

ZBR PROGRAM UPDATE

EXECUTIVE SUMMARY

This report provides information in response to two questions about the Zero-Based Review (ZBR) raised at the 2015 September 14 Council meeting. It also identifies some further program enhancements, consistent with the program's ethos of continuous improvement.

ADMINISTRATION RECOMMENDATION(S)

That the Priorities and Finance Committee recommends that Council receive this report for information.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, DATED 2015 NOVEMBER 17:

That Council receive this report for information and endorse Planned improvements, 2,3,4,5 and 7 as contained in Attachment 1, Page 10 of 10 of Report PFC2015-0903.

Excerpt from the Minutes of the Regular Meeting of the Priorities and Finance Committee, held 2015 November 17:

"2. That the Priorities and Finance Committee refer Planned improvements 1 and 6 contained in Attachment 1, Page 10 of 10 of Report PFC2015-0903, to the City Manager, for further analysis, returning to the Priorities and Finance Committee no later than Q2 2016."

PREVIOUS COUNCIL DIRECTION / POLICY

The Zero-Based Review (ZBR) program was created by Administration in response to Council's direction to become "a more effective and disciplined organization" (C2011-65) and to "be as effective and efficient as possible, reducing costs and focusing on value for money" (C2014-0401).

The program is also a component of Administration's Integrated Performance Management System, which is part of the Leadership Strategic Plan that was approved by Council on 2014 September 15 (C2014-0703).

Council has approved the ZBR program's principles, method and governance structure (FCS2011-31) which are designed to achieve the program's purpose and desired outcomes. The ZBR program has been modified and improved, reflecting the application of a continuous improvement philosophy to the ZBR program itself. Significant changes were brought to Council for approval after the pilot (PFC2012-0713) and in September 2014 (PFC2014-0554).

The changes made after the pilot included:

- Introduction of a two-stage review, starting with a high-level overview of the entire business unit to be followed by an in-depth review of those areas with the most potential for improvement;
- Addition of the peer review; and

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- Use of business cases to ensure the recommendations propose improvements with specific, tangible benefits.

Changes made in 2014 included

- Clarity that identification of efficiency gains (cost reduction or avoidance of future costs) is an expected outcome of each ZBR;
- Elimination of two Council approval points (the project initiation document and the mid-review status report) to streamline the review process; and
- Direction that the high-level overview of the business unit be conducted by internal City staff.

BACKGROUND

On 2015 September 14, Councillor Sutherland raised two questions about the ZBR program. The first was a broad question about the ZBR program's purpose and governance:

- *Where should the zero-based reviews report, in order to get the best result and ensure independence?*

The second was a technical question about the method of analysis used in ZBRs:

- *Do the reviews do true costing?*

Administration committed to report back on both of these questions by November, 2015. This report addresses both questions.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Where should the Zero-Based reviews report, in order to get the best result and ensure independence?

The ZBR program's principles, method and reporting structure are designed to achieve the program's purpose and desired outcomes. As discussed in previous Council reports, the program's expected outcomes are twofold:

- To improve the efficiency and effectiveness of City services, and
- To support a change in organizational culture to the "more effective and disciplined organization" that was directed by Council, by increasing organizational capacity for ongoing, internally-driven service improvement.

The initial ZBR program design, which was approved by Council, discussed the balance of collaboration and independence that underlies the program, reflecting its dual purpose. The program achieves this balance by using a centrally coordinated, standardized approach with the following specific provisions (see also pages 4-5 of Attachment 1):

- The process itself is highly prescriptive and neutral, to ensure that reviews stay on track and focus on delivering the expected results.

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- Each project Steering Committee is chaired by a General Manager from a different department to provide objectivity and bring a voice of constructive challenge to the discussions.
- External consultants with subject matter expertise in the service area under review conduct the in-depth analysis, bring information on best practices and make recommendations for change.
- The Business Unit Director participates on the Steering Committees to bring her/his own expertise and local knowledge.
- Participation by the Business Unit Director and her/his GM ensures that clear accountability for implementation is built into the process.
- A peer review supplements the external experts' analysis to ensure recommendations are practical and comprehensive.
- The process is supported by an internal consulting team with expertise in service reviews to ensure consistency with the approved process, method and outcomes.
- The unedited external consultant's report is presented to Council along with Administration's response, and the consultant is present to respond to questions to ensure transparency.

Some Council members have sought clarity about the relationship between ZBRs and audits conducted through the City Auditor's office. The two serve different purposes and achieve different results. ZBRs are one of Administration's tools for ongoing self-improvement, while Audits provide an independent and external (to the Administration) assurance function for Council, focussed on areas of highest risk. More detail on the relationship between the two is provided on page 6 of Attachment 1.

Do the Reviews do True Costing?

The costing method used in ZBRs is based on the Treasury Board of Canada's guidelines. Among the key concepts from the guidelines are:

- Relevance (the costing method should identify and use costs that are relevant to the decision at hand)
- Appropriateness (the costing method should be reasonable and itself cost-effective in light of its use and purpose).

Pages 7-8 of Attachment 1 provide more information on how costing has been incorporated into the ZBRs conducted to date. One challenge that has emerged is that City business units do not always have all of the relevant information to inform decisions. Some issues have been addressed through the ZBRs themselves (where advice on performance measurement and service costing has been provided), and further improvements are expected as The City moves towards service-based business plans and budgets. As well, Administration will obtain additional advice on costing to incorporate into the ZBR method to ensure consistency and completeness of cost-benefit analyses.

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Program Results

The ZBR program has met its goals and delivered significant benefits. In addition to financial gains (more than \$23 million in base operating budget savings), the reviews have produced benefits in the area of the environment, customer service, and diversity and inclusion. The program itself is highly cost-effective, with total annual financial gains outweighing total one-time program costs by a ratio of approximately 10 to 1. Further details on the program's results to date are provided on page 9 of Attachment 1, and in Attachment 2.

Continuous Improvement

During the stakeholder research that was undertaken to prepare this report, the majority of those contacted placed a high value on the current approach, and supported the balance of a constructive, collaborative process with an appropriate degree of independence and rigour. That said, the stakeholder interviews also identified areas where further improvement is possible. In response, Administration has identified the following further enhancements:

- Creation of an advisory committee including Council members and senior administration to provide a forum for strategic advice and sharing of information, while maintaining the neutrality of the reviews.
- Formalizing and enhancing some existing follow up and tracking process.
- Seeking further advice on costing methods.

The proposed further improvements are described on page 10 of Attachment 1.

Stakeholder Engagement, Research and Communication

This report draws on information from stakeholders including Priorities & Finance Committee members, Administrative leaders who have participated in a ZBR, the City Manager and the City Auditor. A summary of stakeholders' comments is provided on page 2 of Attachment 1.

Strategic Alignment

The ZBR program responds to Council's direction to Administration as expressed in the 2015-2018 Council Priorities and the Leadership Strategic Plan.

Social, Environmental, Economic (External)

Given its focus on both efficiency and effectiveness, the ZBR program has, through its individual reviews, supported social, environmental and economic outcomes in addition to financial benefits. Examples of program benefits related to these areas are provided in Attachment 2.

Financial Capacity

Current and Future Operating Budget:

There are no additional operating budget impacts to this report. The ZBR program contributes to reducing net operating budgets for the areas reviewed.

Current and Future Capital Budget:

There are no additional capital budget impacts to this report. The ZBR program contributes to more efficient use of capital assets for the areas reviewed.

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Risk Assessment

The ZBR program has been carefully designed to balance multiple goals. Changes to the program's governance or method present a risk to the achievement of the program's goals if not carefully considered. The proposed program enhancements will preserve this balance and contribute to the continuous improvement of the ZBR program.

REASON(S) FOR RECOMMENDATION(S):

This report responds to questions raised about the governance and costing method of the ZBR program.

ATTACHMENT(S)

1. Zero-Based Review Program Update
2. Zero-Based Review Program Status Update: November 2015