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Zero-Based Review Program Update

Report to Priorities & Finance Committee

2015 November 17

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This report responds to two questions raised at the 2015 September 14 Council meeting

The first was a broad question about the ZBR program's purpose and the resulting approach to 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"?

Method:	Key Themes from Stakeholder Interviews:

This report draws on information and analysis from the following sources:
 	
 • Interviews with stakeholders (see panel to the right for key themes) including:
   ✓ interested Priorities & Finance Committee members
   ✓ Members of Administration who have participated in a ZBR Steering Committee (General Managers and Directors)
   ✓ The City Manager
   ✓ The City Auditor
 • Previous Council direction on the ZBR program
 • Results of the ZBR program to date
 • Service review best practices research (updated)
	• High value placed by Administration on a constructive and collaborative process.
	   • This is seen as an integral part of good management
	   • For Administration to be able to continue to respond to Council's direction, we need tools and resources like the ZBR program.
	 • Council members also support a constructive process.
	   • Need assurance that the program is delivering as much as it can.
	   • Some seeking more clarity on how ZBRs differ from Audits.
	 • Widespread opinion that individual Council members should not be on ZBR steering committees.
	 • Some questions about how to ensure rigor in the implementation/ follow-up process.
	 • Consensus on concept of using appropriate and relevant costs
	   • Both Administration and Council see benefit in further improvements to costing methods, for both service reviews and for ongoing service management decisions.

Administration created the ZBR program in response to Council's direction to continually improve service efficiency and effectiveness

Council Direction to Administration

Council's Fiscal Plan for Calgary (2012-2014): Becoming a more effective and disciplined organization

- Increase the use of benchmarking, performance measures and best practices information to improve service effectiveness and efficiency.

- Implement a program of ongoing in-depth service reviews using a zero-based review philosophy.

- Examine alternative mechanisms of service delivery, including the judicious use of technology.

C2011-65

Council Priorities for 2015-2018: A Well-Run City

- Be as efficient and effective as possible, reducing costs and focusing on value-for-money.

- Examine opportunities for alternative service delivery for competitiveness.

C2014-0401

Leadership Strategic Plan (approved September, 2014)

- Implement an Integrated Performance System, including zero-based service reviews

C2014-0103

The **Integrated Performance System** is a set of tools, processes and disciplines that Administration has put in place to support ongoing service review and improvement. Its effectiveness comes from the way that different components of the system directly inform and reinforce one another. For example:

- performance measures and benchmarking information is used to inform ZBR analysis

- ZBR recommendations are implemented through business plans and budgets;

- GMs and directors are accountable for implementation through individual performance goals and development.

INTEGRATED PERFORMANCE SYSTEM

- Performance Measurement & Accountability
- Service Review & Improvement
- Integrated Risk Management
- Individual Performance Development
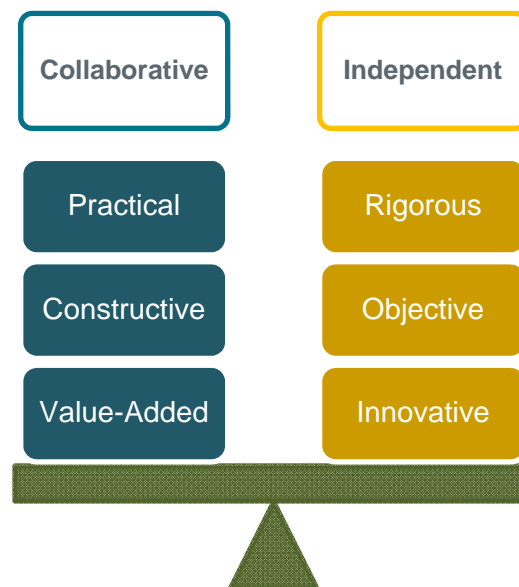- Service Plans & Budgets

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The ZBR program has multiple goals, and the Council-approved design has always sought the right balance of collaboration and independence to achieve them
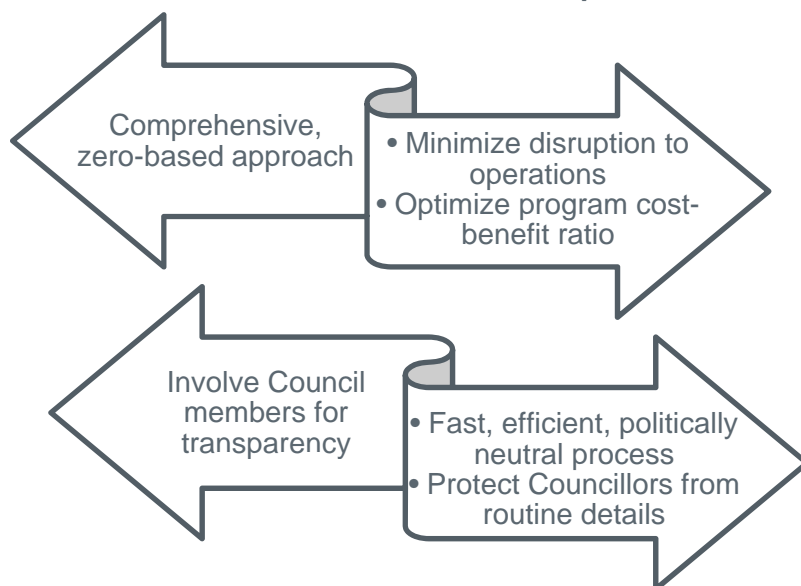
The goals of the ZBR program are to:

1. complete a series of service reviews to find efficiency and effectiveness improvements;
2. increase the organization's capacity (tools, resources and culture) for ongoing, internally-driven service improvement, to provide benefits that endure beyond any individual review.

In designing a program with multiple goals, some trade-offs are inevitably needed to ensure all the required benefits are delivered. In the case of the ZBR program, **the main balance to be struck is between independence and collaboration**.
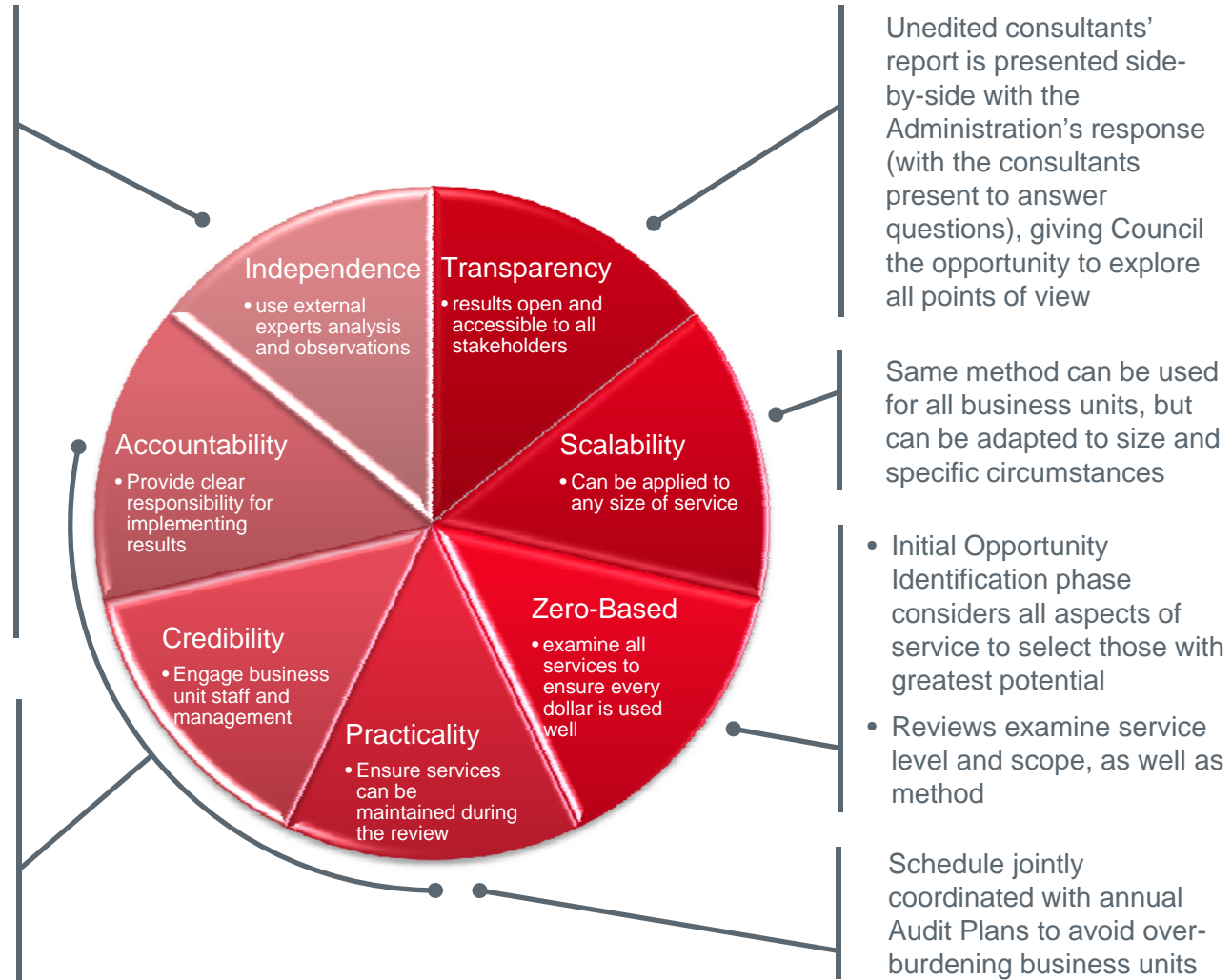
Two other areas where balance are required are:

Comprehensive, zero-based approach
- Minimize disruption to operations
- Optimize program cost-benefit ratio

Involve Council members for transparency
- Fast, efficient, politically neutral process
- Protect Councillors from routine details

Collaborative	Independent
Practical	Rigorous
Constructive	Objective
Value-Added	Innovative

Decentralized	Corporate program	External
• Most buy-in from business unit • Most variation in approach and result • Least objective and independent	• Best practice research (refs. ①-⑤ below) shows that a centrally-coordinated internal program achieves the optimum balance between these competing factors	• Most independent • Least likely to support lasting culture change and increase the organization's capacity for ongoing self-improvement

① **Service Delivery Reviews in Australian Local Government,** Australian Centre of Excellence for Local Government, 2012 . ② **Using hybrid models to support the development of organizational evaluation capacity: A case narrative,** Bourgeois, Isabelle *et al*, National Research Council of Canada, 2011. ③ **The True Cost and Effectiveness of Service Reviews,** Graham, Kate, *Public Sector Digest,* Q3, 2013. ④ **Making Choices, Building Strong Communities: A Guide to Service Delivery Review for Municipal Councillors and Senior Staff**, Ontario Ministry of Municipal Affairs and Housing, March 2010. ⑤ **Service Delivery Review: The Ontario Experience,** Kate Stymiest, Local Government Program, Department of Political Science, University of Western Ontario, 2006,

The program design reflects the agreed balance between seven Council-approved* principles

- Steering Committee Chaired by a General Manager (GM) from another Department
- External consultants provide an independent expertise specific to the area under review
- External peer review panel provides additional independent expert views
- Highly prescriptive, rigorous and neutral process
- Consistent support from one of Administration's internal consulting teams with specialized professional expertise

- Steering Committee includes the Director and GM for the Business Unit under review
- Responsibility for follow up and implementation is assigned to business unit management

Independence
- use external experts analysis and observations

Transparency
- results open and accessible to all stakeholders

Accountability
- Provide clear responsibility for implementing results

Scalability
- Can be applied to any size of service

Credibility
- Engage business unit staff and management

Zero-Based
- examine all services to ensure every dollar is used well

Practicality
- Ensure services can be maintained during the review

Unedited consultants' report is presented side-by-side with the Administration's response (with the consultants present to answer questions), giving Council the opportunity to explore all points of view

Same method can be used for all business units, but can be adapted to size and specific circumstances

- Initial Opportunity Identification phase considers all aspects of service to select those with greatest potential
- Reviews examine service level and scope, as well as method

Schedule jointly coordinated with annual Audit Plans to avoid over-burdening business units

*FCS2011-31

ZBRs serve a different purpose than audits

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ZBRs are one of Administration's tools for self-improvement. Audits provide assurance to Council. It is therefore common for organizations to run both service improvement and internal audit programs, to capture the benefits of both.
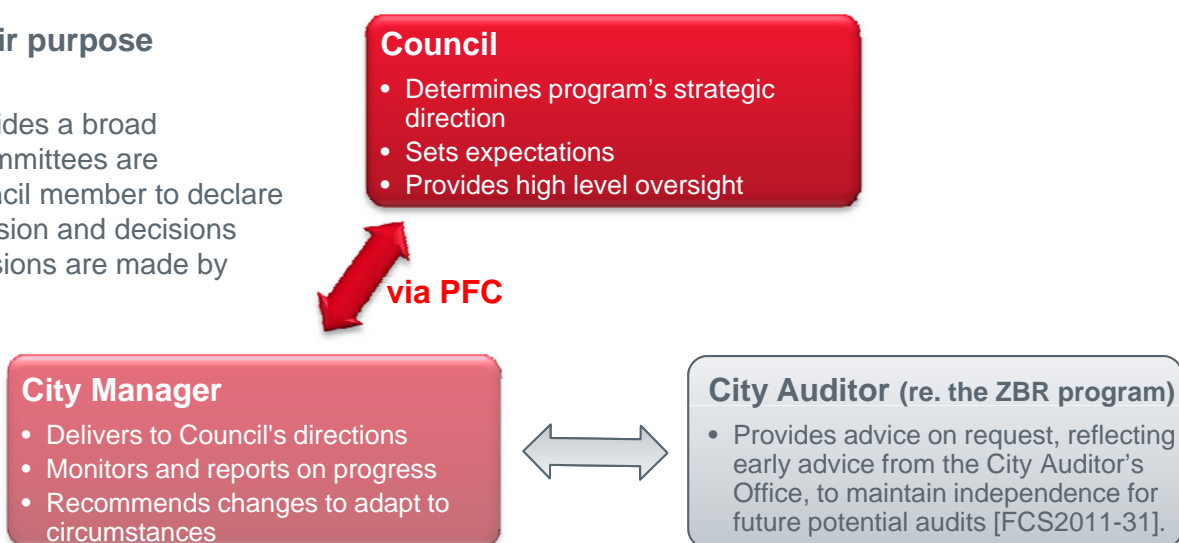
	ZBRs ❶	City Auditor's Office audits ❷
Role	Assisting the City Manager's administration to "raise the care and attention The City pays to restraining expenditures and continually seeking improvements to the efficiency and effectiveness of municipal programs and services."	"assisting Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement of value for money in City operations."
Purpose	"provides options and recommendations to identify: 1. Changes to service level or delivery that would achieve cost savings or mitigate future cost increases (efficiency improvements); and 2. Changes to service level or delivery that would improve results or outcomes (effectiveness improvements)."	"an independent and objective assurance and advisory activity that is guided by a philosophy of adding value to improve … operations "
Focus	Focused on areas with "the greatest potential for improvement"	"focused on areas of high risk to The City"

❶ Zero-Based Review Overview Guide, November 2014
❷ City Auditor's Office Charter AC2013-0830

ZBR reporting lines reflect their purpose

The ZBR reporting line to PFC provides a broad perspective (all Standing Policy Committees are represented) and enables any Council member to declare an interest and participate in discussion and decisions regarding a particular review. Decisions are made by Council (versus citizen) members.

Council
- Determines program's strategic direction
- Sets expectations
- Provides high level oversight

via PFC

City Manager
- Delivers to Council's directions
- Monitors and reports on progress
- Recommends changes to adapt to circumstances

City Auditor (re. the ZBR program)
- Provides advice on request, reflecting early advice from the City Auditor's Office, to maintain independence for future potential audits [FCS2011-31].
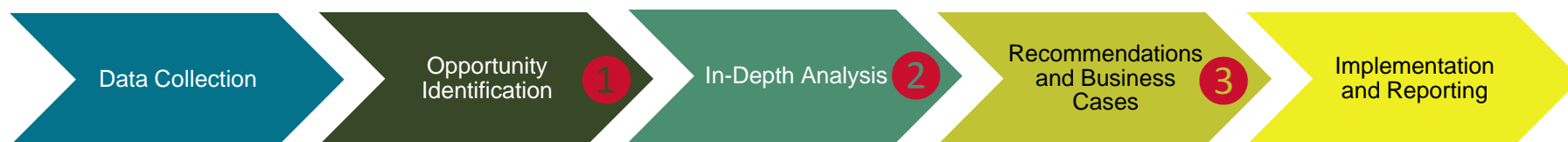
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ZBR costing methods are based on Treasury Board of Canada Secretariat guidance*

Some key concepts from the Treasury Board guidelines adopted in the ZBR method are:
- **Relevance** (the costing method should identify which costs are relevant to the question or decision at hand)
- **Appropriateness** (the costing method should itself be reasonable and cost-effective in light of its use and purpose).

Costing information is used most extensively at three critical points in the ZBR process.

| Data Collection | Opportunity Identification 1 | In-Depth Analysis 2 | Recommendations and Business Cases 3 | Implementation and Reporting |

Stage	Purpose	Costing Information Required	Actions to ensure requirements are met
1 Opportunity identification	High-level analysis to identify areas with the greatest potential opportunity for improvement.	Review of **benchmarking data or trends** over time to make valid "apples to apples" comparisons e.g. between jurisdictions or time periods.	Use information from accredited benchmarking programs (e.g. OMBI or industry specific programs) with comprehensive data dictionaries to ensure relevant and accurate comparisons. Business Unit finance staff provide costing information for Calgary.
2 In-Depth Review	In-depth analysis to generate options for improving efficiency and effectiveness for each area selected.	Understanding of all significant **controllable cost drivers**, i.e. what factors contribute to service costs and where they might be reduced.	Complete cost information (including operating and capital) is collected for each service line. Business unit finance staff provide additional costing information as needed.
3 Business Cases & Recommendations	Detailed cost-benefit analysis to critically assess each option and make final recommendations, supported by full business cases.	Identification of **relevant costs** to ensure valid "apples to apples" comparisons between options i.e. how costs may change under each of the alternatives, in both the short and long term. This is determined by the nature of the change and may include operating, operating capital, inventory and overhead costs.	In preparing cost analyses, consultants are asked to demonstrate the rationale for costing, including the basis for comparing different options, to ensure that the analysis is based on complete and relevant costs. Business unit and corporate staff review business cases carefully to check the validity of costing. Peer reviews also help to ensure that cost comparisons are sound.

*Guide to Costing: Financial management and Analysis Sector http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=12251

Examples from completed ZBRs illustrate how costing information is used at different stages of the process

- Used the National Water and Wastewater Benchmarking Initiative as one indicator in identifying areas for in-depth analysis **1**.
- This led to the detailed examination of maintenance and operation of the asset base, and ultimately the recommendation to move towards risk-based maintenance **2 3**.

Water Services

- Examined unit costs for Calgary compared to other municipalities to identify areas where Calgary is relatively efficient, and to find places with lower unit costs as a source of potential best practices **1**.
- The final report found ways to reduce future growth in the operating budget and to make better use of existing and future capital facilities **2 3**.

Fire

- Recommendations to contract out some additional work, and to contract in other work, took into account total long-term costs. These include both operating costs (e.g. salaries and wages, overhead) as well as capital costs for facilities and equipment **2 3**.

Fleet

- Used benchmarking data to identify areas where Calgary is an industry leader, as well as areas where other jurisdictions appear to have leading practices **1**.
- Evaluation of contracting out and other recommendations to increase service efficiency took into account potential cost savings related to machinery and equipment, in addition to labour and other operating costs **2 3**.

Parks

The Zero-Based Reviews completed to date have normally included all relevant costs in identifying areas for improvement and developing business cases.

An issue that has emerged from some ZBRs is that City business units do not always have all of the relevant information about service costing, which is needed not only during a service review but also for ongoing management purposes. Some of these issues have been addressed through the ZBR projects themselves, through advice and recommendations on performance measurement and costing.

Further improvements are expected as The City moves towards service-based business plans and budgets, where information on service costs will be built in to the information and options provided to Council. As well, given the complexity and importance of costing, Administration will seek additional advice and continue to refine costing methods.

The ZBR program has so far met its goals and delivered significant benefits

How much did we do? Five ZBRs have been completed, and four more are underway. We are on track to our target of reviewing 80% of City operations (measured by gross operating budget) by 2020.
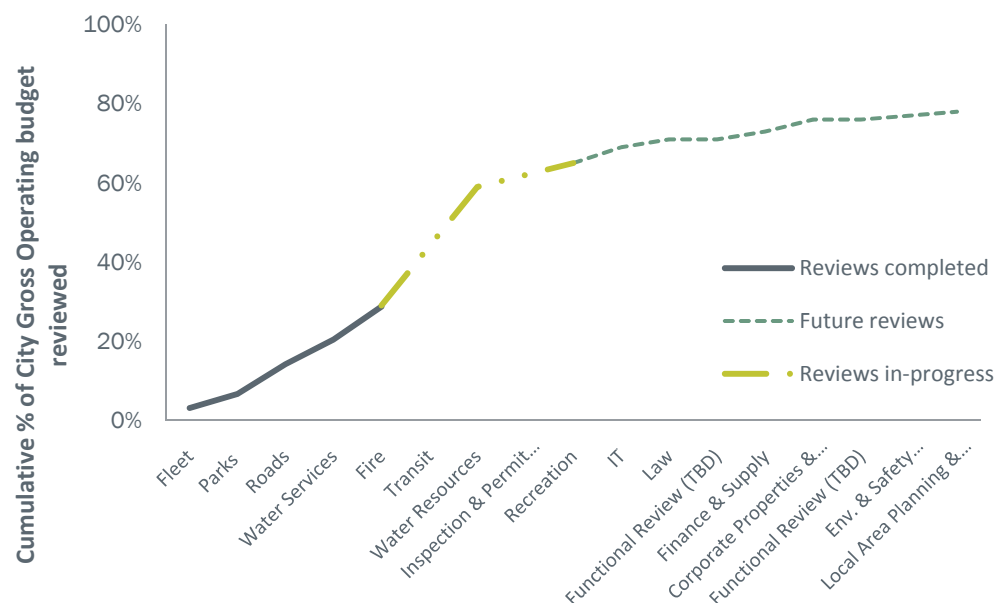

How well did we do it? Total cost of the ZBR program to date is $2.5 million. The ratio of financial benefits to costs is approximately 10:1, even without taking into account the fact that most benefits are ongoing while costs are one-time.

Feedback from staff who have participated in ZBRs is that the process has been a catalyst to ongoing service improvement, and has provided information and tools that will be used over a long period.

Is anyone better off? To date, at least $23 million on ongoing financial benefits have been identified. Most will reduce the base (net) operating budget, so that benefits are ongoing annual gains once fully implemented. Benefits are not limited to financial gains. Other improvements include environmental, customer service, diversity and inclusion improvements, and more relevant (e.g. outcome-based) performance measurement.
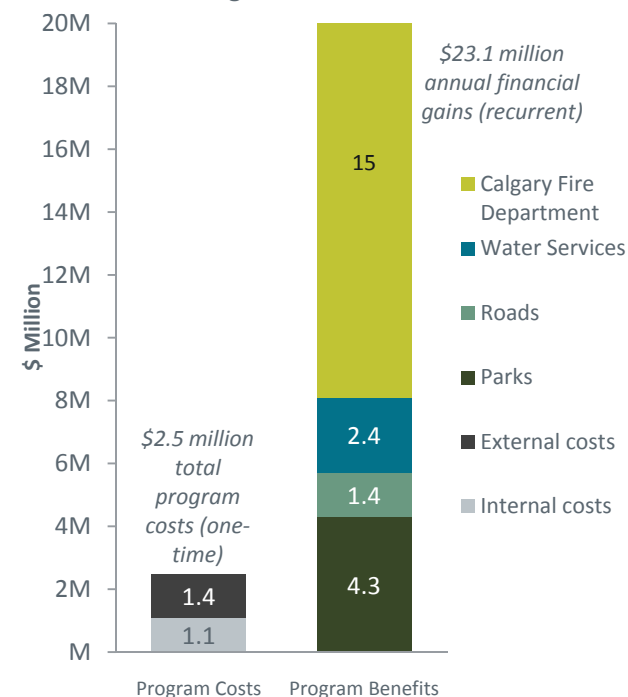
Notwithstanding the success of the program to date, further improvements are planned

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The ethos of continuous improvement is applied to the ZBR program itself as much as the Business Units under review. A number of program enhancements have previously been approved by Council and implemented (2012-2014). Further improvement to the ZBR program is now planned to maintain the program's current strengths while addressing stakeholders' observations and suggestions. They also strengthen the overall governance principles of high-level direction setting by Council for delivery by the City Manager.

	Planned improvement	Benefits
Additional role for Council members	1. A new advisory committee comprising the PFC Chair and Vice-Chair, Chair of Audit Committee, CFO and City Manager, to meet twice per year.	Ensures key leaders are well-sighted on review and implementation progress, and have the opportunity to offer strategic advice on overall program matters.
	2. Provide all Council members with the option of input to individual ZBRs at the Opportunity Identification stage	Allows Councillors to highlight any areas of concern they or their constituents may have, ensuring these areas receive due consideration in the Opportunity Identification phase.
Improve visibility and rigor of ZBR follow-through	3. Set tracking milestones for implementation until complete (vs. 1 year only at present)	Creates a clear line of sight between the approval of ZBR recommendations by PFC, their implementation and the realization of financial and other benefits.
	4. Follow-up on milestones in City Manager/GM/Director/staff annual goals and ongoing discussions	
	5. More explicit information on ZBR results (and all efficiency gains) in business plans and budgets	
	6. Present overview of progress on follow-up to proposed advisory committee	
Cost-ing	7. Seek advice from a variety of sources on comparative costing method	Improves consistency and reduces the risk that a material source of cost could be overlooked at any stage in the ZBR process.