

Savings achieved through contracting out in the Zero-Based Reviews

Background:

This attachment responds to a direction from Council on 2016 June 7 to report back on the results of contracting out in Zero-Based Reviews (ZBRs) to date.

“MOTION ARISING, Moved by Councillor Pincott, Seconded by Councillor Farrell, that with respect to Report PFC2016-0469 Council direct Administration to examine whether or not The City has achieved any savings through the contracting out described in the zero based reviews, and report back to Council through the Priority and Finance Committee no later than Q2 2017.”

When Has Contracting Out Been Recommended through a ZBR?

While contracting out of services is usually *considered* as part of the ZBR process, it is not always *recommended* by the external consultant or by Administration. In every ZBR, Administration thoughtfully considers how services are best provided on a case by case basis. Both the efficiency (based on full cost, including capital and operating expenditures) and effectiveness (based on factors such as service outcomes, customer satisfaction, employee morale, safety and partner relationship) of different options – including contracting out – are assessed. Recommendations for change are made only when there is a clear expectation of financial or other benefits.

Two of the eight ZBRs completed to date (25%) have resulted in Administrative recommendations for a net increase in contracting out of service provision. In both cases (Parks and Transit), this involved extending contracting out in areas where it had previously been applied.

- In a third case (Fleet), the ZBR recommendation was to examining contracting *in* some services, as well as contracting out others.
- Finally, in one case (Roads), the recommendation was to consider contracting out only if a specified improvement in internal efficiency could not be achieved.

What have been the results (have savings been achieved)?

In the case of **Parks**, the ZBR recommended exploring contracting out in two areas related to Parks maintenance (details about the services contracted and the expected costs/benefits were held confidential in the original ZBR report in order to protect The City's economic interests). Parks has successfully contracted out one of the two areas and, after further investigation (consistent with the ZBR recommendation) did not proceed to contract out the other. Parks is on track to achieve the full amount of cost savings that were projected in the ZBR over the Action Plan 2015-18.

Results are not yet available for **Calgary Transit**, which is in the early stages of implementing the ZBR recommendations.

In the case of **Fleet**, the amount of work contracted out has *reduced* as a result of the ZBR recommendations. Fleet annually updates its analysis of maintenance tasks to determine the optimal balance of service provision in-house and contracted out. Annual benchmarking of the local market is undertaken to ensure competitiveness in the door rate, and Fleet's hourly door rate is currently about 24% below market. Overall, since 2012, Fleet has reduced the amount of maintenance work contracted out from 25% to 20%, as measured by the dollar value of work performed. When evaluating options, Fleet considers the total cost to the organization. For example, a service delivery option that has a lower direct cost (e.g. the cost for completing a repair) but takes considerably longer to complete, may not provide good value if units are kept out of service for longer, thereby requiring a higher fleet spares ratio.

In the case of **Roads**, the consultant reviewed contracting options for pavement marking, gravel crushing, pavement rehabilitation services, and streetlight maintenance. Roads was recommended to maintain the current service delivery model for pavement marking. The internal efficiencies that were achieved for both gravel crushing and pavement rehabilitation exceeded the expected savings that contracting out would generate. For streetlight maintenance, response times to lights-out service requests were improved by actually reducing the scope of work included in the streetlight maintenance service level agreement (SLA) for our contractors.

Engagement with Staff and Unions: It has been standard practice during ZBRs to provide multiple opportunities for staff input and engagement during the review process. It has also been standard practice to inform unions about any recommendations that may affect them or their members, and the Labour Relations Division is consulted and closely involved in this process.

However, during the final stages of the Transit ZBR, it became apparent that there would be benefits in engaging earlier with unions (in cases where recommendations have implications for unions and their members), and giving them a longer period in which to provide feedback. Therefore, in the future, Administration will ensure that a longer time for engagement and feedback is provided to unions, for those recommendations that directly affect them. The proposed changes elsewhere in this report will facilitate this process by providing more flexibility to Administration around the ZBR process and schedule.