

ROADS ZERO-BASED REVIEW FINAL REPORT AND ADMINISTRATION'S RESPONSE

EXECUTIVE SUMMARY

This report brings forward the recommendations for the Roads Zero-Based Review (ZBR) Final Report which were developed by Western Management Consultants (WMC) and the Administration's response to each of these recommendations. The final report makes recommendations for five service areas in the Roads business unit: Street Light Maintenance, Pavement Marking, Sign Manufacturing, Gravel Mining and Crushing, and Pavement Rehabilitation. Administration expects that the recommendations will result in ongoing financial benefits of approximately \$1.4 - \$1.9 million annually as well as improved customer service for the Street Light Maintenance service.

In addition, this report provides information on supplementary work that has been undertaken by Administration as a consequence of discussions that occurred during the analysis phase of the Roads ZBR related to the timing and equipment used for Roads spring clean up and its associated impacts on the operations of Water Services.

ADMINISTRATION RECOMMENDATION(S)

That the Priorities and Finance Committee recommend that Council:

1. Receive for information the Zero-Based Review (ZBR) Roads Business Unit Final Report (Attachments 1 and 2); and
2. Approve the Administration's Response to the Roads Zero-Based Review Final Report recommendations (Attachment 3).

PREVIOUS COUNCIL DIRECTION / POLICY

On 2013 May 06, Council approved the Project Initiation Document for the Roads Zero-Based Review (PFC2013-0340). On 2014 January 13, Council approved PFC2013-0751, Roads Zero Based Review: Results of High Level Analysis. The report identified services that would benefit from a further in-depth review.

On 2014 September 02, the Priorities and Finance Committee approved PFC2014-0624, Roads and Water services ZBR Deferral Report to allow key members of Administration and the external consulting team to present their findings and respond to questions.

BACKGROUND

Zero-Based Reviews are a part of the Corporate Strategy on Efficiency and Effectiveness, and respond to Council's direction to transform government, and specifically to become a more effective and disciplined organization, and to raise the care and attention that Council and the organization pays to restraining expenditures and increasing efficiencies. Each review starts at a 'zero' base by looking at all services that are provided by a business unit through a high level analysis followed by, an in-depth investigation and analysis of specific service areas that have the greatest potential for efficiency and effectiveness improvements.

The findings of the Roads Zero Based Review: Results of High Level Analysis report by Western Management Consultants (WMC) provided to Council in December 2013 indicated that of the 32 services provided by Roads, 25 received high levels of citizen satisfaction, favourable cost per output comparisons to other municipalities, comparatively smaller budgets and, in

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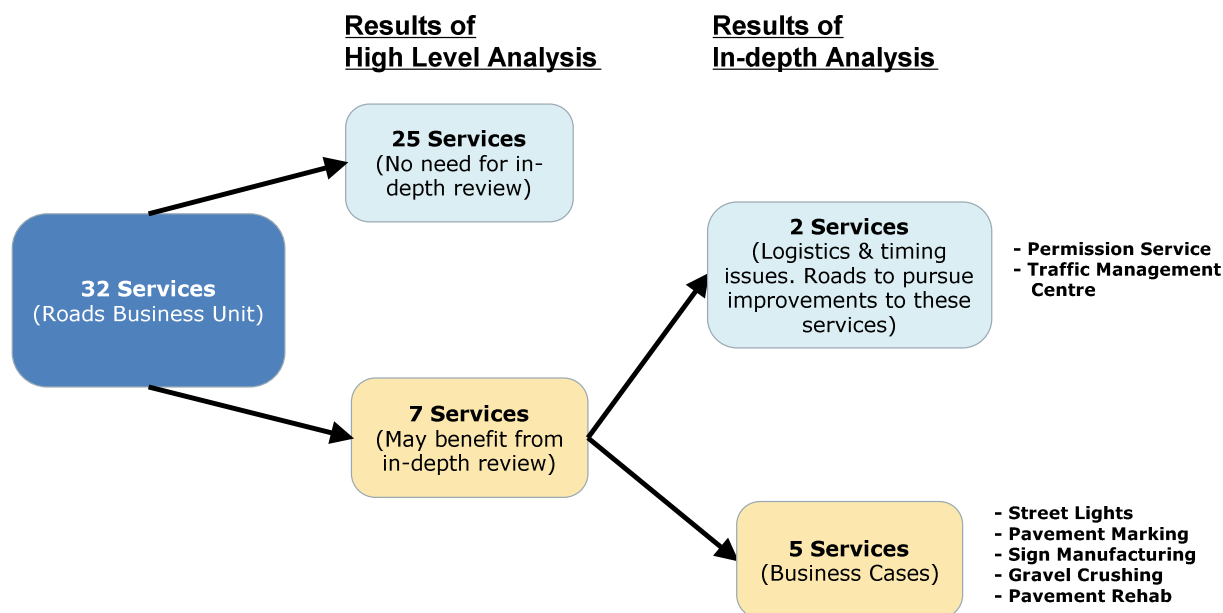
some cases, made recent changes to the organizational structure to improve provision of the service. The remaining seven services identified for further review and approved by Council were:

- 1) Street Light Maintenance
- 2) Pavement Marking
- 3) Sign Manufacturing
- 4) Gravel Crushing and mining
- 5) Pavement Rehabilitation
- 6) Traffic Management Centre
- 7) Permission Service (Issuing permits for road excavations)

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Roads Zero-Based Review Final Report from WMC (Attachment 1)

Western Management Consultant's (WMC) report, Attachment 1, to be received for information, includes the in-depth analyses and corresponding business cases for five Roads' services: Street Light Maintenance, Pavement Marking, Sign Manufacturing, Gravel Mining and Crushing, and Pavement Rehabilitation. The remaining two services that were identified for further review are addressed later in this report under the heading "*Revision to the in-depth review*".



Each of the five business cases in the WMC report identifies an issue, question or challenge faced by a Roads service that, if properly addressed, could improve the efficiency or effectiveness of that service. The report includes an assessment of potential options for how the services could be improved and recommendations to improve service efficiency and/or effectiveness. Each business case also addresses some of the risks associated with the

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recommendation as well as other implementation considerations. The business cases are summarized below:

1. *Street Light Maintenance* – The business case explores three options for the service delivery model that could be used to improve this service's effectiveness. The final report recommends that The City should outsource this service to multiple service providers in an effort to achieve effectiveness improvements through increased competition. Financial benefits for this recommendation have yet to be determined but the primary focus of the business case speaks more to the effectiveness of this program.
2. *Pavement Marking* – This business case examines the option of using private sector providers of this service and compares that with the option of continuing to use city crews. The consultants found that the costs savings between using private sector providers were not significant enough to warrant the loss of operational flexibility that The City currently possesses with that service. The report recommends that The City continue to provide this service directly and highlights some additional improvements to the service that should be explored further.
3. *Sign Manufacturing* – Four options were considered by WMC for this service including using an external vendor, focussing the service on its core products, expanding the service commercially or maintaining the status quo. The final report recommends that The City only focus on manufacturing its core road sign products in an effort to reduce costs that are not fully recouped in the manufacture of non-core products. The consultants estimate that there would be approximately a \$140,000 in net savings that could be achieved by implementing its recommendation.
4. *Gravel Mining and Crushing* – This business case considers the option to contract out the mining and crushing of gravel as well as the option to introduce 'industry standard measures' for cost control. The report recommends that The City introduce 'industry standard measures' and if those measures do not result in cost improvements for the service, contracting out the mining and crushing of gravel be the best alternative option. The consultants estimate that there would be approximately a \$600,000 to \$900,000 in costs savings, on approximately 300,000 tonnes of product, which could be achieved by implementing its recommendation to adopt 'industry standard measures' for cost control.
5. *Pavement Rehabilitation* – This business case also considers the option to introduce 'industry standard measures' for cost control. The report recommends that, if those measures do not result in cost improvements for pavement rehabilitation then The City may consider moving all pavement rehabilitation to a competitive tender process for the best available combination of price and performance. The consultants estimate that there would be approximately a \$1.5 million in annual costs savings that could be achieved by implementing its recommendation to adopt 'industry standard measures' for cost control.

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Attachment 2, to be received for information by Council, is an appendix to the final report contained in Attachment 1. Attachment 2 is being held confidential due to potential future negative impacts on the economic interests of The City.

Administration Response to the Roads Zero-Based Review Final Report (Attachment 3)

Attachment 3, for Council approval, provides the Administration's Response to the Roads ZBR Final Report. The Roads Steering Committee took an organization-wide perspective as it considered the implications of making changes to Roads services. This approach is reflected in each of the responses from Administration on the business cases.

Administration generally agrees in principle with the recommendations for the five services, however, in one case, expects more modest cost savings than those suggested in Attachment 1. Administration's response in summary is as follows:

1. *Street Light Maintenance* – Administration agrees that The City should outsource this service to multiple service providers and that The City's performance expectations related to street light maintenance should be clearly outlined in any future public tender for this service. The City has taken steps to try to improve the service through a series of meetings with Enmax Power Services Corporation (EPSC).

In addition, Roads has made operational adjustments to have crews attend to certain service requests and not others, adjusted maintenance crew schedules to form a night crew to fix the simple problems and worked across internal divisions to opportunistically fix known faults within work zones. Roads has been developing a strategy to address the large number of faults in streetlight wire (over 400 locations).

2. *Pavement Marking* – Administration agrees that The City should maintain the status quo for the service delivery model of pavement marking and will examine the additional recommendations made in the business case to improve the efficiency of this service.
3. *Sign Manufacturing* – Administration partially agrees with the recommendation that The City should focus on manufacturing its core road sign products and eliminate non-core sign and other product manufacturing. The Administration supports that a greater emphasis should be put on production of core signs and graphics related to traffic and roadways signs. However, Administration does not support the part of the recommendation that specialty graphics such as engravings and vehicle wraps should be purchased from the private sector. Administration believes that the recommended option to purchase specialty graphics from the private sector may result in negative impacts to internal clients (other business units) as well as to Roads' capacity to respond to urgent signing requests (e.g. detours, construction notices).

Administration agrees that it should more clearly define and track its core services and ensure that non-core services are priced to achieve full cost recovery, particularly as it relates to providing those services to organizations outside of The City of Calgary. Roads will adopt a full cost recovery model for all signage work, and will apply it for products sold to third parties.

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4. *Gravel Mining and Crushing* – Administration agrees with the recommendation to implement 'industry standard measures' for cost control for the Spyhill gravel operation. Should those cost control measures prove unsuccessful, then Administration will investigate other mechanisms for extracting and crushing gravel (including contracting out this service) within the operational requirements needed to ensure that the landfill can meet its environmental, legal and Council policy mandates (e.g. 2020 Sustainability Direction). Administration concurs with the consultant's estimated potential efficiency gains in this area.
5. *Pavement Rehabilitation* – Administration agrees with the recommendation to implement 'industry standard measures' for cost control but notes that the costs of laying asphalt from one project to the next is largely market driven from year to year.

In addition, City of Calgary paving crews are able to be more flexible in planning their work around the needs of roads users. The City crews can re-prioritize and squeeze urgent work into their schedule. As a result of this level of customer service provided by city crews for citizens, the cost of these crews can be higher for some paving projects.

For this reason, Administration believes that the potential efficiency gains in this area may be less than the amount estimated by the consultant. Administration believes that implementing industry standard measures will result in productivity gains for the Pavement Rehabilitation program of between \$800,000 to \$1.0 million annually.

Revision to the in-depth review

During the in-depth analysis two of the service areas approved for further review (Traffic Management Centre and Permission Services) were not completed due to logistic and timing considerations:

Traffic Management Centre (TMC) - The intent of further review of this service was to conduct a value engineering exercise in which an external expert would review The City's current plan for a next generation roads operation centres. Due to the highly specialized knowledge needed to conduct such a review on the TMC, the consultant was unable to schedule an individual with the appropriate level of expertise and who was not involved in the original creation of The City's Plan for a next generation roads operation centres. As such, the steering committee approved removal of TMC from the in-depth analysis by Western Management Consultants.

Excavation Permission Service - The consultants began an in-depth analysis of the Excavation Permission Service, which is the process used to issue permits to individuals or companies wanting to excavate a road. However during the course of conducting this work Roads began the implementation of an e-permitting service for its Street Excavations and Permission Service beginning in May 2014. As a result, the consultant concluded that to proceed with creating a business case for changes to the Excavation Permission Service may be redundant, since many of the challenges faced by the service could be addressed through an e-permitting service. The Steering Committee concurred with this conclusion. By the end of August 2014 there were 1684 out of 2443 permits issued through e-permits. Roads has been working on some technical issues as well as a change management strategy to increase the use of e-permits to 100% by the end of 2015.

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Within a year, Roads will report back to the Priorities and Finance Committee on the additional work that is being undertaken outside of the formal ZBR process to make improvements to the Traffic Management Centre and Excavation Permission Service.

Supplementary Research

As noted previously, The Roads Steering Committee took a corporate wide perspective as it considered the implications of making changes to Roads services. One of the additional benefits of the Roads ZBR process was that it identified an additional area where there may be benefits to the corporation as a whole and Water Services in particular, through changes to the Roads Spring Clean-up process. As a consequence of these discussions, the Steering Committee requested that Administration from Roads, Water services and Fleet explore the potential benefits of adjusting the timing and equipment used for the Roads Spring Clean-Up.

Background data has been gathered and preliminary discussions have begun to determine the feasibility of making changes to the equipment used for the Spring Clean Up in an effort to reduce future storm pipe and pond clean up costs. Along with the potential financial benefits for Water Services, there could also be positive operational effectiveness benefits related to the storm drainage system, improved service to citizens and as a positive environmental impact on the city's rivers.

Roads and Water Services will continue these discussions and will report back to Council as part of the ZBR follow-up report on their progress on this initiative.

Stakeholder Engagement, Research and Communication

Communications with Roads staff occurred at various points throughout the project including direct interviews with key staff and managers to obtain business operation information. Roads staff will receive further updates as the recommendations are finalized and approved by Council.

Strategic Alignment

Alignment with the following four corporate policies was part of the high level analysis: Council's Fiscal Plan, the Municipal Development Plan (MDP), Calgary Transportation Plan (CTP) and the 2020 Sustainability Direction.

Social, Environmental, Economic (External)

The Consultant's recommendations, once fully implemented has been estimated (by Administration) to result in approximately \$1.4 - \$1.9 million in ongoing efficiency gains as well other potential efficiency gains that were not quantified in the final report. In addition, the supplementary research that is underway between Roads and Water Services is looking at reducing amount of gravel and sediment that enter the City's drainage and water systems.

Financial Capacity

Current and Future Operating Budget:

As part of the proposed 2015-2018 Action Plan, Roads has incorporated the productivity gains outlined in the Attachment 3 into its proposed 2015-2018 budget.

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Current and Future Capital Budget:

There are no capital budget implications.

Risk Assessment

An on-going risk to implementation of any recommendation that increases reliance on outside service providers and/or contractors is that changes in the economy may affect Roads ability to realize the projected savings.

REASON(S) FOR RECOMMENDATION(S):

Administration agrees that the majority of the recommendations in the Roads ZBR Final Report will result in efficiency and effectiveness improvements in the Roads business unit.

Attachments:

1. Zero-Based Review (ZBR) Roads Business Unit Final Report
2. Zero-Based Review (ZBR) Roads Business Unit Final Report Appendix B: Calculations (Confidential)
3. Administration's Response to the Roads Zero-Based Review Final Report