG Opportunities

#	KPMG Opportunity	Service Area	Disposition
1.	**Labour Relations Strategy and Coordination** Develop a City-wide strategy for Labour Relations directed by the Employee and Labour Relations Committee and executed with support from a specialized, coordinated team.	Human Resources	Implement and report further as required
2.	**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 HR Division.	Human Resources	Implement and report further as required
3.	**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.	Human Resources	Implement and report further as required
4.	**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 compliance, assurance and business risk consulting needs.	Internal Audit	Implement and report further as required
5.	**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.	Internal Audit	Implement and report further as required

#	KPMG Opportunity	Service Area	Disposition
6.	**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.	Procurement and Materials Management	Continue to implement
7.	**Automate Freedom of Information (FOI) Submissions 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.	Records Management	Provide the City's online submission application for Freedom of Information requests to interested agencies when it becomes available
8..	**Rationalize Lessor Activities** Consolidate lessor activities across agencies into the Leasing & Site Management Unit within Real Estate Services. Examples of lessor activities include negotiations and tenant management, lease abstracting, and lease administration.	Real Estate	Implement pending further planning and report further as required
9.	**Use of City Insurance by Toronto Parking Authority** TPA adopts the City's insurance program provided the City can provide insurance on similar terms for a lower premium than TPA is currently incurring.	Insurance and Risk Management	Implement where the City is able to provide similar coverage for a lower cost and report further as required
10.	**Common Insurance Procurement** Toronto Transit Commission works with the City on the procurement of insurance products as well using the City's insurance for the coverage of non-specialized policies.	Insurance and Risk Management	Implement where the City is able to provide similar coverage for a lower cost and report further as required

#	KPMG Opportunity	Service Area	Disposition
11.	**Category Management as a Shared Service** The creation of a new procurement shared service unit. 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.	Procurement and Materials Management	Implement pending further due diligence and the approval of a shared service implementation plan
12.	**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.	Human Resources	Implement pending further due diligence and the approval of a shared service implementation plan
13.	**Shared Payroll and Benefits Administration** The City's Pension, Payroll and Employee Benefits 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.	Payroll and Benefits Administration	Implement pending further due diligence and the approval of a shared service implementation plan
14.	**Common IT Infrastructure Services** Create a technology infrastructure shared services unit that delivers core IT infrastructure services. The primary focus of the new unit is to provide data centre, infrastructure management, and storage services.	Information Technology	Implement pending further due diligence and the approval of a shared service implementation plan
15.	**IT 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.	Information Technology	Implement pending further due diligence and the approval of a shared service implementation plan

#	KPMG Opportunity	Service Area	Disposition
16.	**Coordinated Contract and Vendor Management** The City's Real Estate Services 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.	Real Estate	Implement pending further due diligence and the approval of a shared service implementation plan
17.	**Expedite Transition to Digital Records** The City should expedite the transition to digital records and include the City agencies in its plan and actions.	Records Management	Implement pending further due diligence and the approval of a shared service implementation plan
18.	**Change Management – Centre of Excellence** Implement a change management function with the Human Resources Division of the City to assist in the ongoing delivery of components of change.	Human Resources	Implement and report further as required
19.	**Records Centre Alternate Service Delivery** The operation and management of the City's two storage centres could be outsourced to a third party record storage service provider.	Records Management	No further action required
20.	**Formalize Records Management Collaboration** A Joint Working Group could be established to formalize a community of practice for records management practitioners across the City.	Records Management	No further action required

Executive Summary

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

Project Background, Scope and Objectives

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.

Project Approach

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

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
• 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	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.	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.

Key Findings by Function (continued)

Information Technology

Key Findings and Observations	Recommended Shared Service Opportunities For Consideration	
	Tier 1	Tier 2
• 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
• 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.

Key Findings by Function (continued)

Purchasing and Materials Management

Key Findings and Observations	Recommended Shared Service Opportunities For Consideration	
	Tier 1	Tier 2
• 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 Rationalizatio**n - 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
• 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.

Key Findings by Function (continued)

Real Estate Services

Key Findings and Observations	Recommended Shared Service Opportunities For Consideration	
	Tier 1	Tier 2
• 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.

Key Findings by Function (continued)

Internal Audit

Key Findings and Observations	Recommended Shared Service Opportunities For Consideration	
	Tier 1	Tier 2
• 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.	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. 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

Key Findings by Function (continued)

Records Management

Key Findings and Observations	Recommended Shared Service Opportunities For Consideration	
	Tier 1	Tier 2
• 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.

Cross-Functional Opportunities and Recommendations

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).

Cross-Functional Opportunities and Recommendations (continued)

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.

Estimated Financial Impact

Legend

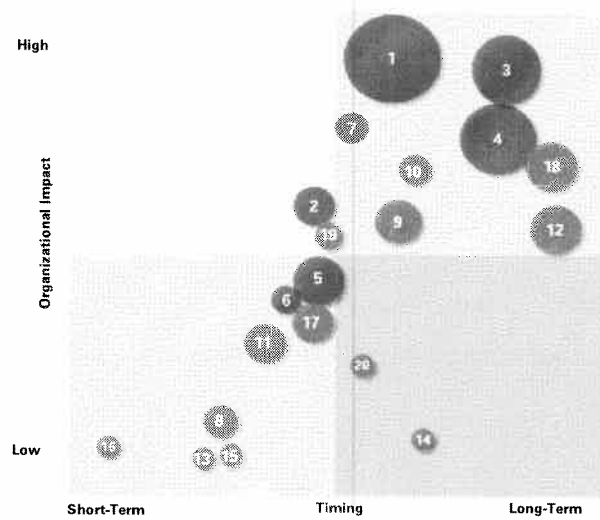
- Tier 1 Opportunities
- Tier 2 Opportunities
- Size of the ball indicates relative value of the model - illustrative
- (#) Corresponds to the opportunities below:

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.

Implementation Strategy

Key Considerations for Implementation:

- Shared vision of the direction of prioritized initiations 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.

KPMG

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.