

**Chief Financial Officer's Report to
Priorities and Finance Committee
2017 June 05**

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PFC2018-0647
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ZBR Program Update – June 2018

EXECUTIVE SUMMARY

The Zero-Based Review (ZBR) program complements The City of Calgary's other continuous improvement activities by adding a periodic, more thorough review of whether the right services are being provided in the right way. This work is especially important in the current economic climate when resources are limited but the demand for City services is not.

Nine ZBR reviews have been completed since 2012. The progress and financial results of all current and completed reviews are presented in the regular ZBR Program Dashboard (Attachment 1). Through this program, The City has also realized benefits in the form of service effectiveness, including better customer service, reduced environmental impact and improved public safety. This report presents case studies that illustrate the wide range of tangible benefits being delivered for Calgarians through The City's service improvement activities (Attachment 2).

The main focus of this report is on three ZBRs, all in different stages of review: Water Resources, Calgary Recreation, and the Shared Challenges of the Internal Services. All these reviews use a customer-focus lens to make services more efficient and effective.

This report includes the Water Resources ZBR Implementation Plan (Attachment 3). In addition to significant financial gains in the form of capital cost avoidance, the Water Utility is on a journey to become more customer focused. The Water Utility is therefore expanding the implementation plan beyond the explicit ZBR recommendations to include all services provided by the business unit. Recommendations related to Levels of Service and Customer Focus areas are long term and require a fundamental change to how the business delivers its services, and many do not include year over year savings, or immediate reductions in budget. The goal of this journey is to have an informed conversation with customers about what levels of service are desired, at what cost.

The Calgary Recreation review is now progressing to the Implementation stage. The focus of this review has been on building a solid foundation for ongoing service improvement by examining the changing role that municipal recreation plays in a modern city. The commitments made by Calgary Recreation through this ZBR will enable the business unit to link day to day operations with their larger mission and purpose, ultimately allowing them to focus on the customer outcomes that matter the most: healthy, active children and families. The benefits of this review are primarily related to improving effectiveness, although some financial gains have also been identified. The commitments around strategy development are already being used to inform service plans through the One Calgary process. This report presents a summary of the findings of the Calgary Recreation review and the commitments to action by Administration resulting from it (Attachment 4), as well as the Strategic Foundation developed by Calgary Recreation that will inform their strategic planning (Attachment 5).

Reviews in progress through the remainder of 2018 include IT, Supply and Law, as well as a new ZBR topic approved by the ALT: The Shared Challenges of the Internal Services. This report presents an overview of the Shared Challenges of the Internal Services and rationale (Attachment 6). These reviews build on the customer-focus approach applied during the Water Resources and Recreation ZBRs. This focuses on using a deep understanding of priority customers and their needs to shape a clear purpose, thereby building a solid foundation for continuous improvement.

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The findings from the Calgary Recreation review bring the total annual financial gains identified through the ZBR program up to a range of \$59.3 million to \$70.4 million. Beyond these newly identified gains, a full update on financial benefits realized and forecasted will be presented in December 2018.

ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee recommend that Council:

1. Receive for information:
 - a. ZBR Program Dashboard (Attachment 1);
 - b. Service Improvement Case Studies (Attachment 2);
 - c. Water Resources ZBR Implementation Plan (Attachment 3);
 - d. Calgary Recreation ZBR Summary Report (Attachment 4);
 - e. Overview of the Shared Challenges of the Internal Services (Attachment 6); and
2. Approve the updated direction for Calgary Recreation in Attachment 5, Calgary Recreation Strategic Foundation, as outlined in the "Mandate", "Where we play" and "Where we lead" sections.

**RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, DATED
2018 JUNE 05:**

That the Administration Recommendation contained in Report PFC2018-0647 be approved.

PREVIOUS COUNCIL DIRECTION / POLICY

The 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, driven by both the changing circumstances since its inception and the continuous improvement ethos of the ZBR program itself. Direction for the program is therefore contained in a number of previous reports to Council, including:

- 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);
- 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); and
- Approval of a new program mandate and reporting approach to enable the program to continue delivering results in the face of changing circumstances and new requirements (PFC2016-0883).

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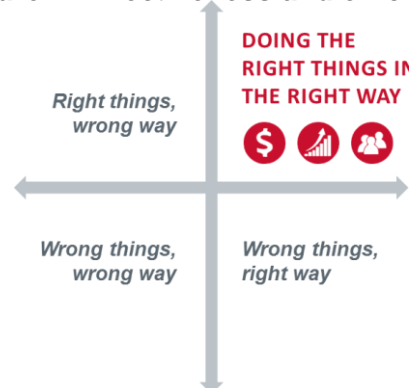
BACKGROUND

The ZBR program exists to:

1. Increase the value Calgarians get from their tax dollars by improving the efficiency, effectiveness and sustainability of services; and
2. Build the organization's capacity for continuous service improvement.

This work is especially important when resources are limited but the demand for City services is not. The recent economic downturn has increased the pressure on Administration to use fewer resources without compromising service quality, and incremental budget cuts are no longer enough to address this challenge. By first asking fundamental questions about whether we are doing the 'right things', the ZBR program lays a foundation for true efficiency (Figure 1).

Figure 1: Effectiveness and efficiency

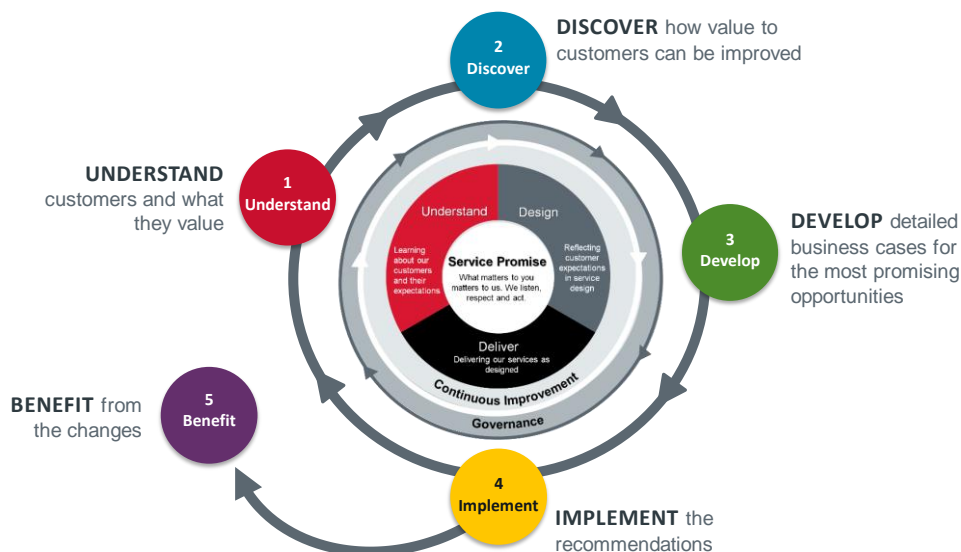


INVESTIGATION: ALTERNATIVES AND ANALYSIS

ZBR Program Status: June 2018

ZBRs use a continuous improvement process based around The City of Calgary's Customer Service Approach (Figure 2), starting with the 'Understand' phase on the left side of the circle, below.

Figure 2: The ZBR continuous improvement process





ZBR projects are listed below by their stage in this process. ZBR Program Updates to PFC, like this report, occasionally offer additional detail on progress in attachments. The goal of this reporting is to bring timely progress updates on all projects. Information on where more in-depth detail can be found is also provided.

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Summary of Benefit & Implement Stages

Stage	Business Area	Last Update
	Fleet	Complete - PFC2012-0492
	Parks	PFC2018-0017
	Roads	TT2015-0792
	Water Services	UCS2016-0169
	Fire	PFC2015-0695
	Calgary Transit	PFC2017-0431
	Water Resources	This report: Attachment 3
	Calgary Business Services	PFC2018-0017
	Calgary Recreation	This report: Attachments 4 & 5

Overall Program Summary for Benefit & Implementation Stages

- The total number of reviews completed since 2012 is now nine, with the completion of the Calgary Recreation review. These reviews represent 70% of City services as measured by December 2017 gross operating budget. Details of the completed reviews are presented in Attachment 1.
- Findings from Calgary Recreation bring the total annualized financial gains identified¹ in these reviews to between \$59.3 million (low estimate) and \$70.4 million (high estimate).
- The City has also realized² benefits in the form of service effectiveness, including better customer service, reduced environmental impact and improved public safety. These results are diverse in nature and may be harder to quantify, making it difficult to present them as a single headline measure. Administration is developing measures to better capture these effectiveness gains; in the interim, a collection of case studies is provided in Attachment 2 as examples.

Specific Project Updates for Benefit & Implementation Stages

- Attachment 3 provides an update on the implementation of the Water Resources ZBR. The update outlines progress that was made in the four business cases that were originally presented to PFC (PFC2016-0660). These were Investment Portfolio, Capital Delivery Models, Customer Engagement and Levels of Service Framework. The Investment Portfolio and Capital Delivery Models recommendations have resulted in significant cost avoidance already: \$8.5 million to date. Work on establishing baseline costs for the current level of service has progressed, and has informed the Water Utility's work related to One Calgary service planning and budgeting process. However, through this work it has become clear that addressing just one service line (wastewater) in isolation did not allow the Water Utility to apply systems thinking or address the

¹ **Benefits Identified:** A recommendation has been made that, when implemented, has a potential benefit associated with it and a plan to achieve these benefits is being developed or implemented.


² **Benefits Realized:** A recommendation has been implemented and benefits are being experienced financially and/or through non-financial improvements.

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interrelatedness of the different water-related services. The original implementation plan presented to PFC for the Levels of Service recommendations has been expanded to include stormwater management as well as water treatment and supply. As such, the timing for the implementation of this portion of the Water Resources ZBR has been lengthened from the original one year plan to an iterative ten-year plan to reflect the more robust approach that will be taken for these recommendations. This will result in a more comprehensive system of service level planning and enable a more robust conversation with citizens about their desired level of service and associated costs.

- The Recreation ZBR has now moved to the Implementation stage. The review has found both direct benefits and indirect benefits, most especially through greater alignment between vision, strategy, and operations. This alignment will ensure that Recreation focuses its efforts and resources on those specific programs and services that are most aligned with its mandate and purpose, in order to achieve maximum value (i.e. benefits in relation to cost). The findings are already being used to inform future service planning via One Calgary. Some specific, tangible benefits are also anticipated after full implementation, including: up to 843,000 new visits per year to Calgary Recreation aquatic and fitness facilities (a 36% increase); an additional \$1.8 million dollars of revenue per year; and savings of up to \$374K per year by aligning facility hours with customer usage. A summary report on this ZBR can be found in Attachment 4. The Strategic Foundation document prepared by Calgary Recreation is presented in Attachment 5, fulfilling the first of the actions Administration is committed to take as a result of this review.

Summary of Develop Stage

Stage	Business Area	Last Update
	Information Technology	PFC2018-0017
	Shared Challenges of the Internal Services	This report: Attachment 6

Specific Project Updates for Develop Stage

- Work on the IT ZBR illustrates the program's shift in approach to bring forward opportunities and recommendations as they are ready, rather than waiting until the completion of an entire review. First, implementation of the "Right Device" business case presented in PFC2018-0017 attachment 5 is already underway, and one other business case has already been completed (Improved Customer Understanding). Second, work is in progress to hire external consultants to develop business cases addressing other opportunities. Finally, development of one additional business case is now in progress using internal resources, reflecting Council's general direction to do more work in house, where possible, and place less reliance on expensive external consultants.
- A new ZBR topic was approved by ALT in January 2018: The Shared Challenges of the Internal Services. This cross-cutting review recognizes that certain challenges are shared by numerous internal-facing services, and applies a corporate lens to approach these challenges. The Shared Challenges of the Internal Services ZBR has already identified two key opportunities: reviewing and better defining the role that internal



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services play within the Corporation, and the use of internal recoveries. Additional opportunities are expected as work progresses on this and other reviews. An overview is presented in Attachment 6.

Summary of Discover & Understand Stages

Stage	Business Area	More Information
	Supply	Project resumed
	Law	Project resumed
	Facility Management	Three remaining projects delayed, but foundational work progressing through One Calgary process
	ESM	
	Land	

Specific Project Updates for Discover & Understand Stages

- The Supply ZBR has resumed and opportunities for improvement are being assessed and prioritized.
- The Law ZBR has resumed and foundational work is underway.

Data Development

In response to the direction of the Priorities and Finance Committee in the last ZBR Program Update in January 2018 (PFC2018-0017), work has been undertaken to better track the progress of individual recommendations through identifying the estimated date of full implementation. This information will be included in the financial update being brought forward in Q4 2018.

Work continues to improve how effectiveness gains are reported (in addition to efficiency gains) and how the ZBR program reports on its objective of capacity building for service improvement within the organization.

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Stakeholder Engagement, Research and Communication

Many stakeholders were engaged in the creation of this report:

- Content was created and tested with the Recreation Steering Committee, and all Directors of business units that have already completed or are in the midst of completing a ZBR.
- Staff across the organization collaborated to collect data on benefits realized to date as well as service improvement case studies.
- As agreed in an earlier report on ZBR program governance (PFC2015-0903), Administration provided an opportunity for Councillors to provide input to the internal service ZBRs in May and June of 2017. Further opportunity will be provided in 2018 for Council to provide input on both internal services' reviews and the direction of the program in 2019-2022.

Strategic Alignment

The ZBR program is part of the Performance Management System, which in turn is one component of the Leadership Strategic Plan (C2014-0703). Along with these other elements, the ZBR program helps 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. In particular, the ZBR program supports Stage 3 of the Leadership Strategic Plan "Road Map" as it is a tool to help improve organizational efficiency.

Social, Environmental, Economic (External)

Water Resources contributes to social outcomes by contributing to public health and environmental outcomes through delivering a clean and reliable supply of water, collecting and treating waste water, managing storm water, meeting regulatory requirements, conservation and water management. The ZBR recommendations support Water Resources in continuing to achieve these outcomes.

The social benefits of recreation are well documented through evidence-based research. Recreation is an essential service that benefits the entire community beyond individual fitness. Calgary Recreation's commitments and actions, resulting from the Calgary Recreation ZBR, will impact all facets of life in Calgary from personal wellness to safe and strong communities, and from social inclusion to economic development.

There are no direct social, environmental, or economic implications resulting from the Shared Challenges of the Internal Services ZBR.

Financial Capacity

Current and Future Operating Budget:

The ZBR program helps the organization to manage operating costs, which is particularly important in the current economic climate. This report presents identified and realized reductions in operating budgets.

Current and Future Capital Budget:

The ZBR program also helps the organization to manage capital costs. This report presents identified and realized reductions in capital budgets.

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Risk Assessment

Any program driving significant changes to improve services includes a degree of risk. This risk is primarily related to the implementation of specific changes. As such, all decisions about changes to services include a detailed consideration of the risks, and this practice is now well-established at The City.

The risks associated with the implementation of both Water Resources and Calgary Recreation Zero-Based Reviews include:

- 1) A lack of resources to implement the recommendations
- 2) Poor communication with employees or customers leading to a reluctance to support implementation
- 3) Capacity for change within the Business Unit
- 4) Not measuring performance which impedes ability to demonstrate/measure improvements/success

The risks associated with the implementation of the changes outlined in Attachments 4 and 5, Calgary Recreation ZBR Summary Report and Calgary Recreation Strategic Foundation document have been considered during the review, and will be addressed in detail, as part of the implementation planning, in line with ongoing practice.

The specific risks associated with implementing the recommendations of the Water Resources ZBR are likewise addressed in the implementation reports in this review.

In addition to the implementation risks identified above, there is one risk of note related to the progress on the Shared Challenges of the Internal Services ZBR. Specifically, since ZBRs ask profound questions related to the mandate or operations of the service under review, the ZBR process places a significant demand on a Business Unit's or a Department's leadership while the review is underway. This is necessary to achieve the scale of benefits that ZBRs produce, but must be weighed against the impact to Departments. This year (2018), the organization's time and attention is focussed on the development of four year plans and budgets through One Calgary, including moving to a service-based model. The risk, therefore, is that the organization does not have the capacity to undertake an extensive cross-corporate service review at the same time that services are focussed on creating their four-year plans and budgets.

To mitigate this risk, Corporate Initiatives is working closely with the One Calgary team to coordinate and integrate the ZBR process into service planning wherever possible. This includes, for example, timing the ZBR work on the role and mandate of The City's Internal Services and with Calgary Recreation so that these services can leverage the results for use in the service plans and budgets. In addition, Corporate Initiatives has scheduled the most intensive work on the Shared the Challenges of the Internal Services ZBR to start later in 2018, following the completion of the One Calgary budget and business planning process, to avoid competition for resources.

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REASON(S) FOR RECOMMENDATION(S):

This report fulfills Administration's commitment to provide regular updates to Council on the ZBR program under new reporting arrangements, as agreed by the Priorities and Finance Committee in November 2016 (PFC2016-0883).

Approving the "Mandate", "Where we play" and "Where we lead" sections of the Calgary Recreation Strategic Foundation will make it possible for Administration to progress in developing Calgary Recreation's detailed strategic plan and implementation roadmap.

ATTACHMENT(S)

1. ZBR Program Dashboard
2. Service Improvement Case Studies
3. Water Resources ZBR Implementation Plan
4. Calgary Recreation ZBR Summary Report
5. Calgary Recreation Strategic Foundation
6. Overview of the Shared Challenges of the Internal Services