

ZBR PROGRAM REPORT

EXECUTIVE SUMMARY

While the Zero-Based Review (ZBR) program has been successful to date, further evolution of the program is required if it is to continue to deliver results in the face of changing circumstances and new requirements. This report describes proposed improvements to the program to:

- Focus more on the cross-organizational issues that no one Business Unit can tackle alone; and
- Refresh the program's mandate from Council to:
 - Focus on results;
 - Make Administration collectively accountable for delivery; and
 - Streamline reporting.

It also responds to several specific Council directions regarding the program.

ADMINISTRATION RECOMMENDATION(S)

Administration recommends that the Priorities and Finance Committee:

1. Approve the new program mandate and reporting approach (Attachment 2).
2. Receive for information:
 - a. ZBR program status update (Attachment 1)
 - b. Responses to Council's previous direction on ZBR topics and schedule (Attachment 3)
 - c. Response to Council's direction to report back on whether any savings have been achieved through contracting out in Zero-Based Reviews (Attachment 4).

PREVIOUS COUNCIL DIRECTION / POLICY

The Zero-Based Review (ZBR) program was created by Administration as part of its response to Council's direction to become "a more effective and disciplined organization" (C2011-55).

The program has evolved over time, as can be expected given the changing circumstances since its inception and the continuous improvement ethos of the ZBR program itself. Direction for the ZBR program is therefore contained in a number of previous reports to Council, which include:

- The initial report establishing the program and setting up the pilot (FCS2011-31);
- A follow-up report, modifying some program parameters, reflecting lessons learned in the pilot (PFC2012-0492);
- Approval of the ZBR program for 2013 and 2014 (subjects and resources), with further method improvements (PFC2012-0713);
- Approval of the 2015-2018 ZBR program (subjects and resources), with further method improvements (PFC2014-0554); and

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- Two information reports prepared in response to a Council inquiry, detailing the relationship between ZBRs and Audits, explaining the costing methods used and proposing further enhancements (PFC2015-0903 and PFC2016-0518).

In the latest report (PFC2016-0456), Administration committed to return to Council later in 2016 with a ZBR program update, identifying further improvements to the ZBR method in order to further clarify its distinct purpose.

This report fulfils that commitment and also responds to Council's prior direction to:

- Bring forward the proposed subjects for the two functional reviews for Council approval through the 2017-18 business plan and budget adjustments (November 2016, in PFC2014-0554).
- Report any proposed topic changes for Council approval (FCS2011-31).
- Adjust the timing of the Chief Financial Officer Department (including Finance and Supply) Zero-Based Review project upwards in the schedule (motion arising from PFC2014-0554).
- Examine whether or not The City has achieved any savings through the contracting out of City services described in the Zero-Based Reviews (motion arising from PFC2016-0469).

BACKGROUND

The ZBR program is one of the tools that Administration are using to execute Council's five imperatives, as expressed in the Leadership Strategic Plan (City Manager's presentation to Council September 15, 2014):

1. **Integrated Service Delivery** – Council is consistent in its view that the corporation needs to provide services in a much more coordinated and integrated way
2. **Engaged Leadership** – Council wants collaborative organizational leaders and managers that function together as a team
3. **Trust and Confidence** – Council is asking for an organization that is reliable, honest, effective, and that has its confidence and trust
4. **Public Service Culture** – Council wants the organization to deliver its services with a citizen and customer focused approach
5. **Investment and Value** – Council expects a sustainable financial plan from Administration that is responsible and creates value

Specifically, it is one component of the Integrated Performance System, which is a disciplined approach to continuous improvement in service delivery at The City of Calgary. It helps to deliver the five imperatives by:

1. Helping to coordinate service improvements across business unit boundaries;

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2. Engaging senior managers (General Managers and Directors) to lead and support service reviews inside and outside their own area;
3. Improving service effectiveness, and promoting robust decision-taking;
4. Embedding a customer focused approach in the both the overall review process and the selected opportunities by establishing “is anyone better off?”; and
5. Improving service efficiency and increasing value, contributing to the corporation’s financial sustainability.

It is particularly relevant as we reach the final stages of the implementation ‘road map’.



‘Road map’ for delivering Council’s 5 imperatives

- | | |
|-------------|--|
| 2015 | Stage One: Organizational Stability
Step 1: Articulate the Leadership Philosophy and Approach
Step 2: Concentrate on Priorities
Step 3: Establish Goals
Step 4: Set Specific Objectives, Measures and Targets |
| 2016 | Stage Two: Organizational Effectiveness and Economy
Step 5: Align with Strategic Direction
Step 6: Clarify Accountability
Step 7: Enhance Organizational Development
Step 8: Enable Service Integration
Step 9: Build Organizational Flexibility
Step 10: Focus on Customer Needs and Citizen Engagement
Step 11: Balance Scope and Scale of Departments |
| 2017 | Stage Three: Organizational Efficiency
Step 12: Address Structural Efficiency
Step 13: Strive for Cost Efficiency |

To date, seven ZBRs have been successfully completed, with three more underway. Administration has committed to begin a further seven by the end of 2018.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The Case for Change

The program has so far met its targets and delivered significant benefits in the form of cost savings and service improvements. To date, the ZBR program has identified a total of \$50 million, in financial benefits, most of which are ongoing (i.e. annual savings). As a measure of the program’s internal efficiency, the ZBR program has identified \$11 of savings for every dollar invested. 64% of services (measured by gross operating budget) have been reviewed so far and the program is on track to meet its goal of reviewing 80% by 2020. Further details are provided in Attachment 1.

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Notwithstanding the results to date, conditions have changed and the program must adapt in response.

1. Changing context

The economic downturn has increased the pressure to deliver substantial efficiency improvements, and to do so more quickly. Though the ZBR program has been continuously improving since 2011, it is necessary for it to evolve further in response to these changing circumstances.

To keep the tax rate low while protecting frontline services as much as possible, Administration is intentionally managing three things:

- Workforce and staffing
- Labour costs
- Service delivery costs

The ZBR program is particularly well placed to help address this last item, because (including some topic and schedule changes described in Attachment 3) all eight remaining subjects in this cycle's ZBR program are internal-facing business units. Internal business units have the greatest power to drive whole organization efficiency, and as a result are more important for driving large efficiency gains than their own (relatively small) budgets suggest.

2. Changing focus

The seven completed ZBRs have been in some of The City's largest business units, which collectively account for 64% of The City's gross operating budget. The three underway account for a further 10%. The final seven ZBRs (including the two proposed functional reviews) are smaller, internal business units and areas that collectively account for only around 11% of the gross operating budget.

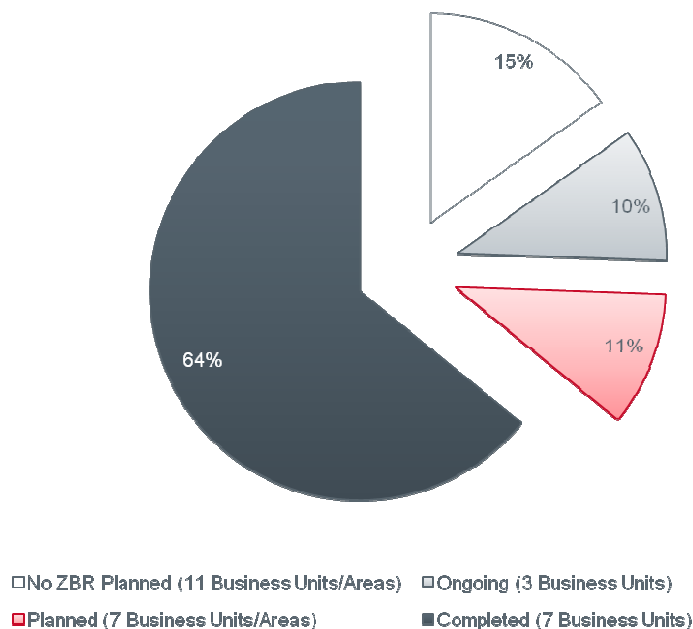
This presents a challenge: focussing efforts entirely within these business units will not deliver the same scale (in absolute terms) of efficiency gains as the first seven.

But it is also an opportunity:

- There are many commonalities among the internal business units and functions (in customers served, role, linked processes, etc.);
- It is ideal for a service-based approach to tackle inter-business unit issues; and
- Because of their influence on the rest of the organization, improvements in these internal services have the potential to achieve savings across the rest of the organization.

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**ZBRs Planned, Underway, or Completed as %
of Total City Operating Budget**



3. Changing reporting

The current ZBR reports, which are lengthy and technical, are inefficient in a number of ways:

1. The format is an ineffective tool to communicate the larger issue of how The City is improving services.
2. They require considerable resources to create and refine for the public, over and above the more valuable work of identifying improvements. This affects the ZBR consulting budget and diverts significant resources from more valuable tasks, such as:
 - a. Corporate Initiatives staff: taking more work in-house (in line with Council's direction), and offering a greater variety and amount of support to business units;
 - b. Consultants: expanding the depth and/or scope of their work; and
 - c. Business unit staff: preparing for implementation.
3. The practice of having Council approve all recommendations, even those within Administration's authority, results in delays in decision-making and implementation, and draws Council's discussion into a level of operational detail that is not necessary to achieve the effectiveness and efficiency gains sought through the ZBR program.
4. The format and level of detail provided are reminiscent of an audit, and have been identified (PFC2016-0518) as a source of the confusion between the two programs that some stakeholders have reported.

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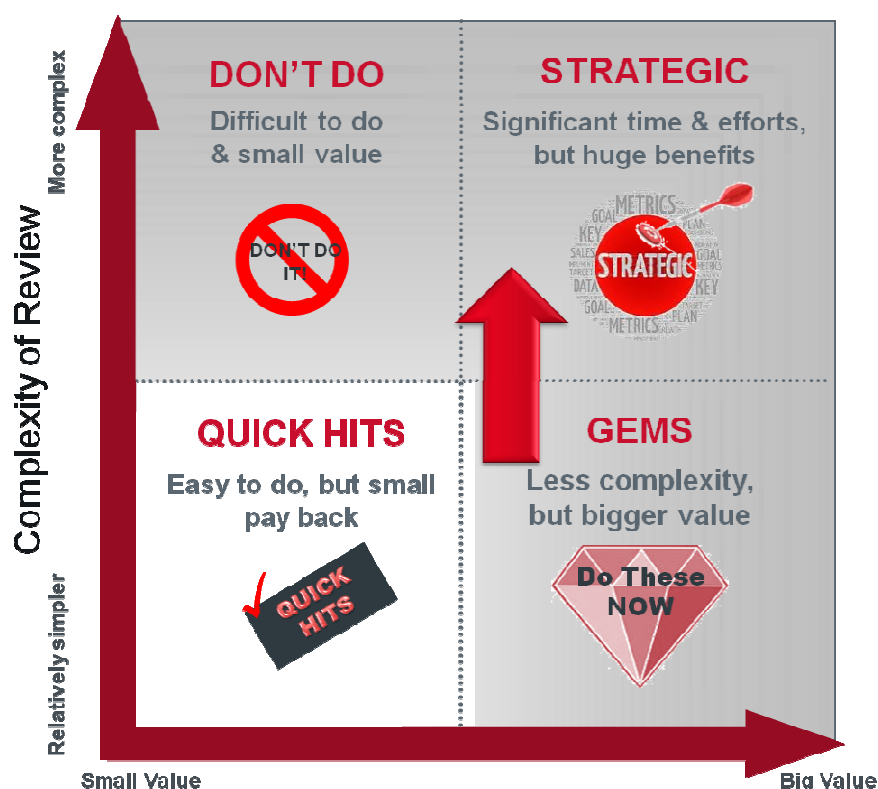
In addition, the current approach to follow-up reporting (implementation plans within one year of ZBR completion) does not adequately serve its purpose of allowing Council to ‘close the loop’. It focuses Council again on process (implementation) rather than results, and it is not aligned with the timing at which actual results are achieved, which may be more or less than a year.

How the program needs to evolve

To respond to these needs, Administration proposes to evolve the ZBR in two key respects:

1. *Focus more on the cross-organizational issues that no one Business Unit can tackle alone.*

Traditionally, the program has worked primarily within business unit boundaries, with a focus on identifying valuable but less complex opportunities for improvement (‘quick wins’ and ‘gems’ in the figure below). While this type of opportunity will still be pursued, the ZBR program will also seek out those issues that cross business unit lines.



This will increase the focus on ‘strategic’ opportunities: the more challenging – but high value – opportunities that lie in the spaces *between* business units. It will bring people together to address those issues that no one unit owns, and which might otherwise be branded ‘too difficult’. The process will therefore help break down silos and support Administration’s overall shift to a service-based approach.

It is in this space that a corporate program can add significant value, through improving the efficiency and effectiveness **of the corporation** and not just specific business units.

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2. Refresh the mandate from Council

Administration proposes to consolidate Council's previous direction regarding the ZBR program into a simple, results-based statement of expectations. The purpose, objectives and expected results of the program will not be materially changed. Rather, the updated mandate (Attachment 2) enhances focus on the most important elements by:

- Defining the purpose, objectives and expected program results in simple, plain language (rather than prescribing the program method);
- Making Administration collectively accountable for delivering these results whilst giving Administration more flexibility in program delivery; and
- Streamlining reporting, such that:
 - future reports to Council will be shorter, less technical, more results-focused and increasingly based on themes that cross business unit lines rather than solely on operational issues within a single business unit;
 - only decisions requiring Council's approval will be presented to Committee for decision; and
 - follow-up reporting will be changed to 'close the loop' with Council once results are delivered.

The updated mandate will also give Administration more flexibility in selecting ZBR topics to allow the pursuit of new opportunities as they become evident. Council will still be informed periodically of the ZBR topics, but will not be asked to approve them. In the current business cycle, the program will cover at minimum the same number of business units as before.

The increased emphasis on results will require further development of the program's performance measures to clearly establish "is anyone better off?". If Council approves the new mandate, developing new measures – focused around the agreed result areas – will be progressed as an early priority.

The program is on track to cover the breadth of services, and deliver the results, that were originally promised. The benefits of these changes are:

1. Faster results
2. A more nimble program, responsive to emergent opportunities
3. Better communication of improvements to Council and citizens

As previously committed to Council, Administration has identified two topics for "cross functional" reviews in 2017-2018. These are communications and data management and analytics. That said, the proposed amendments to the ZBR method mean that *all* ZBRs will take a more cross-functional approach, and be less bounded by business unit borders. In addition, some changes to the previous list of ZBR topics and schedule are required primarily as a result of the City Manager's strategic realignment. These are described in Attachment 3. If the new mandate is approved, these changes, and any similar adjustments in future, will no longer require Council approval.

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Attachment 4 provides information in response to the question about contracting out of City services in previous ZBRs. In brief, while contracting out is usually considered during the ZBR process, it is much less frequently recommended by external consultants or by Administration. Contracting out has resulted from one completed ZBR (Parks) and was also recommended for one service area in Transit. Contracting out has also been reduced as a result of some ZBR recommendations. Attachment 4 also addresses the question of consultation with City unions in cases where contracting out may be considered. The additional flexibility afforded by the proposed changes will make it easier to do more engagement with unions, in regard to any future proposals for contracting out or any other relevant matters.

The table below summarizes the effect of the proposed changes from Council's perspective:

Current	Proposed
ZBRs cover 12 business units in 2015-18 cycle	ZBRs cover a minimum of 12 business units in 2015-2018 cycle
Reports focus on ZBR results for a single business unit	Reports may focus on ZBR results for common themes (and may involve more than 1 business unit)
3 reports per year, based on reviews that finish	3 or more reports per year, based on new opportunities uncovered across all current reviews, and follow up on implementation or benefits realized from previous reviews
All recommendations brought to PFC for approval (meaning implementation often waits for unnecessary approvals)	Administration immediately implements recommendations within their authority (so that benefits are realized more quickly)
Reports are lengthy and very detailed	Strategic, results-focused reports protect Council's time for discussion of major changes (with detail available separately for reference)
Headline measure (% of gross operating budget reviewed) focuses on <i>process</i> (or "how much")	New performance measures will be developed that focus on <i>outcome</i> (better value for Calgarians through increased efficiency and improved services, or "is anyone better off?")

Stakeholder Engagement, Research and Communication

In developing the recommendations in this report, Administration drew on information from previous ZBR evaluations, which are conducted after each review as a matter of routine good practice. Administration conducted interviews with the City Manager, all General Managers and several Directors whose business units are the subjects of ongoing and upcoming ZBRs. The proposed changes have been agreed to by the ALT.

Interviews were offered to all members of the Priorities & Finance Committee. They highlighted the need to ensure Council members continue to have access to sufficient information as the program evolves and this is reflected in the proposed mandate. There was agreement from a

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majority that efficiency savings are the most important, but not the only, result required from the program; within that, however, there was some diversity of views amongst Council members about what the exact purpose and objectives of the program should be. The proposed mandate attempts to balance these different perspectives.

Strategic Alignment

The ZBR program is a component of the Integrated Performance System (IPS), along with performance measurement, risk management, service plans and budgets and individual performance development. The IPS, in turn, is one component of the Leadership Strategic Plan: the City Manager's and Administration's contract with Council that was approved by Council September 15, 2014. Collectively, these programs work together to help the organization respond to Council's five imperatives of integrated service delivery, engaged leadership, increased trust and confidence, a public service culture and investment and value.

The ZBR program in particular supports Stage 3 of the Leadership Strategic Plan "Road Map" insofar as it is a tool to help to improve organizational efficiency.

Social, Environmental, Economic (External)

There are no direct implications from this report.

Financial Capacity

Current and Future Operating Budget:

The proposed changes will help the organization to face future operating budget challenges by evolving the ZBR program so that it can continue to help achieve substantial efficiency gains. There are no direct budgetary implications to this report with respect to the cost of operating the ZBR program.

Current and Future Capital Budget:

The proposed changes will also help the organization to manage capital costs. There are no capital budget implications to the ZBR program itself.

Risk Assessment

The primary risks of *not* making the proposed changes are that the program will not continue to serve its purpose and deliver results as effectively. Related to this, there is a risk of missing an opportunity to take maximum advantage of the program and its potential to support the organization – particularly during the difficult economic times that lie ahead.

Changing a known process always brings some risks, as new methods and processes must be developed. As noted above, continuous improvement has been a characteristic of the ZBR program since its inception. Method changes will be managed as they have been in the past, including provision for testing and stakeholder consultation.

REASON(S) FOR RECOMMENDATION(S):

Approval of Administration's recommendations will make it possible to implement the changes to the ZBR topics, schedule and method, and achieve the benefits described in the report.

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<p>This report fulfils Administration's commitment to report back to Priorities and Finance Committee with details of savings achieved through contracting out recommended in ZBRs.</p>

ATTACHMENT(S)

1. ZBR Program Status Update
2. Proposed ZBR Program Mandate
3. ZBR topic and schedule changes
4. Savings achieved through contracting out in the Zero-Based Reviews