



Budget Committee of the Whole Meeting Agenda

BCW#08-19

Tuesday, November 26, 2019, 9:30 a.m.

Council Chambers

225 East Beaver Creek Road

Richmond Hill, Ontario

Chair, Joe DiPaola, Regional and Local Councillor

Pages

- 1. Adoption of Agenda**
- 2. Disclosure of Pecuniary Interest and General Nature Thereof**
- 3. Delegations**
 - 3.1 Jack Tynan, Advertising Manager, York Region, Metroland Media, regarding the Liberal Advertising Contract and Notice Policy - (refer to Item 4.1)
- 4. Scheduled Business**
 - 4.1 SRCFS.19.052 – Liberal Advertising Contract and Notice Policy (Additional Information)

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 - a) That Council approve the changes to the manner in which the City provides public notices and advertises services and events, as generally described in staff reports SRCFS.19.052 and SRCFS.19.044 (Attachment A to staff report SRCFS.19.52);
 - b) That the Office of the Clerk's 2020 Operating Budget for Advertising expenses be reduced to reflect the approved changes to the manner in which the City provides public notices and advertises services and events, as described in staff report SRCFS.19.052;
 - c) That a By-law to repeal and replace Notice By-Law 170-07, being Chapter 278 of the Municipal Code, as generally described in staff report SRCFS.19.052, be enacted;
 - d) That all Council approved policies requiring newspaper notices be deemed amended to only require website and other digital media notices.

4.2 SRCM.19.15 - Third-Party Review of Non-Personnel Operating Budget –
Audit and Accountability Fund Project

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- Presentation by Matt Colley, Lead Engagement Partner; Anthony Hamer, Value Creation Services Partner; and Khalil Hajjarah, Manager, Deloitte LLP

(Please note this is a 10 minute presentation)

a) That the Review of the City of Richmond Hill's Non-Personnel Operating Budget, funded by a grant through the Province of Ontario's 2019 Audit and Accountability Fund and completed by Deloitte, be received as presented in Attachment 1 to staff report SRCM.19.15;

b) That in accordance with the requirements of the Audit and Accountability Fund, the report from Deloitte be posted publicly on the City's website by November 30, 2019;

c) That staff report back with a plan to implement the recommendations in Deloitte's report, Attachment 1 to staff report SRCM.19.15.

4.3 2020 Operating Budget Update

- Presentation by David Dexter, Director, Financial Services and Treasurer

a) That the presentation by David Dexter, Director of Financial Services and Treasurer, regarding the 2020 Operating Budget Update, be received.

4.4 SRCFS.19.048 - 2019 Reserve and Reserve Fund Status

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- Presentation by David Dexter, Director, Financial Services and Treasurer

a) That staff report SRCFS.19.048 regarding the 2019 Reserve and Reserve Fund status, be received for information purposes.

5. Adjournment



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: November 26, 2019

Report Number: SRCFS.19.052

Department: Corporate and Financial Services

Division: Office of the Clerk

Subject: **SRCFS.19.052 – Liberal Advertising Contract and Notice Policy (Additional Information)**

Purpose:

To provide additional information and options related to the City's approach to advertising in the Richmond Hill Liberal as a result of Budget Committee of the Whole's motion to refer staff report SRCFS.19.044 back to staff.

Recommendation(s):

- a) That Council approve the changes to the manner in which the City provides public notices and advertises services and events, as generally described in staff reports SRCFS.19.052 and SRCFS.19.044 (Attachment A to staff report SRCFS.19.52).
- b) That the Office of the Clerk's 2020 Operating Budget for Advertising expenses be reduced to reflect the approved changes to the manner in which the City provides public notices and advertises services and events, as described in staff reports SRCFS.19.052.
- c) That a By-law to repeal and replace Notice By-Law 170-07, being Chapter 278 of the Municipal Code, as generally described in staff report SRCFS.19.052, be enacted.
- d) That all Council approved policies requiring newspaper notices be deemed amended to only require website and other digital media notices.

Contact Person:

Stephen M.A. Huycke, Director, Legislative Services/City Clerk, extension 2529
Meeta Gandhi, Director, Strategy, Innovation and Engagement, extension 6311
Kathleen Graver, Manager, Communications Services, extension 2418

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Report Approval:

Submitted by: Mary-Anne Dempster, Commissioner of Corporate and Financial Services

Approved by: Neil Garbe, City Manager

All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner and City Manager. Details of the reports approval are attached.

Background:

Staff report SRCFS.19.044 (Attachment A) was included on the Budget Committee of the Whole (BCW) agenda for October 22, 2019. This report recommended changes to the City's approach to advertising in the Richmond Hill Liberal, including necessary budget, policy and by-law amendments. BCW referred the report back to staff when it adopted the following resolution:

“That staff report SRCFS.19.044 be referred back to staff for additional information to be presented at the Budget Committee of the Whole meeting on November 26, 2019, including information in respect to not entering into sole source contracts for media including print media advertising.”

This report provides additional information for Council's consideration.

Advertising in other municipalities

Staff have canvassed other GTA municipalities, including all municipalities in York Region to understand their approaches to advertising in community papers. In York Region East Gwillimbury, Georgina, Markham and Newmarket publish a weekly community page similar to the Bulletin Board. King, Vaughan and Whitchurch-Stouffville do not publish a community page, or do not publish a community page weekly, in their local newspaper. In other words, 55% of York Region municipalities, including Richmond Hill, currently publish a weekly community page. Other GTA municipalities that publish a weekly community pages include Ajax, Brampton, Burlington, Oshawa, Pickering and Whitby. GTA municipalities that do not publish a community page, or do not publish a community page weekly, includes Milton, Mississauga and Oakville.

Liberal Advertising Rates

The Liberal currently charges the city the following rates (not including tax) for the Bulletin Board:

1. Two full pages = \$2,746.80
2. One full page = \$1,956.00
3. Extra third page = \$1,400.00
4. Print to web (per page) = \$ 20.00

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The Liberal has advised that this amount is consistent with their 2013 rates. Current “rate card” colour advertising rates (not including tax) are:

1. One full page (52 times per year): \$1,830.00
2. One-half page (52 times per year): \$1,120.00

These rates include the cost of colour print (\$200 for a full pages and \$175 for half pages) and are based on publishing 52 weekly Bulletin Boards. If the frequency of publication decreases in a year the rate increases (i.e. if the Bulletin Board is published only 12 times per year the full page rate including colour would be \$2,085.00 per month).

In addition to the Liberal rates, staff have requested information on advertising rates for two other regular publications in Richmond Hill. Twelve monthly half-page advertisements in SNAPd would be approximately \$8,000 (or \$667 per month). Twelve monthly half-page advertisements in the Richmond Hill Post would be approximately \$16,000 (or \$1,334 per month).

Elimination of the Bulletin Board in the Liberal

As discussed in Staff Report SRCFS.19.044, staff recommend reducing the amount of advertising expenses by ceasing to publish the weekly Bulletin Board in the Liberal, and approving the following policy changes:

1. The City stop publishing the Bulletin Board.
2. Individual Departments may purchase discretionary newspaper advertisements on an as needed basis subject to available departmental budgets.
3. For mandatory statutory and other public newspaper notices, and for statutory notices (e.g. City-wide Development Charges notices) where no other reasonable or cost effective alternative to a newspaper advertisement exists, the City purchase individual advertisements on an as needed basis.
4. For non-mandatory statutory and other public newspaper notices, the City cease to publish these in the Liberal and utilize the City’s website to publish the required notices.

Staff continue to recommend this approach for all of the reasons discussed in Staff Report SRCFS.19.044, including:

1. To take advantage of changes in provincial legislation that are an opportunity to reduce costs.
2. There is no way to measure the effectiveness of the newspaper advertisements and the annual investment of \$160,000 in advertising expenses. While the number of newspapers produced and delivered is a known factor, it is not possible to measure how many residents actually refer to the Bulletin Board on a regular basis.

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3. By shifting focus to the website, the City would be taking advantage of its investments in digital platforms and could explore opportunities to use other digital marketing tools to drive website traffic.

As discussed in staff report SRCFS.19.044, this approach would generate savings of \$101,200 in 2020. The current advertising expense budget is \$166,200, off set by \$55,000 in advertising revenue collected as part of various development applications. Both the advertising expense and advertising revenue budgets would be further reduced over time as development application charges are adjusted to account for the change in notification practices.

Sole Source Contracts

BCW's motion requested information on not entering into a sole source contract for media including print media advertising. Under the procurement policy (By-law 113-16) a sole source acquisition can be made "where there is an absence of competition for technical reasons and the Goods and/or Services can be supplied only by a particular Supplier and no alternative or substitute exists." Essentially, if only one supplier is able to meet the technical requirements then a sole source contract can be awarded.

The Liberal was awarded a sole source contract given that it was the only publication able to meet the City's technical requirements for statutory public notices. Per existing policies, statutory public notices under the *Planning Act* and other provincial legislation need to be placed in newspapers with sufficient general circulation and within a minimum time frame (e.g. 20 days prior to a CPM meeting, or 15 days after Council adopting a zoning by-law). These are two technical requirements for regular newspaper notices under the current policy. If Council approves the recommended change to stop publishing non-mandatory statutory notices the technical requirement to meet legislative time frames will end and a sole source contract would not be warranted.

Notice By-law and Policy Amendments

Staff continue to recommend that the City's Notice By-law, Chapter 278 of the Municipal Code ("Notice By-law"), and any other City policies requiring newspaper advertisements be amended to require notices to be published on the website only. Amending these policies does not mean that the City cannot provide public notice in a newspaper. It simply means that it will be mandatory for public notices to be placed on the City's website, subject to the proposed policies discussed above.

As discussed in staff report SRCFS.19.044, staff are specifically recommending that Article 3 of the Notice By-law be amended to delete the current section 278.3.1 that requires newspaper notices. It is also recommended that the Notice By-law be updated to include the publishing of notices that the City is required to give under Part IV of the *Ontario Heritage Act* ("Heritage Act") on the website. If the Notice By-law is updated to include applications under Part IV of the Heritage Act, the City will no longer be required to publish these notices in the newspaper.

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Alternatives

As alternatives to Staff's recommendation, Council could direct that the City's Bulletin Board page be maintained for 2020 at a reduced frequency and footprint. This would require Council to approve one of the following approaches:

Alternative 1- Reduced Size and Frequency of Bulletin Board in the Liberal

In Alternative 1, Council could direct staff to continue publishing the Bulletin Board, including discretionary notices and advertisements, in the Liberal for a one-year period with a reduced footprint and frequency. In this alternative, staff would continue to publish the Bulletin Board in the Liberal in 2020. The size of the Bulletin Board would be capped at one full page, with a focus on advertising City services and events not statutory notices. The Bulletin Board would be published at least once per month with additional publications determined based on the number of discretionary advertisements required.

To approve Alternative 1, Council could adopt the following recommendations:

1. That staff continue to publish the Bulletin Board in the Liberal for a one-year period.
2. That the Bulletin Board not exceed one page per publication with a minimum publication frequency of once per month.
3. That Council approve the following policies:
 - a. The City's Bulletin Board (community newspaper page) primarily include discretionary advertisements of City services or events.
 - b. The City publish non-mandatory statutory and other public notices on the City's website only.
 - c. The City publish mandatory statutory and other public notices, including public notices where no reasonable or cost effective alternative exists, in the Liberal on an as needed basis.
4. That staff evaluate and report back to Council on the effectiveness of print advertising as part of the 2021 Operating Budget.
5. That a By-law to repeal and replace Notice By-Law 170-07, being Chapter 278 of the Municipal Code, as generally described in staff report SRCFS.19.052, be enacted.

Alternative 2 – Reduced Size of Bulletin Board with selection of print media by RFP

In Alternative 2, Council could direct staff to continue publishing the Bulletin Board with the selection of print media chosen by competitive procurement (RFP). In this alternative, staff would issue an RFP to select a publication in which the notices would be posted (e.g. the Liberal or Richmond Hill Post). The size of the Bulletin Board would be capped at one full page per publication, with a frequency of at least once per month, with a focus on advertising City services and events, not statutory notices.

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To approve Alternative 2, Council could adopt the following recommendations:

1. That staff continue to publish the Bulletin Board in a print media selected by RFP.
2. That the maximum size of the Bulletin Board be one page per publication, with a minimum publication frequency of at least once per month
3. That Council approve the following policies:
 - a. The City's Bulletin Board (community newspaper page) primarily include discretionary advertisements of City services or events.
 - b. The City publish non-mandatory statutory and other public notices on the City's website only.
4. The City publish mandatory statutory and other public notices, including public notices where no reasonable or cost effective alternative exists, in the Liberal on an as needed basis That staff evaluate and report back to Council on the effectiveness of print advertising as part of the 2021 Operating Budget.
5. That a By-law to repeal and replace Notice By-Law 170-07, being Chapter 278 of the Municipal Code, as generally described in staff report SRCFS.19.052, be enacted.

Staff estimate that either alternative would generate savings of approximately \$40,000 in 2020. This is based on the fact that in 2018, 70% of the time the Bulletin Board was two pages, 16% of the time it was three pages, and 14% of the time it was only one page.

Financial/Staffing/Other Implications:

The City currently budgets \$166,200 for advertising expenses. Actual advertising expenses were \$156,500 in 2016, \$153,000 in 2017 and \$151,000 in 2018. Advertising Expenses are offset by a \$55,000 advertising revenue budget. The advertising revenue is collected as part of various development applications. Actual advertising revenue from development applications was \$49,500 in 2016, \$56,000 in 2017 and only \$28,000 in 2018.

Staff's recommended approach will result in the Office of the Clerk's 2020 advertising expenses budget being reduced to \$65,000, representing a reduction of \$101,200 or 61%. If Council chooses one of the alternative options, the 2020 advertising expense budget will be reduced to \$126,200, representing a reduction of \$40,000 or 24.5%. Staff expect that the advertising revenue budget will be significantly reduced in 2021 as development application charges are adjusted to account for the change in statutory notification practices.

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Relationship to the Strategic Plan:

Changes to the City's approach to advertising is related to the strategic plan goal of Wise Management of Resources.

Conclusion:

BCW referred Staff Report SRCFS.19.044 back to staff for additional information. Staff continue to recommend that the City cease publishing the Bulletin Board pages in the Liberal, and that necessary policy and budget changes be approved.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. If you require an alternative format, please call the contact person listed in this document.

- Attachment A – Staff Report SRCFS.19.044

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Report Approval Details

Document Title:	SRCFS.19.052 - Liberal Advertising Contract and Notice Policy (Additional Information).docx
Attachments:	- Attachment A - Staff Report SRCFS.19.044.pdf
Final Approval Date:	Nov 19, 2019

This report and all of its attachments were approved and signed as outlined below:

No Signature found

Meeta Gandhi - Nov 19, 2019 - 9:41 AM

MaryAnne Dempster - Nov 19, 2019 - 11:24 AM

Neil Garbe - Nov 19, 2019 - 11:33 AM



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: October 22, 2019

Report Number: SRCFS.19.044

Department: Corporate and Financial Services

Division: Office of the Clerk

Subject: **SRCFS.19.044 – Liberal Advertising Contact and Notice Policy**

Purpose:

To recommend changes to the City's approach to advertising in the Richmond Hill Liberal, including necessary budget, policy and by-law amendments.

Recommendation(s):

- a) That the Office of the Clerk's 2020 Operating Budget for Advertising expenses be reduced to \$65,000, representing a savings of \$101,200.
- b) That Council approve the changes to the manner in which the City provides public notices and advertises services and events, as generally described in staff report SRCFS.19.044.
- c) That a By-law to repeal and replace Notice By-Law 170-07, being Chapter 278 of the Municipal Code, as generally described in staff report SRCFS.19.44, be enacted.
- d) That all Council approved policies requiring newspaper notices be deemed amended to only require website and other digital media notices.

Contact Person:

Stephen M.A. Huycke, Director, Legislative Services/City Clerk, extension 2529
 Meeta Gandhi, Director, Strategy, Innovation and Engagement, extension 6311
 Kathleen Graver, Manager, Communications Services, extension 2418

Report Approval:

Submitted by: Mary-Anne Dempster, Commissioner of Corporate and Financial Services

Approved by: Neil Garbe, City Manager

All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner and City Manager. Details of the reports approval are attached.

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Background:

The City publishes the “Bulletin Board” in the Richmond Hill Liberal newspaper (the “Liberal”) on a weekly basis. The Bulletin Board includes advertisements of City services, activities and events, public notices required under the City’s Notice By-law, as well as notices required under provincial legislation. The Bulletin Board is generally two (2) full pages in the Liberal on a weekly basis every month, with the exception of July and August. The City budgets \$166,200 annually for advertisement expenses. This amount is offset by an advertising revenue budget of \$55,000. Advertising revenue is collected from development and other application fees.

Over the last several years, the City has increased its digital presence by implementing a new website and continues to increase its use of social media. Additionally, the province has amended many pieces of provincial legislation by removing the requirement for newspaper advertisements when giving public notice. It is recommended that the City stop publishing the weekly Bulletin Board beginning in 2020. It is also recommended that statutory and other public notices only be published in the Liberal on an as needed basis as described in this report.

Notices and Advertisements Types

The City’s advertisements in the Liberal fall into three general categories:

1. Statutory/Public Notices where a newspaper advertisement is mandatory or for which there is no reasonable alternative to a newspaper advertisement;
2. Statutory/Public Notices where a newspaper advertisements is not mandatory or there is a reasonable alternative to a newspaper advertisement; and
3. Discretionary advertisements and notices.

Between 2016 and 2018, the City published an average of 700 individual advertisements in the Liberal each year. Approximately 73% of these were discretionary advertisements and notices. Only 27% percent of all advertisements were statutory notices. However, statutory notices are generally 3 to 4 times larger than discretionary advertisements due to the content requirements in provincial legislation.

Statutory/Public Notices – Mandatory

Under various legislation, the City is obligated to place a notice in a newspaper. Additionally, under provincial legislation, there are circumstances where there is no reasonable or cost effective alternative manner in which to give public notice. For example, under the *Planning Act* and *Development Charges Act* only newspaper notices are a reasonable of cost effective manner to give notice related to City-wide Official Plans, comprehensive Zoning By-law amendments and Developments Charges. Under both Acts, the only alternative would be to mail an individually addressed letter to every affected property owner. For City-wide changes that could be more than 55,000 letters at an estimated postage cost of at least \$48,000. It is therefore recommended that the City continue to purchase individual advertisements in the Liberal only on an as

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needed basis for all mandatory statutory/public notices, where directed by the Local Planning Appeal Tribunal or other provincial agencies (e.g. the Assessment Review Board), or where no other reasonable or cost effective alternative exists.

Statutory/Public Notices – Non-Mandatory

In some circumstances, provincial legislation permits public notice in alternative formats to traditional newspaper advertisements. For example, under the *Planning Act*, when giving notice of public hearings (e.g. Council Public Meetings) the City can choose between: a) posting a sign on the affected property and mailing notices to property owners within 120 meters of the property; or b) placing a notice in a newspaper. It is recommended that when a newspaper notice is not mandatory, or a reasonable alternative to a newspaper notice exists, that the City cease publishing a newspaper notice. Any such notice will be electronically published on a dedicated webpage (“public notice webpage”). Additionally, the City would use the reasonable alternative method of notice if required (e.g. mailings and signs).

Discretionary Notices and Advertisements

As noted above, approximately 73% of the Bulletin Board advertisements and notices are discretionary. These include, among others, notices of community events and programs, a list of upcoming Council/Committee meeting dates, open houses, consultations and surveys, proclamations and Council greetings. It is recommended that the City stop publishing all discretionary notices and advertisements in the *Liberal* starting in January 2020. The City could continue to use available digital platforms (website and social media). Individual departments may purchase discretionary newspaper advertisements on an as needed basis subject to that department having available budget.

Notice By-law and Policy Amendments

To implement the above noted proposed changes the City needs to amend Chapter 278 of the Municipal Code (“Chapter 278”), and other City policies.

Chapter 278 was amended in 2007 when Council enacted By-law 170-07 (Attachment “A”). Chapter 278 of the Municipal Code meets the City’s obligation under Section 270(1)4 of the *Municipal Act, 2010*, to adopt and maintain a policy regarding “the circumstances in which the municipality shall provide notice to the public and, if notice is to be provided, the form, manner and times notice shall be given related to the giving of notice to the public. It is recommended that Article 3 of Chapter 278 of the Municipal Code be amended by deleting Section 278.3.1. Currently, Section 278.3.1 requires publishing a notice in a newspaper when not otherwise prescribed in provincial legislation, or where the City is taking any of the following actions:

1. permanently closing a highway;
2. changing the name of a highway;
3. passing a by-law respecting advertising devices, including signs;

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4. licensing, regulating and governing any business wholly or partly carried on within the municipality;
5. changing its name;
6. changing the composition of Council;
7. dividing or re-dividing the municipality into wards or dissolving existing wards; and/or
8. adopting a budget.

By deleting section 278.3.1, the City's Notice By-law will only require notices to be published on the City's website. It is also recommended that the Notice By-law be updated to include the publishing of notices that the City is required to give under Part IV of the *Ontario Heritage Act* ("Heritage Act") on the website. Section 26(4) of the Heritage Act states:

"Where a municipality is required by this Part to publish a notice in a newspaper having general circulation in the municipality, notice given in accordance with a policy adopted by the municipality under section 270 of the Municipal Act, 2001 is deemed to satisfy the requirement of this Part to publish notice in a newspaper."

If the Notice By-law is updated to include applications under Part IV of the Heritage Act, the City will no longer be required to publish these notices in the newspaper.

Many other City policies require staff to provide notice in a community newspaper. For example, the advisory committee appointment policy and proclamation policy both require advertisements in the *Liberal*. It is recommended that all City policies that require a newspaper advertisement be deemed to be amended to require that notices only be published on the website.

Financial/Staffing/Other Implications:

The City currently budgets \$166,200 for advertising expenses. This amount is offset by \$55,000 in advertising revenue collected as part of various development applications. It is recommended that the Office of the Clerk's 2020 advertising expenses budget be reduced to \$65,000. This represents a reduction of \$101,200 or 61%. The revised advertising expense budget includes the \$55,000 currently budgeted as advertising revenue and an additional \$10,000 for any mandatory advertisement during at least the first year transition to the new approach to advertising.

Relationship to the Strategic Plan:

Changes to the City's approach to advertising is related to the strategic plan goal of Wise Management of Resources.

Conclusion:

Staff recommend that the Office of the Clerk's annual advertising expense budget be reduced to \$65,000, representing a savings of \$101,200 or 61%. To meet this, changes

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to the way in which the City advertises are proposed. It is recommended that newspaper advertisements be replaced with notices published on the website where ever possible, and that any necessary by-law or policy update be approved. Upon approval of Council, staff will adjust the City's administrative practices to transition from newspaper advertisements to digital posting.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. If you require an alternative format please call the contact person listed in this document.

- Attachment A: Chapter 278 of the Municipal Code (Public Notice)

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Report Approval Details

Document Title:	SRCFS.19.044 - Liberal Advertising Contract and Notice Policy.docx
Attachments:	- Attachement A -SRCFS.19.044 - Municipal Code Chapter 278.docx
Final Approval Date:	Oct 15, 2019

This report and all of its attachments were approved and signed as outlined below:

Meeta Gandhi - Oct 10, 2019 - 3:48 PM

MaryAnne Dempster - Oct 10, 2019 - 3:54 PM

Neil Garbe - Oct 15, 2019 - 10:01 AM



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: November 26, 2019

Report Number: SRCM.19.15

Department: Office of the City Manager
Division: Strategy, Innovation and Engagement

Subject: **SRCM.19.15 Third-Party Review of Non-Personnel Operating Budget – Audit and Accountability Fund Project**

Purpose:

The purpose of this report is to provide a summary of the City's Audit and Accountability Fund project, to present the final report of the Third-Party Review of the City's Non-Personnel Operating Budget from Deloitte, and to outline next steps.

Recommendation(s):

- a) That the Review of the City of Richmond Hill's Non-Personnel Operating Budget, funded by a grant through the Province of Ontario's 2019 Audit and Accountability Fund and completed by Deloitte, be received as presented in Attachment 1 to SRCM.19.15;
- b) That in accordance with the requirements of the Audit and Accountability Fund, the report from Deloitte be posted publicly on the City's website by November 30, 2019.
- c) That staff report back with a plan to implement the recommendations in Deloitte's report.

Contact Person:

David Dexter, Director of Financial Services and Treasurer

Lise Conde, Manager, Strategy and Government Relations

Report Approval:

Submitted by: Meeta Gandhi, Director of Strategy, Innovation and Engagement

Approved by: Neil Garbe, City Manager

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All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner and City Manager. Details of the reports approval are attached.

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Background:

In May 2019, the Ministry of Municipal Affairs and Housing announced that an Audit and Accountability Fund was created to provide grant funding to large urban municipalities who wanted support “to conduct service delivery and administrative expenditure reviews with the goal of finding efficiencies while protecting important front-line services.”

In accordance with program guidelines, the City submitted an expression of interest for a grant to review the non-personnel operating budget with the goal of finding up to 4% savings. In August, the Ministry advised that Richmond Hill was successful in its application. The City Manager’s Office and Corporate and Financial Services Department undertook a competitive process to find a third-party to complete this review, and Deloitte was selected.

Review Process

The Deloitte Team completed a thorough review of the City’s Operating Budget and actual expenditures from 2017-2019 to inform the review. As part of this work, they also reviewed a number of documents staff provided on City programs, services and strategies, and met with all Commissioners and almost all Directors and Managers. Deloitte’s methods and approach are detailed in their report presented as Attachment 1.

Review Findings

Deloitte’s report (Attachment 1) provides number of potential savings opportunities in three key areas.

- Recommendations for improving control (6 recommendations);
- Recommendations for reducing non-personnel costs (12 opportunities);
- Recommendations on procurement, contracting and vendor management (3 categories with recommendations for improvement).

As many of the savings are not easily quantifiable without further review, the potential savings is presented as a range. Overall, the total potential cost reduction is between \$1.72 million and \$3.77 million based on the 2018 budget, which can be achieved over a period of 3 years or more.

Next Steps

The Audit and Accountability Fund requires that the third-party report be posted publicly by November 30, 2019. The City will fulfill this requirement by publishing it to our website as part of the November 26, 2019 Budget Committee of the Whole agenda, and linked to the City’s existing Financial Services online information.

As noted in Deloitte’s report, a number of their recommendations are already in progress by City staff. These include the implementation of RHhub (SAP) to achieve process and financial efficiencies, an assessment of the use of City properties and

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moving discretionary notices to digital channels, for example. As staff have worked with Deloitte during their assignment, these are already reflected in the 2020 budget, or where greater lead time is required, will be reflected in future budgets.

However, there are also a number of Deloitte recommendations that are intended to be realized over time and/or necessitate further review to determine if implementation will achieve savings, and if so, how best to approach it. These include service-based costing, the expansion of the Lean initiative and furthering cross-municipal cooperation, for example. In the coming months the Executive Leadership Team will review these, prioritize and assign this work. There may be additional resources required in some cases to complete this work.

Deloitte's report and recommendations can be used as a roadmap for staff to implement additional savings. This report recommends that staff develop an implementation plan to operationalize the report findings.

In late October 2019, the Ministry of Municipal Affairs and Housing announced an extension of the Audit and Accountability Fund for an additional three years to further support efforts of large urban municipalities to find efficiencies and maintain front-line service delivery. Details of the three year funding program are not yet available. Once program details are announced, City staff will identify whether any additional resources needed to review and implement Deloitte's recommendations, will meet the funding requirements and apply for any grants accordingly.

Financial/Staffing/Other Implications:

The completion of the review by Deloitte was funded entirely by a Province of Ontario grant under the Audit and Accountability Fund.

The financial and staffing implications of Deloitte's recommendations will be outlined as part of the ongoing implementation by the City, including through the 2020 budget.

Relationship to the Strategic Plan:

The submission and completion of the Non-Personnel Operating Budget Review as a grant-funded project from the Ministry of Municipal Affairs and Housing Audit and Accountability Fund represents wise management of resources, specifically, the strategy of serving as a role model for municipal management, as Richmond Hill strives to improve and make more efficient our services for residents.

Conclusion:

The City received a grant from the Ministry of Municipal Affairs and Housing to conduct a third-party review of non-personnel operating expenditures. This work has been completed by Deloitte and their final report is included as Attachment 1 which makes recommendations in support of a 3.6% to 7.8% cost reduction based on the 2018 budget which can be achieved over a period of 3 years or more. Many of these

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recommendations are already reflected in the 2020 Operating Budget. Further implementation will roll-out in future budgets as well as with the reviews recommended by Deloitte to determine how additional efficiencies can be achieved. The City will continue to apply for funding through the now expanded Audit and Accountability Fund should these reviews require additional resources and meet the grant requirements.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. If you require an alternative format please call the contact person listed in this document.

- Attachment 1: Deloitte Report - Review of Richmond Hill's Non-Personnel Budget

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Report Approval Details

Document Title:	SRCM.19.15 Third-Party Review of Non-Personnel Operating Budget - Audit and Accountability Fund.docx
Attachments:	- Scanned Final Deloitte Report for eScribe.pdf
Final Approval Date:	Nov 21, 2019

This report and all of its attachments were approved and signed as outlined below:

No Signature found

David Dexter - Nov 21, 2019 - 8:53 AM

Meeta Gandhi - Nov 21, 2019 - 2:49 PM

Neil Garbe - Nov 21, 2019 - 2:52 PM



Review of Richmond Hill's Non-Personnel Budget City of Richmond Hill

November 14, 2019

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Disclaimer

No opinion, counsel, or interpretation is intended in matters that require legal, tax or other appropriate professional advice. It is assumed that such opinion, counsel, or interpretations have been, or will be, obtained outside of the scope of this report.

The absence of independent verification of the information supplied in respect of both historical and projected information, in some cases, can limit potential findings and accuracy of our report. We have indicated in our report the source of the data that was obtained by us, but disclaim any responsibility for its accuracy. Our work does not and will not result in the expression of an opinion or other form of assurance.

Executive summary

We were engaged by the City of Richmond Hill (the "City") on September 12, 2019 to complete a review of its non-personnel operating budget (the "Review"). The Review was funded under the Province of Ontario's Audit and Accountability Fund.

The City's objective for the Review was to establish opportunities to achieve up to a 4% reduction in its non-personnel operating costs.

The scope of the Review was the \$48m of 2018 actual non-personnel expenditure of five of the City's departments: *Community Services (CS)*, *Environment and Infrastructure Services (EIS)*, *Corporate and Financial Services (CFS)*, *Planning and Regulatory Services (PRS)* and *the Office of the City Manager (OCM)*. Capital spending, revenues, personnel expenditures and *Corporate Accounts* and the Library were not in scope.

Work began on September 12 and ran for 10 weeks with this final report being completed on November 14, 2019:

- We reviewed the actual spending (from 2016 to 2018) and budgets (from 2017 to 2019) for each department and division to help identify what we should examine in detail. We also set a materiality threshold of \$1m for service areas and \$100k for non-personnel spending to help us focus on the higher spending organization units and spending types.
- We completed more than 55 interviews and working sessions that covered the 56 material service areas to help us understand how non-personnel operating monies are spent, confirm initial and identify additional opportunities for consideration.
- We met with the Mayor on September 23 and the Budget Committee of the Whole (BCW) Chair and Vice-Chair on October 2.
- Since most non-personnel costs are incurred through purchases made by the City we also investigated the City's purchasing and contracting processes. We reviewed 32 contracts of over \$200k in notional operating value (and their terms) to identify opportunities to improve the overall procurement and contract management process.
- We established approximately 50 initial cost reduction opportunities and eight common themes that, if implemented, may help the City achieve savings and improve control.
- Between October 7 and 28 we refined the opportunities during 35 follow up discussions with the Commissioners, Directors and managers, including two presentations to the Executive Leadership Team (ELT).

Thirty-four cost reduction opportunities were validated and have therefore been included in this report along with six themes for the City's consideration.

Baseline, trending and City activity in response

Total City non-personnel spending was \$48m in 2018. It increased by 11% between 2016 and 2018, largely as a result of:

- Inflationary pressures on services and materials procured (for example fuel and water costs).
- City growth, both population served and the square footage of City properties on the asset base, which has driven maintenance costs (for example building repair and security contract costs for City facilities).

During the 2016-2018 period:

- The Consumer Price Index (CPI) for Toronto, which is a broad indicator of likely cost pressure, increased by 4%. The Richmond Hill municipal CPI is typically 0.5 – 1.5% greater than the CPI for the city of Toronto.
- The estimated population growth for Richmond Hill was 4.5%.

Community Services and *Environment and Infrastructure Services* were responsible for approximately 52% (\$25m) and 26% (\$12m) of the 2018 non-personnel baseline spending respectively.

A number of City initiatives have been undertaken that have helped to limit non-personnel spending growth. These include energy saving programs to help manage hydro and gas usage (e.g. use of LED streetlights) and a fleet optimization study conducted in early 2018.

Recommendations for improving control

There are six changes that the City may wish to consider:

1. More clearly costing and measuring the services provided by the City to its citizens. Specifying, thoroughly evaluating and costing the services provided can help to identify opportunities to bring service levels either up or down, where they are adrift of standards, to consider how and how well the City should provide non-mandatory services or those services that do not carry legislative or regulatory obligations. This could be delivered without moving to a full service based budgeting approach, although properly allocating costs to services would require considerable time and effort given that current budgets are not allocated to services or are often not managed on a devolved basis. The implementation of the new enterprise resource planning (ERP) system, SAP, will help the City to allocate and analyze its costs more effectively.
2. Devolving budgets, increasing accountability and realigning incentives. Many cost types and budgets are held centrally either by the City or a department or division. The consumers of these costs therefore have little incentive, if any, to manage the costs associated with them. Devolving budgeting and accountability for the spend to those responsible for consumption may help to improve control and reduce costs provided that the appropriate reporting and controls are put in place to encourage closer control.
3. Applying business cases and benefits realization. Extending the use of business cases, particularly the financial case, to change projects would help the City to select and execute the most attractive projects more easily, and improve accountability for execution and benefits realization. Establishing the concept of benefits realization would help senior leaders to corral and dispose of the benefits of change projects as they see fit and help to avoid significant benefits simply being absorbed back into the business.
4. Developing employee scheduling processes. Scheduling staff as effectively as possible, especially when the workforce is mobile, such as the bylaw and parking officers on patrol, would help to reduce overtime and mileage expenses. The current manual scheduling practices in place hinders its ability to allocate and manage resources efficiently.
5. Furthering cross municipality cooperation. Currently, the City collaborates well with other municipalities on aspects such as the purchasing of computers, salt and fuel. The City may wish to consider extending its collaborative efforts to other aspects of its operation to help drive additional economies on non-people and other costs. Other collaborations to consider include group insurance plans, internal audit and website design. The Chief Administrative Officers' meetings for York Region could help to facilitate discussions on greater collaboration.
6. Expanding the Lean initiative. The Lean improvement approach has been well proven and effective to improve efficiency and reduce costs in other municipalities' efforts. The City is still in the early stages of its Lean development with a central focus on training practitioners in the divisions to white and green belt standard. The City may now wish to consider evaluating how Lean might be applied to its services and processes that consume material amount of costs and resources, in an effort to accelerate the delivery of significant tangible benefits and help to mitigate the risk of potential increases in operating costs. Additional Lean resources, such as black belts, and hence an increased budget would be required.

Recommendations for reducing non-personnel costs

The opportunities summarized in this report comprise 34 opportunities by department, as well as the city wide opportunities on procurement, vendor and contract management practice. The total potential cost reduction is between \$1.72m - 3.77m, which is 3.6-7.8% of total non-personal spend in 2018, which equates to 1.1-2.4% of the total in-scope operating budget of \$151m.

In order to achieve the savings, the opportunities identified will need to be added to the City's current strategic and other priorities and built into its budget. The implementation activities will also need to be sequenced with implementation resources carefully considered. Taking the above into consideration and given the likely time and effort required to implement the opportunities and improve control, the potential savings could be realized during the next three years.

Appendix C details all cost opportunities below \$50k; the top 12 opportunities with material financial impact have been discussed below.

There are 12 opportunities, each with a potential impact of >\$50k. Together they account for the majority (\$1.0m - 2.0m) of the total cost potential identified. These opportunities are:

1. Better match the quantity of salt purchased with City demand (\$100k - 200k)
2. Match fire dispatching service fees to the cost of providing the service (\$100k - 200k)
3. Modify the use of City properties (\$100k - 200k)
4. Implement energy saving projects (\$200k - 400k)
5. Implement monitoring and analysis on water consumption (\$50k - 100k)
6. Identify, consolidate and remove redundant hardware and software (\$100k - 200k)
7. Reduce document printing (\$50k - 100k)
8. Implement a corporate policy for cell and desk phones (\$50k - 100k)
9. Move discretionary advertising and notices posted in newspapers to digital channels (\$50k - 100k)
10. Move the City on to the Region of York data communications contract (\$50k - 100k)
11. Better match cost recovery for complex planning applications to the cost of service provision (\$100k - 200k)
12. Review the effectiveness and efficiency of events and projects (\$50k - 100k)

Each of the recommendations for improving control and the twelve opportunities are presented in roadmap form in the *Roadmap* section of this report at page 30.

Recommendations on procurement, vendor and contract management

We estimated a potential reduction of approximately \$0.6m - 1.07m may be achieved through:

1. **Minor purchases less than \$10k.** Our analysis confirms that there is limited visibility of the purchases made under both the P cards and simple low value purchase order channels. A thorough review of what is purchased may reveal opportunities to reduce spending overall and to drive better rates for commonly purchased items by consolidating the purchases to fewer vendors and negotiating better rates with vendors with significant spends. A target reduction of 10-15% would be a reasonable working goal (\$230k - 340k).
2. **Purchases between \$10k - 50k.** We note that it can be difficult for departments to meet demand for procurements while complying with the procurement process as it currently operates. This is because the process cannot always complete a contested procurement quickly enough to meet each department's need and the service specification. This means that it is likely that in these situations the City may be paying higher rates and fees for the contracted services than it would had they been formally contested. It may be possible to drive better contractual terms to help realize conservative cost savings of between 2 - 3% in this channel by either improving the process (for example using Lean techniques) or training departmental staff to execute it while complying with the policies and procedures in place. Focusing on *Public Works Operations* contracts alone might help realize \$30k to \$40k as a significant proportion of these contracts may have the potential to be awarded at more competitive rates.

3. **Purchases over \$50k.** To help us understand the balance of purchases over \$50k (\$37.4m) we briefly reviewed all FY18 operating contracts above \$200k in value; 32 contracts with 29 vendors. The face value of the contracts was \$15.6m with a spending of 40% on materials and 60% on services. As a result of the assessment, we were able to confirm that:
- a. The City does not consistently specify how vendors should perform, or track and manage their contractual delivery to help ensure performance compliance (using spend, quality and timeliness KPIs for example).
 - b. None of the contracts reviewed included consistent and clear terms on either rebate or discount or early payment terms.
 - c. Many contracts are stored in hard copy locally and are therefore difficult to retrieve and analyze when needed.

The City may wish to consider treating its operating contracts in a similar fashion to its Capital contracts to help address points 1 and 2 above, where these principles are generally well established:

- a. Negotiating discounts and rebates: our estimate of the potential saving is between \$265k - 540k.
- b. Establishing early payment terms: our estimated saving here is between \$75k - 150k.

Training the staff involved in the procurement process will help to ensure that the changes and decisions made are held as modified contracts are established and executed.

As SAP is implemented, contracts should be linked to each vendor, with vendor performance tracked in aggregate using KPIs linked to stronger performance clauses, rebates and discounts, as appropriate. If vendor spending can be viewed in aggregate it would then be possible to consider requesting vendors to offer additional favourable terms and discounts where City spending is increasing significantly for the vendor.

Project objectives, principles and scope

In September 2019 we were engaged by the City to complete a review of its non-personnel operating budget. The Review was funded under the Province of Ontario's Audit and Accountability Fund. The Ontario provincial government established the Audit and Accountability Fund in May 2019 to provide funding to support large urban municipalities in conducting independent reviews of their programs and services.

The City's objective in undertaking the Review was to establish opportunities to achieve up to a 4% reduction in its non-personnel operating costs.

Project principles

The Review was guided by the following principles:

- Cuts to services were not in scope. This means that opportunities to reduce non-personnel costs could not be developed simply by cutting the services available to citizens. Instead the cost savings were to be established generally by seeking ways to improve the economy, efficiency and effectiveness of the services provided.
- The City was to be an active participant in developing the opportunities for change. This was to help us confirm improvement opportunities quickly and efficiently and to gain the City's agreement on and commitment to their veracity and implementation.
- The opportunities were to be sustainable in the long-term.
- The opportunities were to be based on leading and proven practices elsewhere and our experience working with municipalities and other comparable organizations.
- The Review was to build on studies, reports, analysis and ideas already established by the City so that it summarized each and all of the initiatives that the City should consider for reducing its non-personnel costs.

Scope

The scope of the review was the non-personnel expenditure of the City's departments listed below:

- *Community Services (CS)*
- *Environment and Infrastructure Services (EIS)*
- *Corporate and Financial Services (CFS)*
- *Office of the City Manager (OCM)*
- *Planning and Regulatory Services (PRS)*

The non-personnel expenditures reviewed were the 2016 to 2018 actual operating spends and the 2019 drafted operating budget.

Capital spending, revenues, and personnel expenditures were not in scope. Further, *Corporate Accounts* and Library were also not in scope. This was because *Corporate Accounts* does not deliver services and its budget primarily includes the consolidation of corporate-wide entries and flow through grants. The Library budget includes costs for operating the City's library system and was also excluded from the scope by the City.

Although not within the scope of the Review, we have made a number of observations related to revenue enhancement, personnel costs, and broader operational improvements that we have included in the *Opportunities and recommendations* section of this report for the City's consideration, should it wish to retain them for future reference.

Deliverables due

There were four deliverables due from our work:

1. A project work plan for agreement with City staff. This was presented under separate cover in draft at the project launch meeting and agreed on with City staff.
2. A draft report for review by City staff. This was provided to City staff on November 11 and comments and updates made to prepare this final report.
3. A final report, which is this document.
4. Presentation material for communicating the report to the Executive Leadership Team (ELT). Presentation material for the Budget Committee of the Whole (BCW) is distributed separately from this report.

How to read this report

The report is Deliverable 3 as per above, due under the Agreement between The Corporation of The City of Richmond Hill and Deloitte LLP dated September 12, 2019. It contains the results of the non-personnel budget review conducted between September 12 and November 14, 2019.

This section, *Project objectives, principles and scope*, confirms the background to the work and provides an overview of the methodology and approach applied, the project timeline and its key milestones.

The *Baseline, trending and City activity* section provides an analysis of the baseline (i.e. 2018 actual non-personnel spending) and the year over year spending trends. It shows spending trends for the City overall and comments on personnel and non-personnel spending. It then lays out an analysis of the key non-personnel cost items within each of the City's departments and their spending trends.

The *Opportunities and recommendations* section comprises four sub-sections that summarize our key findings, opportunities for improvement and recommendations for change:

- The first sub-section discusses broad themes for improving management and control over non-personnel spending in the City.
- The second sub-section outlines each opportunity that has a potential annual saving of over \$50k. The opportunity rationale, risk, complexity, potential implementation timeframe and potential cost saving ranges are also provided.
- The third sub-section describes opportunities related to procurement policies and procedures as well as vendor and contract management. The impact of these opportunities is difficult to allocate to each department and so they are summarized separately here and not allocated to departments.
- The last sub-section summarizes our observations on items that were not within our direct scope but may nevertheless be of interest to the City.

The *Roadmap* section of the report provides a view, in outline, of how the opportunities might be sequenced for consideration and implementation, albeit without considering at this stage how they might rank, align with and be ultimately sequenced alongside other important City initiatives and ongoing activities.

The *Appendices* section provides additional detail on the work undertaken, key stakeholders involved, the detailed project timeline and the remaining list of non-personnel cost saving opportunities not documented in the *Opportunities and recommendations* section of the report.

Methodology, approach and timeline

A five phase approach was used to conduct the Review. Work began on September 12 and ran for 10 weeks with the final report completed on November 14, 2019.

Phase one – Project launch

Week of September 12

A launch meeting was held at which the project approach, principles, draft work plan (Deliverable 1), scope, baseline (2018 actual non-personnel spending) and schedule were presented to City staff. The work plan was accepted by the City post the launch meeting.

Phase two – Review baseline and financial trends and prepare for meetings and workshops

September 16 – October 6

We reviewed the actual spending from 2016 to 2018, and budgets from 2017 to 2019 for each department and division, and also categorized divisions and sub divisions into service areas, which allowed us to assess the efficiency and effectiveness of each service delivered by the City. In most cases a service area is comprised of a single division, however in some cases, a service area is comprised of one or more sub divisions.

We also set a materiality threshold of \$1m for service areas and \$100k for non-personnel spending within service areas. We examined services areas and spend items that were above the thresholds since they were more likely to offer material opportunities for reduction in spending. We then incorporated the above along with our initial thoughts on leading practices, our service delivery assessment framework and initial thoughts on opportunities into 23 discussion guides for the interviews and working sessions that we ran in Phase three.

Phase three – Confirm spending trends, confirm initial and identify additional opportunities

September 23 – October 6

We completed more than 24 interviews and working sessions in this phase, which covered the 56 service areas within the five City in-scope departments, which accounts for 93% of the in-scope non-personnel spending in 2018.

The aim of these meetings was to help us understand in more detail how non-personnel operating monies are spent, confirm initial and identify additional opportunities for consideration. The meetings began by reviewing the financial analysis prepared including a discussion on the baseline and the recent spending trends. We then discussed each operation, any operational issues and the non-personnel spending items. From there, several types of opportunities were reviewed and identified, including opportunities for alternative service delivery, re-engineering and improved cost recovery.

We met with the Mayor on September 23 and the Budget Committee of the Whole Chair and Vice-Chair on October 2.

The City has a number of continuous improvement initiatives underway, including core service reviews conducted by the *Strategy, Innovation and Engagement* Division, which have identified opportunities for operational improvement and cost saving. This Review has been informed by these initiatives. As such, opportunities that have already been identified have been incorporated into its analysis and findings. Therefore, what might be executed by the City to reduce non-personnel cost is now described in a common language in this report.

Most non-personnel costs are incurred through purchases made by the City. As such we also investigated the purchasing and contracting processes of the City. We reviewed contracts over \$200k in notional operating value (and their terms) to identify opportunities to improve the overall procurement and contract management process of the City.

Approximately 50 initial cost reduction opportunities were identified through the first round of interviews. We also identified several common themes that may help the City achieve additional savings and improve its performance overall.

Phase four – Validate and quantify opportunities

October 7 - October 28

Here we completed an in depth analysis of each of the opportunities that included confirming its rationale, associated implementation risk and complexity and its potential cost saving. We had more than 35 follow up discussions with directors and managers through in person meetings, phone calls and email exchanges to collect additional information and complete validations.

We also held validation meetings with key stakeholders, including each commissioner, to further validate the opportunities and obtain any remaining information to help qualify and shape each opportunity.

On October 11 we met with the Executive Leadership Team to provide a summary of work completed to date, discuss financial trends and baseline, discuss the themes and outline a plan for analyzing the City's procurement process, contract management and contracts.

We met with the Executive Leadership Team again on October 28 to finalize the validation of the opportunities and to provide findings from the procurement and contract management analysis.

We validated 34 cost reduction opportunities, which have been included in this report. They comprise new opportunities and those already known, to some degree or another, to the City. We considered how the known opportunities might be developed and expanded to drive further cost savings.

Phase five - Prepare recommendations and draft report and remaining deliverables

October 21 – November 14

The final phase included meeting with the City to help finalize our deliverables. Our draft report was presented to the Executive Leadership Team on November 14, in part to seek alignment on the roadmap. A separate meeting with the Budget Committee of the Whole (BCW) has been scheduled for November 26.

Baseline, trending, and City activity

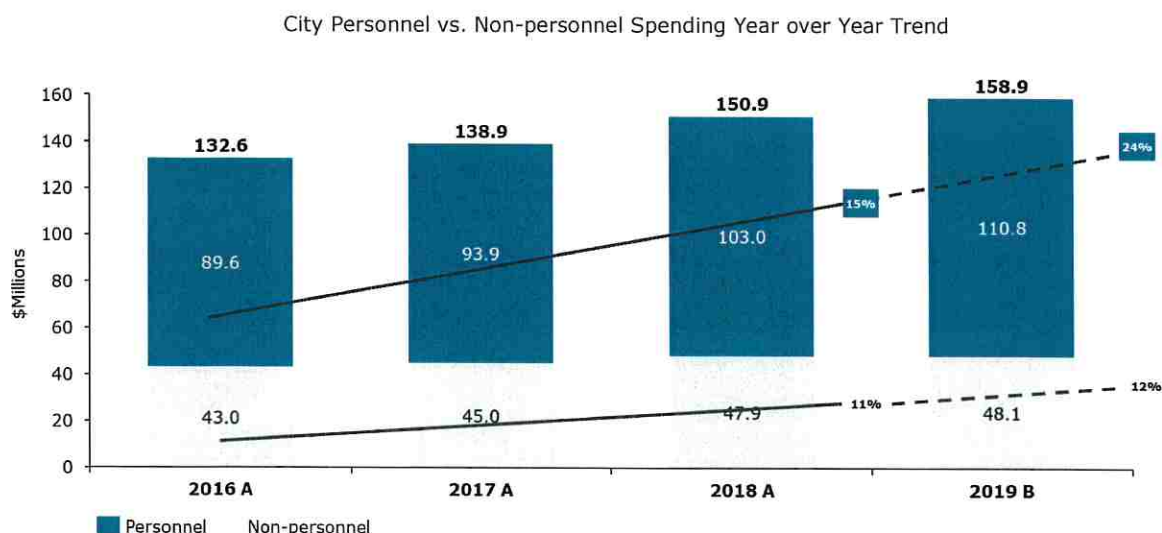
The 2018 actual operating spending was set as the baseline for the work because it was the most recent full year of spending actually incurred by the City¹.

When completing line-by-line reviews of expenditures it is instructive to consider the trending of the spend over time. For this reason we also considered the actual spending in 2016 and 2017 and the 2019 budget.

We incorporated the data described above into our analytical tool by department, division and by service area². This allowed us to identify year over year trends for each department, division, and service area.

Below we present a summary of City and departmental spending.

City year over year spending



**A represents actual costs for the year whereas B represents budgeted costs for the year*

Total City operating spending in 2018 was approximately \$151m³. Between 2016 and 2018, total spending increased by 14%. Meanwhile, the municipal portion tax rate increase from 2016 to 2018 was 7%⁴ (4.25% in 2017 and 2.71% in 2018). Users fees, fines and other revenue category as the secondary income source (after taxation) to support City's operation has increased 4%⁵ in the same period. City's sources of other minor income include investments, grants and donations and contribution from reserves, etc.

¹ All figures presented are approximations based on data provided by City management.

² Service areas are normally comprised of a single division, however in some cases, a service area is comprised of one or more sub divisions.

³ This total does not include out of scope areas - Corporate Accounts and Library.

⁴ Municipal portion tax rate growth rate in 2017 and 2018 are provided by City management.

⁵ City revenue includes user fees, fines and other revenue such as rental income and recoveries.

Total spending on personnel was \$103m in 2018; it grew by 15% between 2016 and 2018, in part due to the actions taken under a City-wide compensation review in 2017. The compensation review aimed to help the City remain a competitive employer, to help it attract and retain qualified staff City to achieve its strategic goals. It sought to help bring the City's job evaluation system and salary structures up to date (the last review was conducted in 2000). The increase in personnel spending reflected the movement of positions, changes to pay scales and the impact of the new positions added. It should be noted that in 2018 actual personnel spending was lower than budgeted because several divisions were unable to fill vacant positions as a result of market conditions. As these positions have been filled during 2019, and as a result of bringing some work back into the City (for example the hiring of mechanics in fleet services) and the offering of new services such as windrow clearance, spending is expected to grow by 8% to almost \$111m as per the 2019 budget from 2018 actuals.

Total City non-personnel spending was \$48m in 2018. Non-personnel spending increased by 11% between 2016 and 2018. The increase was in part a result of:

- Inflationary pressures on services and materials procured (for example fuel and other supply costs).
- City growth, both population served and the square footage of City properties on the asset base, which has driven maintenance costs (for example building repair and security contract costs for City facilities).

During the 2016-2018 period:

- The Consumer Price Index (CPI) for Toronto, which is a broad indicator of likely cost pressure, increased by 4%¹. The Richmond Hill municipal CPI is typically 0.5 – 1.5% greater than the CPI for the Toronto.
- The estimated population growth for Richmond Hill was 4.5%².

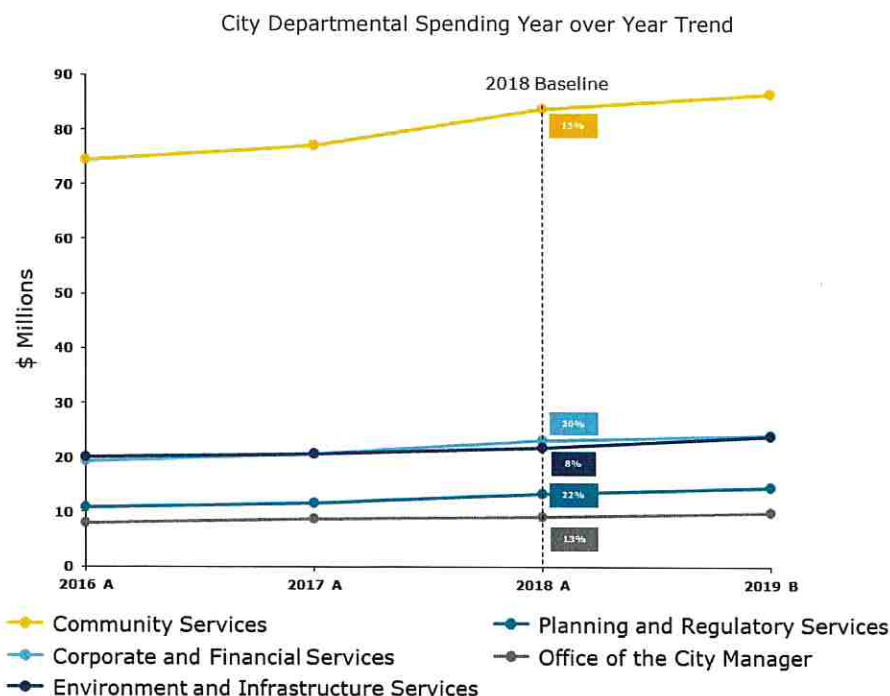
The City conducts socio-economic studies to understand its citizen's demographic profile and its economic characteristics. They are used as guidance to allocate resources, plan the services to be provided and infrastructure to be prioritized for repair and maintenance.

A number of City initiatives have been undertaken that have helped to limit non-personnel spending growth. These include energy saving programs to help manage hydro and gas usage (e.g. use of LED streetlights) and a fleet optimization study conducted in early 2018.

¹ Year over year Consumer Price Index (CPI) data is provided by City management. The CPI for the City of Toronto has been used by the City management as an indicator for the economic environment.

² The latest census in 2016 recorded 195,022 as the actual population for the City. Estimation is generated by York Region's Long Term Planning in between census years; the estimated population for the City for 2018 is 203,848.

Departmental year over year spending



Community Services

The department delivers the integrated front line services required to provide for an active, attractive, safe and connected community.

Total spending increased by 13% from 2016 to 2018.

Personnel costs increased by 14% for the period 2016 - 2018. The increase was largely driven by the *Recreation and Culture* and *Public Works Operations* divisions. Some of the higher growth service areas within these divisions included Aquatic & Fitness to help meet growing programming needs, Facility Operations to help perform non-technical maintenance and repair activities in house, and Park Operations & Waste Management as a result of additional park development.

Non-personnel costs increased by 10% between 2016 to 2018. In the *Recreation and Culture* Division, contract and service costs increased by 34%. This was largely driven by the annual maintenance costs related to the implementation of the ActiveNet system that facilitates program registration and payment processing. In the *Public Works Operations* Division, contract and service costs increased by 14%, which mainly comprised a \$0.5m increase in park and forestry contracts as a result of additional park development. Materials and supplies spending decreased by 1% in part due to the installation of LED streetlights, which significantly reduced hydro costs.

Environment and Infrastructure Services

The department is focused on long-term corporate asset management planning, the delivery of major capital projects related to linear assets, parks and facilities, as well as environment services.

Total spending increased by 8% between 2016 and 2018.

From 2016 to 2018, personnel costs increased by 11%. The increase was primarily driven by growth in the *Corporate Asset Management & Environment Services* Division, which is a new division developed to support the Provincial legislation and commitment to develop an asset management plan that will support long-term planning for the sustainable management of infrastructure.

Non-personnel costs increased by 6% between 2016 to 2018. Materials and supplies spending increased by 4%, which is consistent with expected inflationary pressures. Increases in water and gas costs were offset by an almost \$0.3m reduction in hydro spending due to energy saving initiatives (for example improving awareness of the costs at facilities through monthly reporting). Contracts and services spending increased by 40%. This was largely a result of investment in the expansion of energy saving measures and the capitalization of resource funding provided by Alectra. In addition, the increase was partially driven by the transfer of spending on the Community Stewardship Program from capital budget to operating budget within *Corporate Asset Management & Environment Services*.

Corporate and Financial Services

The department is responsible for providing direction, policy advice and leadership through the *Financial Services, Human Resources, Information Technology, and Office of the Clerk* divisions.

Total spending increased by 20% between 2016 and 2018.

Personnel costs increased by 14% from 2016 to 2018. The three divisions with the largest personnel spending growth rates were *Human Resources* (29%), *Office of the City Clerk* (25%), and *Information Technology* (16%). The City wide compensation review was a major contributing factor. The SAP implementation and broader digital transformation of the City are primarily driven by this department and so this naturally led to additional employees being hired to drive it.

Non-personnel costs increased by 34% between 2016 and 2018. Contracts and services spending increased by 55% however this increase is skewed by the 2018 election. The City typically places \$200k into a reserve fund each year and in an election year \$800k is released to cover costs for the facilitation of the election. The SAP implementation and broader digital transformation have also increased hardware and software maintenance costs by \$0.8m. Materials and supplies spending was almost held flat increasing by only 1% between 2016 and 2018.

Office of the City Manager

The department provides corporate leadership and the overall management of the City's departments. The City Manager reviews and approves all recommendations made to Council and Committees of Council, and leads the corporate strategic planning process. The City Manager acts as department head for the *Legal Services* Division and *Strategy, Innovation and Engagement* Division which includes Communication Services, Economic Innovation and the city's contact centre, Access Richmond Hill.

Total spending increased by 13% between 2016 and 2018.

From 2016 to 2018 personnel costs grew by 20%. This change was largely due to the City growing the *Strategy, Innovation and Engagement* (39%) Division in an effort to drive continuous improvement, as well as the expansion of the Risk and Insurance team in *Legal Services* (26%) Division.

Non-personnel costs decreased by 3% primarily due to decreases in non-personnel costs in the *Legal Services* Division and Communication Services. Within *Legal Services* the decrease was a result of lower external legal costs as additional work was managed in house.

Planning and Regulatory Services

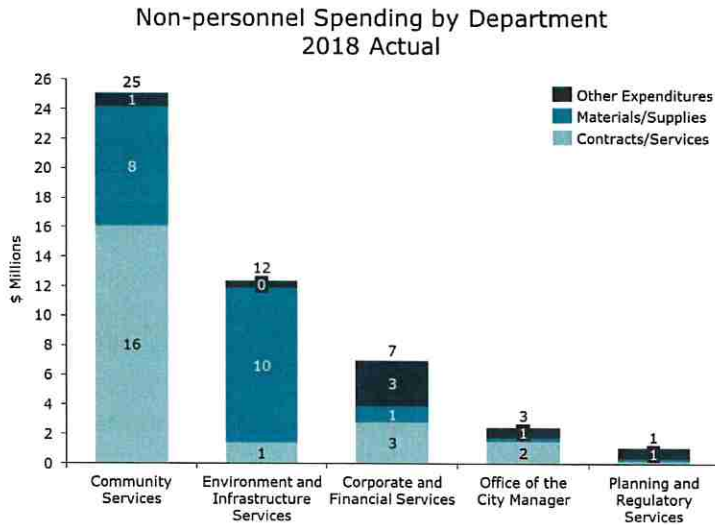
The department is responsible for planning, policy development, implementation and the ongoing monitoring of the progress and realization of the vision for the physical (land use) future of the City. Its responsibility also includes enforcement of the building code.

Total spending increased by 22% from 2016 to 2018.

From 2016 to 2018, personnel costs grew by 24%. This growth was largely driven by increases in the *Development Engineering* (67%) and *Development Planning* (42%) divisions as a result of hiring to manage increasingly complex and a greater number of applications. These costs are largely expected to be offset eventually by user fees charged for the review and processing of applications.

Non-personnel costs increased by 11% from 2016 to 2018, but comprised only about 8% of total division spending. One of the largest increases was conferences attended and training for employees driven by the hiring of new employees.

Baseline non-personnel spending by department



Total non-personnel spending for the City in 2018, was approximately \$48m which was 32% of the total 2018 actual operating spending.

Community Services

The department was responsible for 52% (\$25m) of total City baseline non-personnel spending.

There were a number of high value contracts managed by the department, primarily within the *Public Works Operations* Division. Some of these contracts were for recycling collection (\$4.3m), winter maintenance (\$2.5m), refuse collection (\$1.3m), park maintenance (\$0.6m), forestry (\$0.6m), road maintenance (\$0.5m), vehicle maintenance (\$0.4m), and sidewalk maintenance (\$0.3m).

High value contracts in other divisions within *Community Services* covered animal services (\$0.6m), recreation and culture software (\$0.5m), janitorial (\$0.4m), fire dispatching software (\$0.3m), and cleaning chemicals (\$0.2m).

Materials and supplies spending primarily comprised purchases of salt (\$1m), park and sports field materials (\$0.6m), fuel (\$0.6m), vehicle maintenance supplies (\$0.5m), water (\$0.4m), and hydro (\$0.2m).

Environment and Infrastructure Services

The department was responsible for approximately 26% (\$12m) of the 2018 non-personnel baseline spending.

Non-personnel spending was largely attributable to the *Facility Design, Construction and Maintenance Services* Division, which accounted for almost \$11m. The costs, which were largely materials and supplies, included hydro (\$3.7m), HVAC (\$1m), gas (\$0.9m), water (\$0.8m), and supplies used for maintenance and repairs (\$0.8m).

Corporate and Financial Services

The department was responsible for approximately 15% (\$7m) of total baseline non-personnel spending.

Contracts and services spending was largely incurred in Information Technology Division (\$1.2m) for services including data communications, cellular phones and telephones. Contracts and services for other divisions including the *Office of the City Clerk*, *Human Resources*, and *Financial Services* mainly made up of consulting contracts (\$1.4m).

The \$1.2m spending in materials and supplies was mainly driven by the cost of City-wide postage, Corporate HR training and other miscellaneous spending.

The \$2.8m in Other Expenditures mainly comprised \$2.5m in operating hardware and software costs. This included operating costs for systems such as SAP and Salesforce.

Office of the City Manager

The department made up approximately 3% (\$3m) of total 2018 non-personnel spending.

More than half of the \$1.5m in contracts and services spending was made up of the City's insurance contract. External consulting costs, incurred by the *Legal Services* and *Strategy, Innovation and Engagement* Divisions, also accounted for \$0.3m of contracts and services spending.

The \$0.4m in other expenditures was primarily made up of adjuster fees and legal fees incurred by the Risk & Insurance team within the *Legal Services* Division.

Planning and Regulatory Services

The department was responsible for approximately 2% (\$1m) of total 2018 non-personnel spending.

Within the department only 8% of costs were non-personnel related. Major non-personnel costs included conferences attendance costs and training expenses, and external consulting incurred by the *Policy Planning*, *Development Engineering* and *Building Permits/Inspections* divisions, and mileage paid to the employees.

Opportunities and recommendations

Below we describe the opportunities that we have shared with the City's leadership team:

- The first section – *Improving control* - summarizes our thoughts on six changes that the City may wish to consider, that if taken, could improve control over non-personnel spending amongst others.
- The second section – *Overview of opportunities on specific spending items* – details the opportunities established that may reduce non-personnel spending. Twelve are described. Each is likely to reduce costs/improve cost recovery by >\$50k per annum. Twenty two other lower value opportunities are summarized at Appendix C.
- The third section – *Procurement, vendor and contract management* - details specific recommendations on procurement, vendor management and contract management that may reduce non-personnel spending.
- The final section – *Other observations* – summarizes observations noted throughout the project that are not directly within scope, but may be useful considerations for the City.

Improving control

There are six changes that the City may wish to consider.

More clearly costing and measuring the services provided by the City to its citizens

Currently, there is no comprehensive list of services that allows the City to articulate the services provided to citizens. It is also not clear what the service levels provided should be, why they are provided, how they are set, and whether they are above, at or below the standard for each service. Services are not benchmarked frequently and there are few Key Performance Indicators (KPIs) in place that measure what the citizens value, the outputs of the services, and each service's economy and efficiency.

Developing a clear understanding of all the points above is often critical in managing service expectations and delivery costs. The City may wish to consider thoroughly evaluating the services provided and the cost of providing each service to help identify opportunities to bring service levels either up or down, where they are adrift of standards. In addition, the City may consider how and how well it should provide non-mandatory services or those services that do not carry legislative or regulatory obligations. This could be delivered without moving to a full service based budgeting approach, although properly allocating costs to services on a case by case basis would still require considerable time and effort given that current budgets are not allocated to services or often not managed on a devolved basis. The implementation of the new enterprise resource planning (ERP) system, SAP, will enable the City to allocate and analyze its costs more effectively.

Devolving budgets, increasing accountability and realigning incentives

Many cost types and budgets are held centrally either by the City or a department or division. Examples include: cell phones, printing and utilities. The consumers of these costs therefore have little incentive, if any, to manage the costs associated with them. Devolving budget to those responsible for consumption may help to improve control and reduce costs, provided that the appropriate reporting and controls are put in place to encourage closer control.

The City may wish to consider implementing these arrangements especially where reporting on consumption is already available, for example for printing. In other cases it may be prudent to factor these considerations into the implementation of SAP so that the changes can be made as SAP comes online for budgeting and reporting.

Applying business cases and benefits realization

There are good examples of the use of business cases. The implementation of SAP is one of the many examples where a strong business case was built for the project which derived significant benefit for the City. It would be good practice however to extend the use of business cases, particularly the financial case, to other change projects. This would help the City to identify and select the projects based on analysis of cost versus benefit, and improve accountability for execution and benefits realization.

On a second note, the concept of benefits realization is not well established in the City. It is important that somewhere there be a register of all benefits from change projects so that organizational memory extends beyond the duration of each change project. By allocating and investing to acquire the related skills and talent for this, it allows the senior leaders to corral and allocate of the benefits as they see fit. Without a conscious decision being taken there is a risk that significant benefits are absorbed back into the business and they may not be clearly directed either as cost reductions or allocated to a new purpose, which may result in them being lost and not effectively repurposed to a useful and high priority end.

Developing employee scheduling processes

Scheduling staff as effectively as possible, especially when the workforce is mobile, such as the bylaw and parking officers on patrol, would help to reduce overtime and mileage expenses. The current manual scheduling practices in place hinders the City's ability to allocate and manage resources efficiently.

The City may wish to consider installing the capability to track and monitor real-time data on time and attendance, overtime and related non-people costs such as mileage.

Furthering cross municipality cooperation

Currently, the City collaborates well with other municipalities on aspects such as the purchasing of computers, salt, and materials and supplies.

The City may wish to consider extending its collaborative efforts to other aspects of its operation to help drive additional economies on non-people and other costs. For example, IT's current spending on minor hardware and software is approximately \$300k in annual costs, with little procurement completed through bulk agreements. The team however has bi-annual meetings with directors of other municipalities, providing a good forum to discuss collaboration and bulk purchasing of such minor items. Other collaborations to consider include group insurance plans, internal audit practice and website design. The Chief Administrative Officers' meetings for York Region could help to facilitate discussions on greater collaboration.

Expanding the Lean initiative

The Lean improvement approach has been well proven and effective to improve efficiency and reduce costs in other municipalities' efforts. The City is still in the early stages of its Lean development with a central focus on training practitioners in the divisions to white and green belt standard with the purpose of improving employee engagement and challenging processes.

The City may now wish to consider evaluating how Lean might be applied to its services and processes that consume material amount of costs and resources, in an effort to accelerate the delivery of significant tangible benefits and help to mitigate the risk of potential increases in operating costs. Additional Lean resources, such as black belts, and hence an increased budget would be required. Another consideration could be those services and processes with less than desirable customer satisfaction ratings. Established practice is to build a balanced "heat map" that supports the commissioners in targeting where to deploy the Lean resources to benefit the organization, and then executing the work against outline business cases.

Overview of opportunities on specific spending items

The opportunities summarized in this report comprise 34 opportunities by department, as well as the City-wide opportunity on procurement, vendor and contract management practices. The aggregate opportunity is estimated at \$1.72m-3.77m¹ which was 3.6-7.8% of total non-personnel spending in 2018, which equates to 1.1-2.4% of the total in scope operating budget of \$151m.

In order to achieve the savings, the opportunities identified will need to be added to the City's current strategic and other priorities and built into its budget. The implementation activities will also need to be sequenced with implementation resources carefully considered. Taking the above into consideration and given the likely time and effort required to implement the opportunities and improve control, the potential savings could be realized during the next three years.

Opportunity	Non-personnel FY18 Baseline (in millions)	Estimated Potential (in millions)	Potential % of Non- Personnel
34 opportunities by department	\$48	\$1.12 - \$2.70	2.3% - 5.6%
City-wide procurement and contract management		\$0.6 - \$1.07	1.3% - 2.2%
Total potential		\$1.72 - \$3.77	3.6% - 7.8%

The table below summarizes the number and potential impact of the opportunities by department. Each opportunity has been characterized by the risk and complexity associated with its implementation (i.e. Low, Moderate, High), as well as the timeframe for the City to implement and realize part of or the full benefit (i.e. short-term, less than 6 months; medium-term, between 6 and 12 months; long-term, greater than 12 months).

The risk consideration assesses the degree that the implementation of an opportunity will impact the capability of the City to provide services to citizens. Low risk means there is minimum impact to the City's capabilities to provide services to citizens and/or the City is adopting best practice. Moderate risk implies there is no significant changes to the current practice but some effort may be required to ensure that there is no interruption to the City to provide services to citizens. High risk level means there will be a noticeable impact to current operations which may change the City's capabilities in providing services to citizens.

The complexity accounts for the possible involvement of multiple internal/external stakeholders and the need for additional resources to implement such opportunities. Low complexity is for the opportunities that are easier to implement with minimal or no coordination or roadblocks expected. Moderate complexity level means the implementation requires alignment from stakeholders and additional resources such as time, effort, and cost is required. High complexity implies that the implementation requires alignment from many internal/external stakeholders and significant time, effort, or cost must be invested into these opportunities to realize potential benefits

Opportunities are also characterised base on their current status. Some are in the 'To be planned' state where the opportunities are still ideational with no specific implementation plans developed; the 'Planned' state indicates a formalized implementation plan has been developed, and the 'Being implemented' state is for opportunities that have a step by step implementation plan and are either in progress or soon to be implemented in FY20 and beyond².

For the list of other non-personnel cost reduction opportunities not included in this section, please refer to Appendix C.

¹ Estimated savings ranges are presented as base or stretched scenarios.

² Only opportunities that have not been factored in the 2018 budget (i.e. baseline of this report) have been included.

Department	Total FY18 Baseline (in millions)	Non-personnel FY18 Baseline (in millions)	Estimated Potential (in millions)	Cost Savings % of Non- Personnel	# of Opps.	Risk	Implementation Timeframe
Community Services	\$85	\$25	\$0.36 - \$0.95	1% - 4%	14	H 0% M 36% L 64%	Long 7% Medium 43% Short 50%
Environment and Infrastructure Services	\$23	\$12	\$0.27 - \$0.61	2% - 5%	8	H 0% M 0% L 100%	Long 20% Medium 60% Short 20%
Corporate and Financial Services	\$21	\$7	\$0.31 - \$0.67	4% - 10%	5	H 0% M 38% L 63%	Long 38% Medium 37% Short 25%
Planning and Regulatory Services	\$9	\$3	\$0.10 - \$0.21	3% - 7%	5	H 0% M 100% L 0%	Long 0% Medium 50% Short 50%
Office of the City Manager	\$13	\$1	\$0.08 - \$0.26	8% - 26%	2	H 0% M 60% L 40%	Long 18% Medium 47% Short 35%
Total	\$151	\$48	\$1.12 - \$2.70	2% - 6%	34		

Opportunity	Non-personnel FY18 Baseline (in millions)	Procured Materials / Services (in millions)	Estimated Savings (in millions)	Cost Savings % of Procured Material/Services	Cost Savings % of Non- Personnel	Implementation Timeframe
City-wide procurement and contract management	\$48	\$41.2	\$0.6 - \$1.07	1.5% - 2.6%	1.3% - 2.2%	Dependent on City's new SAP implementation

Top 12 opportunities of >\$50k potential

In the section below, the 12 opportunities (with a potential impact of >\$50k) are described along with their potential impact on the total non-personnel costs of the City. These twelve opportunities account for the majority (\$1.0m - 2.0m) of the total cost potential identified.

Opportunity 1 - Better match the quantity of salt purchased with City demand

The City purchases a pre-determined quantity of salt from the same supplier each year under the cooperative contract with York region. If too little is ordered, additional salt has to be purchased in-season usually at a premium price with a risk that delivery of the salt may be delayed. An examination of the last five years of salt usage and purchases confirms that the amount procured is usually not enough for the season and as such an additional 20-30% of salt typically needs to be purchased in year. For the 2018/2019 winter, due to the unexpected weather conditions and supply shortage, the City had to purchase this additional amount at almost double the contracted rate.

The City should purchase enough salt for the season. In relation to enhancing procurement practices, there are other considerations to enable improved accessibility, management and use of salt. A just-in-time material flow approach could effectively manage stockpiled salt levels and establish a float quantity to help ensure sufficient reserves. From an operational perspective, assessing the optimal mix of salt and other materials, tracking and analyzing salt flow rates by plow by snow event and assessing current routes and equipment allocated could improve current winter management practices and help to reduce the amount of salt used each season.

There is little risk attributable to this opportunity. Excess salt can be stored for use in the following year and there is capacity to store it. Any change to the purchase order of the current contract and increase to budget need to be approved by Council.

Taking the above into consideration, the implementation timeframe should be short. Once the change order for the contract and increase to budget (based on funds available) have been approved by

Council, the contract can be updated for the 2018/2019 winter season. Overall, we estimate the opportunity could yield \$100k-200k in savings, calculated based on the premium paid for additional salt in 2018.

Recommendation

The City should confirm that the supplier can provide the full quantity of salt required. If not, the City may wish to consider alternative arrangements under a new contract.

Opportunity 2 – Match fire dispatching service fees to the cost of providing the service

The City has one of three dispatching centres in the York Region (the other two are run by the City of Vaughan and the City of Markham). The City provides dispatching services for itself and five other municipalities (Aurora, Newmarket, Georgina, East Gwillimbury, and Stouffville). Only one-third of the calls handled by the Richmond Hill-operated centre are related to Richmond Hill yet the City covers 55% of the costs to operate the centre. There are two approaches the City can take actions on achieving higher cost recovery.

- A. **Review fee model:** The current fee model agreed on with the Dispatch Advisory Committee is based solely on the population of each municipality served. The City increased the fee by five cents in 2019 to \$2.76 per capita, however the costs recovered still do not cover the costs incurred by the City. There is an opportunity to revise the agreement with the Dispatch Advisory Committee, specifically regarding the user fees charged. As the agreement comes to an end, a new fee model that factors in the number of calls processed for each city could be considered. This may provide more reasonable cost recovery. In order to remain cost effective, the City should reassess its current operating model and explore alternative approaches to achieve a lower cost per capita. Since the City of Vaughan charges lower service fees, there is an opportunity for the City to work with the City of Vaughan on achieving a reduced unit cost.
- B. **Amalgamation of dispatching centre:** The three dispatching centres in York Region could be amalgamated. A new operating model may help the cities to share reduced operating costs such as the dispatching system and facility costs across all of the nine York Region municipalities. This is currently under review of all Fire Chiefs from Richmond Hill, Markham and Vaughan.

There is a risk that user cities may change their service provider if the price for the service increases beyond their tolerance. The City of Vaughan provides its dispatching service for a fee of \$2.07 per capita. If amalgamation were chosen, there are of course the standard merger execution risks. Considerable time and effort would be required to develop the new fee model and approval by the Dispatch Advisory Committee would also be required. If amalgamation were chosen, a new operating model would need to be developed that would require agreement throughout the cities that operate the current dispatching centres and the user cities within the Region.

The current agreement expires in 2020 at which point a new cost recovery structure could possibly be introduced. Amalgamation with the other two dispatching centers would probably be a longer term project. Overall, we estimate that the opportunity could yield \$100k-200k in non-personnel cost savings, based on a conservative assumption that the City would continue to bear 45% to 50% of the costs, as opposed to the 55% covered today.

Recommendation

The City may wish to consider reviewing the historical call volumes for each municipality served by the dispatching centre and establish alternative fee structures that ideally are driven by activity. Communication and alignment with other municipalities served would also be important to the success of any change. Concurrently, the City should continuously work with the other dispatching centres to build the business plan for amalgamation.

Opportunity 3 – Assess the use of City properties

The City should review how it uses City-owned properties and identify any surplus real estate that could either be repurposed, decommissioned or disposed of. This would reduce non-personnel operating costs such as utility costs, and repair and maintenance costs.

There are properties that are underused and may not be wholly effective in providing the support and space required to deliver recreation programs. For example, the Brodie House is currently vacant. There are properties that are only used for part of the year, such as the Eyer Homestead house which is primarily used during summer months (May to August) and only weekly use in other months to support ropes course programs and other teen recreation programs. There are also properties, such as the residential home at 314 Mill Street and the Sunset Beach Boathouse at Lake Wilcox, that are currently exclusively used by community groups. The leases charged to the groups are not sufficient to cover the operating and maintenance costs of the properties. There is therefore an opportunity to review the model used to determine the lease amounts and modify the lease charges or to assess the feasibility of decommissioning or selling the facilities to these groups in order to continuously support the community groups and cost-effectively operate City properties.

The City should conduct a full review of its properties to document the current condition and assess their use in order to identify properties to divest. There exists opportunities to reduce costs or provide more efficient services to citizens through assessing the user fees paid, decommissioning or selling assets or repurposing any surplus properties.

Some properties are used occasionally by community groups and others. Changing the use of these properties would require relocation of the users, which may carry reputational risk. Taking the above into consideration, the implementation timeframe is likely to be medium-term. We estimate that this opportunity could yield \$100k-200k in savings, based on the current operating costs of the underutilized facilities above if they were closed. The opportunity may be greater if a full review were to reveal other properties worthy of consideration.

Recommendation

The City should develop a framework to facilitate the Review as the first step. The City would also need to work with the community groups that are currently using the facilities in order to help them relocate if that were the result of the Review. An actionable plan for any changes would need to be developed with input from several divisions (e.g. *Facility Design, Construction and Maintenance, Corporate Asset Management & Environmental Services, Recreation and Culture*).

Opportunity 4 – Implement energy saving projects

The City implemented 89 capital energy conservation projects between 2014 to 2018, which resulted in 4.3m kWh/year in energy savings and approximately \$660k/year in cost savings. There are 64 capital energy conservation opportunities recommended in the 2019 - 2023 Corporate Energy Plan along with 9 operational energy conservation projects. If all proposed projects were implemented, the total energy saving potential is estimated at \$725k/year. (Source: City of Richmond Hill 2019-2023 Corporate Energy Plan)

Some proposed energy saving projects are subject to constraints. Projects such as providing energy efficiency training to facility operators, implementing best practice ranges for water and ice surface temperature, and monitoring equipment for operations and electricity consumption have already been planned but are yet to be executed. There is an opportunity to continuously re-prioritize projects to invest and allocate the required resources to drive energy and cost savings.

Implementing the saving projects would be a joint effort between various divisions across departments. For example, the Corporate Energy Team would need to provide training for all the key stakeholders (e.g. facility operators and contractors) to help drive change.

Further, consideration of allocating the utility costs to the user departments (e.g. Community Services) should be considered to help increase accountability and incentivize the end users to reduce consumption.

While there may be minor adjustments to water temperature, arena temperatures and so on, there is little risk to making many of the changes in the plan. Implementation would require the development of business cases to determine the payback and so the attractiveness of any investments.

We estimate that that the opportunity could yield between \$200k-400k in savings, although this remains to be confirmed. For example, working with Alectra to change the billing arrangement for street lighting to base it on actual consumption (as opposed to estimated consumption) may deliver a 5% reduction of the \$1.3m spend in 2018. Implementing the Interior Lighting Retrofit project is expected to yield almost \$60k in savings. Continued progress on the Facility Re-commissioning project is expected to yield over \$150k in savings once it is completed. Together just these three initiatives might yield almost \$300k in savings.

Recommendation

The Corporate Energy Team should develop a framework to assess all of the proposed projects to identify resource gaps, prioritize them and develop specific timelines for the implementation of those changes that are to be actioned.

Opportunity 5 – Implement monitoring and analysis on water consumption

Electricity and gas consumption are monitored and analyzed monthly by the City to help ensure efficient spending. The Water spending is about \$1.2m per annum and has increased approximately 40% from 2016 to 2018, partially due to price increases. The City may wish to develop a water conservation plan to help reduce the current water usage, as well as a water efficiency plan to improve the effectiveness of water used (i.e. minimize the water needed to support current operation). This may be achieved in a relatively short time frame by beginning to track and monitor water consumption and conducting studies/audits of current operations.

Specifically, to understand the current consumption, the City may wish to conduct an Institutional, Commercial and Industrial (ICI) Water Audit on the heavy water using facilities of the City, such as pools and arenas. The auditor would review the current operations and provide an idea of what the water consumption should ideally be. This would then be compared with actual water use and spending to understand the potential savings. The auditor could also provide recommendations on how to reduce water used by the City. Another initiative the City may wish to take would be to conduct a leak detection analysis for the irrigation network of the parks. This activity can help to reduce leakage.

City staff are taking actions on an ad hoc basis to help optimize water consumption, such as building water tanks to store the water from splash pads and reuse it for irrigating grass. These useful strategies should be documented and incorporated into the City's master plan for water consumption and become standard future practice. In addition, once monitoring and analysis is underway, there will be sufficient data to discover additional opportunities for investment in capital resources to further optimize water consumption, such as installing additional meters where needed and upgrading to water efficient equipment like toilet and faucet aerators.

There are examples of other municipalities that have developed best practices for water efficiency. The City of Guelph has been pursuing community water efficiency and conservation programs since 1998. It has been implementing water saving programs such as the Municipal Facility Upgrades program, which upgrades City buildings with water saving infrastructure and conducting pilot and research projects within municipal facilities (e.g., rainwater harvesting and wastewater reuse programs).

There is little risk associated with this opportunity. It is good practice to include all major utility spending in energy saving initiatives. Complexity is moderate. While water usage could be incorporated into existing monthly reporting, initially using data that are already available with relative ease, implementing larger programs would require formal business casing and planning.

Reporting on water consumption could be implemented within six months as could the Audit. We estimate that the opportunity could yield between \$50k-100k in savings, based on an expected reduction in water use of 5%.

Recommendation

The City may wish to explore the data currently available for tracking water consumption and begin to analyze its use. Any analysis could be incorporated into the utility report that is already shared with the facility operators each month. A plan could also be developed for beginning leak detection and engaging an ICI auditor.

Opportunity 6 – Identify and consolidate/remove redundant hardware and software

The City is undergoing a digital transformation, having already implemented Salesforce and now implementing SAP, amongst other changes. A number of other systems (e.g. EnerGov) are also being implemented. There is therefore an opportunity to consolidate/remove software and hardware that will be replaced by these new systems. For example, with the implementation of the HR module within SAP, the City should be able to fully replace iCIMS, its third party recruiting software. Another example is to consolidate the CRM systems by transitioning the IT service desk system to Salesforce.

In addition, the ERP system will provide the City with capabilities that are currently outsourced to contractors. For example, routine training is required by the EMS (Environmental Management System) along with certification for City staff in Corporate Asset Management and Environmental Services. The training is online, which requires a server to host the content. Currently the Division purchases the hosting server externally. These costs could be eliminated when the training module within SAP is fully implemented.

The City has a plan/roadmap in place that outlines when certain software contracts and hardware could be discontinued based on the current IT change program. As implementation timelines change and functionality becomes available, the roadmap should be reviewed and updated. Division directors could also be consulted on a regular basis, on the potential for systems and services that have or will become redundant to be consolidated/removed or added to the roadmap.

The risk and implementation complexity of these changes are both low. Phase 2 of the SAP implementation is underway and will continue into 2020. Additional functionality may be available beyond 2020. The timeline for making changes to existing hardware and software is constrained by the SAP implementation timeline and the implementation timeline of other systems and programs. We estimate that the opportunity could yield \$100k-200k in savings, based on the software and hardware reduction opportunities that have already been identified but not yet built into business cases and budgets.

Recommendation

The City may wish to confirm that the roadmap has been reviewed to help ensure that all new systems (for example EnerGov) are included, and input from all divisional leaders has been captured. A document owner could be assigned to help manage benefits realisation. There is also the need to review existing licences for all systems to determine if there is under or over consumption as well as the need to ensure there is no duplication of systems with the same function. Licences for user accounts should all be updated and transferred to the new systems as this digital transformation progresses.

Opportunity 7 – Reduce document printing

There are two main types of printing, printed material for internal purposes and printed material for resident-facing services.

A. Internal: Printing costs are collected under the *Information Technology* Division; costs are not allocated to divisional budgets. Divisions have little visibility of their printing costs and little incentive to reduce their costs.

There is an opportunity to implement already available print reporting capabilities to drive awareness of and reduce printing costs. There are three cost saving opportunities: reducing colour printing, reducing single sided printing, and steer the culture to become more digital and less paper-based. For example, holding documents and files digitally and using the digital scanning technology being implemented, is expected to reduce printing costs significantly.

Moving to digital retention would also reduce the need for 3rd party storage and retrieval costs.

B. External: The City provides hard copies of Recreation Guides and brochures for events and performances. Given that much of the information is also available online and citizens are increasingly accessing it through the City's website, the number of copies of guides printed could be reduced. In addition, there is an opportunity to review the content included in the printed materials to determine if any information could be removed.

Implementation may affect some citizens who have limited access to digital platforms. The complexity of implementation is low. Standard operating procedures for digital documentation would need to be developed and implemented internally. Changes to external guides and brochures and their rationale would need to be communicated to citizens along with instructions and guidance on how to access information through the website. Sufficient numbers of hard copies would still need to be made available to accommodate citizens who have limited access to digital media. The methods of distribution may need to be adjusted since fewer copies would be printed and distributed. In addition, the impact to revenues collected through advertising and current commitment made to advertisers need to be assessed and changes needs to be communicated to these external stakeholders.

Taking the above into consideration, implementation could be effected in the short-term; any awareness campaign and changes to external content could be implemented relatively quickly. The digital document management capabilities are expected to be configured mid to late 2020 at which point the process of moving existing documents to digital media and updating processes such that new documentation stays digital throughout its lifecycle would begin.

We estimate that the opportunity could yield between \$50k-100k in savings, calculated based on 1) a 10% reduction to internal printing from awareness campaign and incentive program; 2) a 10-20% print reduction for divisions adopting digital document management; 3) a 10 to 20% reduction in 3rd party storage and retrieval costs; 4) a 10% reduction in external printing by focusing on digital communication and marketing through the City's website.

Recommendation

The City may wish to consider developing a plan for providing divisions with printing usage reports for all internal printing activities as soon as possible, which would be the first step for the awareness campaign to start building the digitally based documentation culture. The City could also review and adjust its printed guides and brochures quickly. Divisions should also begin to develop a plan for which documents could be maintained digitally and which should be printed and stored physically.

Opportunity 8 – Implement a corporate policy for cell and desk phones

Approximately 300 employees have both a desk and a cell phone provided by the City. There are also staff who bring in personal device and the City provides reimbursement on phone bills. There is an opportunity to decommission desk phones that are little used where the employee has been provided with cellular subsidy by the City or is provided with a cell phone.

Employees currently only require director approval to be provided a cell phone. There is an opportunity to develop a corporate policy, with input from Directors, which prescribes the criteria for providing employees with cell phones. This policy could be implemented on a grandfathered basis.

Further, consideration of allocating cell phone costs to user departments could be considered to help improve accountability and incentivize the end users to reduce costs related to data overage and roaming charges.

There may be some resistance from employees if cell phones are provided to certain groups and not to others or withdrawn. The cell phone service and hardware contracts (specifically renewal dates) may constrain the City's ability to implement the opportunity immediately.

We estimate that the opportunity could yield \$50k-100k in savings, calculated based on 1) a 5-10% reduction in cell phones provided by the City; 2) 70-80% of employees with cell phones having their desk phones decommissioned; 3) a 10 -20% reduction in overage and roaming charges.

Recommendation

Consider developing and implementing a City-wide policy. Which includes specifying why employees should be provided with cell phones. Concurrently, the City should review desk phone usage for employees with cellular benefit to determine which desk phones can be decommissioned. It may make sense to implement a policy that desk phones are only provided by exception for employees with cellular benefit.

Opportunity 9 – Move discretionary advertising/notices posted in newspapers to digital channels

The City currently posts public notices in local press. Approximately two-thirds of these notices are discretionary in nature (e.g. a new program notice) and are not mandated to be posted in newspapers. The other one-third of notices must be posted in the newspaper. There is an opportunity to move the discretionary notices to the City's website in order to drive cost savings as well as to help ensure that the City is supporting the broader trend of more citizens accessing information through its website.

Some of the advertising, particularly for events and programs, contributes to participation. There is a risk that digital advertising may not be as effective, particularly in attracting less technologically embracing citizens to programs and events. The City would need to run a campaign to help re-direct citizens to the website for notices.

Taking the above into consideration, the implementation time frame is probably short-term. Developing a plan for communication and how to best redirect citizens to the website for notices, setting up the pages on the website, and other implementation activities could be completed within approximately six months. We estimate that the opportunity could yield \$50k-100k in savings, calculated based on approximately two thirds of notices being moved to the City website.

Recommendation

The City may wish to develop communication material and concurrently stand up a page on its website specifically for the posting of notices. There will also need to be a decision taken on how to provide any communication (i.e. mail delivery, ActiveNet email list). Website page activity could also be monitored to gauge how successful redirecting the citizens has been and whether any follow up communications are required.

Opportunity 10 – Move the City on to the Region of York data communications contract

There is an opportunity to gradually move City facilities from the Bell contract to the Region of York data communications contract (i.e. data networks and infrastructure), which is expected to reduce data communication costs.

Some City facilities have already been moved to the Region of York contract. The ability to move other facilities to the contract is reliant on the Region's initiative to lay dark fibre across the Region's borders which is out the City's control.

This is likely a multi-year initiative, which is expected to be completed by 2023 and yield a cost reduction of between \$50k-100k, calculated based on the lower pricing provided under the Region of York contract.

Recommendation

The plan for transitioning facilities to the Region of York contract should be monitored on an ongoing basis and adjusted for any changes or opportunities that arise (e.g. opportunity to transition a facility sooner than originally planned).

Opportunity 11 – Better match cost recovery for complex planning applications to the cost of providing the service

Section 69 of the Planning Act allows municipalities to establish fees for the processing of planning applications so as to meet but not exceed their actual cost. Over the past few years there has been a change to the type and complexity of applications being made, which has increased the effort required and costs incurred to process them. Application reviews have become increasingly complex and require greater diligence, in large part due to development taking place in densely populated areas. The last time a review of costs (and the resulting user fees) was conducted was almost ten years ago. Given the recent shift in application complexity, there is an opportunity to review the effort and cost required to provide the service and so update the user fees.

Significantly increased user fees may mean that developers choose to develop in other cities or delay the developments. A comprehensive review of planning application fees would be required, assessing the effort and cost involved in processing various requests. This would involve the tracking of staff time.

Taking the above into consideration, the implementation timeframe is probably medium-term. We estimate that the opportunity could yield \$100k-200k in improved cost recovery, calculated based on an expected 5% increase to user fees for development planning application reviews.

Recommendation

The City should start to record the time and effort required by staff to complete the application assessments. A quantitative analysis should be completed to assess the appropriate adjustment to the user fees.

Opportunity 12 – Perform an analysis of the effectiveness and efficiency of events and projects

The *Strategy, Innovation and Engagement* division hosts several events throughout the year and has recently reduced the scope of or eliminated certain events and projects that are not considered an effective use of funds. There is an opportunity to complete a similar review for all events and projects planned for 2020 and future years.

There is relatively little risk, although there may be some negative publicity.

We estimate that the opportunity may yield between \$50k-100k in savings.

Recommendation

The City could develop a framework for the evaluation of events and use it to determine if there are further opportunities for reducing the scope of events or cease them entirely.

Procurement, vendor and contract management

Materials and services procured account for approximately 86%¹ of non-personnel spend. Execution of a clear and robust procurement, vendor and contract management framework is key to establishing effective and efficient relationships with the City's suppliers.

In order to establish opportunities to improve procurement, vendor and contract management we analyzed the approximately \$41.2m² of 3rd party spending of which almost 60% is spent on services and the balance on material purchases. The \$41.2m is spent through the channels below:

- *Minor purchases*, defined by spending of less than \$10k, amounting to \$2.3m,
- *Purchases between \$10k - 50k*, amounting to \$1.5m,
- *Purchases between \$50k - 200k*, amounting to \$21.8m, and
- *Purchases over \$200k*, amounting to \$15.6m.

¹ The remaining 14% of non-personnel spend that is not procurement related comprises of items such as transfers, grants, etc.

² The following figures were estimated based on available data from FY18 procurement P-Card, payment files and contract available

We estimated a potential reduction of approximately \$0.6m - 1.07m. The savings may be achieved through actions such as consolidating minor purchases (i.e. below \$10k), providing training for departments to expedite the procurement process on contracts below \$50k, negotiating discount, rebate, and early payment terms on contracts with material amounts (i.e. over \$50k).

Minor purchases less than \$10k

There are two channels for purchasing goods and services of value < \$10k:

- Procurement-Cards ("P-Cards") – A purchasing card program that provides departments a simple and rapid procurement vehicle.
- Standard invoicing – Certain vendors will not accept P-card purchasing arrangements and are thus commissioned using low value purchase orders.

Our sampling of the application of controlling processes and purchases suggests that there is limited visibility of the purchases made under both sub-categories. System constraints make isolating purchases for any given period by cost type, vendor, and department a very time intensive and laborious manual extraction and analysis process. This means that there is little understanding of what is actually purchased other than in aggregate. A thorough review of what is purchased may reveal opportunities to reduce spending overall and to drive better rates for commonly purchased items by consolidating the purchases to fewer vendors and negotiating better rates with vendors with significant spends.

A target reduction of 10-15% would be a reasonable working goal (\$230k-340k). This estimate is based on our review of minor spending reports, samples of department minor purchase breakdowns, and isolating for addressable¹ costs that might be reduced. Any detailed analysis and the resulting actions cannot be defined and completed until the City's new SAP systems have been implemented and the data required to complete the analysis made available.

Purchases between \$10k - 50k

This channel is used to procure frequent and generally low cost services and materials, such as road works (e.g. pothole repairs) and park maintenance services (e.g. lamp and fixture replacements).

We noted that on numerous occasions, certain departments, such as *Public Works Operations*, experience difficulty in fulfilling to the demand for these procurements while still complying with the procurement process as it currently operates. This is because the process cannot always complete a contested procurement quickly enough to meet each department's need and the service specification. This means that it is likely that in these situations the City may be paying higher rates and fees for the contracted services than it would had they been formally contested.

It may be possible to drive better contractual terms to help realize conservative cost savings of between 2-3% in this channel by either improving the process (for example using Lean techniques) or training departmental staff to execute it while complying with the policies and procedures in place. Focusing on *Public Works Operations* contracts alone might help realize \$30k to \$40k as a significant proportion of these contracts may have the potential to be awarded at more competitive rates. This would require the introduction of a shorter lead-time and more agile procurement process that would support the departments with their many low value and frequently procured contracts as they run more competitive bids. Given the current focus of the City on Lean training and programs, the City may wish to apply a Lean improvement study to this process.

¹ Addressable costs are purchases that have the potential to be reduced (e.g. travel, consultant services) as opposed to non-addressable costs (e.g. small enterprise business center expenditures)

Purchases over \$50k

To help us understand the balance of purchases over \$50k (\$37.4m) we briefly reviewed all FY18 operating contracts above \$200k in value; 32 contracts with 29 vendors. The face value of the contracts was \$15.6m with a spending of a total 40% on materials, and 60% on services.

As a result of the review, we were able to form a number of key observations on how the City establishes and manages its operating contracts:

1. The City currently does not consistently specify how vendors should perform, track and manage their contractual delivery to help ensure performance compliance (using spend, quality and timeliness KPIs for example).
2. None of the contracts reviewed included consistent and clear terms on rebate or discount or early payment terms.
3. Many contracts are stored in hard copy locally and are therefore difficult to retrieve and analyze when needed.

The City may wish to consider treating its operating contracts in a similar fashion to its capital contracts to help address points 1 and 2 above, where these principles are generally well established:

- *Negotiating discounts and rebates:* These drive more favorable pricing for variable demand contracts where spending is ultimately greater than initially contracted for. Our estimate of the potential saving is between \$265k - 540k based on assessing the sample contracts such as fuel, wastewater, materials and labor, winter maintenance trucks. We then extrapolated the findings to the total PO value of FY18 spending for contracts over \$50k.
- *Establishing early payment terms:* Often the early payment of invoices can be used as a tool to help secure a small discount. Our estimated saving here is between \$75k - 150k based on a 1-2% discount, obtained from about 20% of the overall spending for purchases over \$50k. Making this change would require a business case and may need the Accounts Payable processes to be improved in order to respond to a shorter payment lead-time. Given the current focus of the City on Lean training and programs, the City may wish to consider a Lean study on the Accounts Payable processes, if its lead time average and process spread are unable to meet tighter and shorter payment targets.
- Training staff involved in the procurement process in key principles (e.g. RFP process, risk tolerance, discounts and rebates, performance standards and negotiation) is critical to help ensure the accountability of decisions made and the operational integrity in tightening the overall procurement and contract management process.

As SAP is implemented, contracts should be linked to each vendor, with vendor performance tracked in aggregate using KPIs linked to stronger performance clauses, rebates and discounts, as appropriate. If vendor spending can be viewed in aggregate, it would then be possible to consider requesting vendors to offer additional favourable terms and discounts where City spending is increasing significantly. This is a well established vendor management practice. We are unable to estimate the benefit of taking this approach within the scope of this work given the lack of data currently available.

Other observations

While the scope of our review is limited to non-personnel spending we make the following additional observations:

Revenue Enhancement

We noted that:

- Parking enforcement officers don't currently have scheduled and standardized routes. Each parking control officer maintains their own routes and therefore the number of parking violations discovered and tickets issued vary significantly by officer. There may be an

opportunity to confirm how routing and shifts should be set and managed to help drive revenues and manage costs.

- Other opportunities include: the collection of outstanding provincial offence fines, review of theatre rental fees charged, fees for removing sites from heritage listings, and the potential implementation of paid parking at certain parks and facilities.

We also note that the City is not able to keep up with demand for civil marriage ceremonies. Neighbouring municipalities such as Markham and Vaughan offer a more comprehensive service and are generating significantly more revenue.

Another area for the City to consider is to preform an analytical review of current indirect taxes paid to ensure the correct allocation of the City's activities in relation to input tax credits ("ITCs") and rebates. The misapplication of complex accounting rules for indirect tax could lead to significant under or over statement of recovery. Identifying excluded assets (e.g. capital properties), single used inputs (i.e. all or nothing rule), multi-use inputs (partial ITCs/rebates), and any remaining inputs (residual inputs) is key to uncover savings related to expensed recoverable taxes.

Matching the supply of staff with demand

The City along with many other municipalities has a significant portion of employees who are or will become eligible for retirement in the next few years. Aligning hiring with demand and the need to replace leavers is key to managing overtime, which is a significant expense. This is something that the *Fire and Emergency Services* Division is especially impacted by as the lead-time for hiring firefighters can be longer than four months and if the sequencing is not carefully managed, overtime costs can increase.

In addition, the City may wish to understand drivers for absences and consider changes, for example to shift schedules, which can drive a significant implications on wellness and overtime.

Roadmap

The City has a continuous improvement mindset and is already planning and executing initiatives to help drive the efficiency and effectiveness of the City in addition to delivering its day-to-day operations and key strategic objectives. It is therefore important that a roadmap is developed to prioritize the opportunities identified in this report along with the priorities already established by the City. This activity is beyond the scope of this Review.

Another important consideration is the City's digital transformation. A number of the opportunities will be supported by the adoption of new technological capabilities such as the new enterprise resource planning system (SAP)¹ as well as other systems and projects (e.g. EnerGov implementation, document scanning technology, etc.). The implementation timelines within the roadmap have therefore been informed by these system implementation timelines.

To help the reader understand the potential sequencing and timing in the roadmap overleaf we have presented our recommendations under three categories:

1. Opportunities that are actionable today and can largely be executed within current budgets and using current processes and systems. Eight of the top 12 opportunities (those with potential annual savings greater than \$50k) fall into this category. The total potential saving range for these opportunities is \$0.65m - 1.3m. Such potential savings can largely be realized in the short to medium term. These opportunities tend to have low to moderate risk and complexity and short to medium-term implementation timelines.
2. Opportunities requiring further review and consideration that may require a change in policy, significant process changes, systems support or broader cross-municipality agreement. Four of the top 12 opportunities as well as procurement, vendor and contract management are in this category. The total potential saving range for these opportunities is \$0.95m - 1.77m. These opportunities tend to have moderate risk, moderate to high complexity, and medium to long term implementation timelines. They also require the City to perform research/studies to determine whether it should proceed with each opportunity.
3. Considerations for improving control are overarching themes that impact City-wide operations. The application of business cases and benefits realization, devolving budgets and the expansion of Lean are included in this category. The City will need to consider which themes are most important and how they help support the City's future vision.

We present a roadmap for implementation.

¹ With respect to the SAP implementation, it is our understanding that many of the HR capabilities (e.g. learning management, performance and goal management, labour relations, etc.) are expected to be implemented by early 2020. Cash management and business planning capabilities are expected to be ready for May of 2020. Financial report capabilities, which will be important in implementing recommendations around procurement and contract management, will be ready by the end of 2020.

Non-Personnel Budget Review – City of Richmond Hill

Legend Process Technology People / Readiness System Milestones Decision Points

	Year 1	Year 2	Year 3
System Implementation Timelines	SAP Learning management SAP Succession planning SAP Business planning EnerGov launch	SAP Financial and management reporting SAP cost types / service budgeting	
Opportunities actionable today			
Opportunity 1 Better match quantity of salt purchased with demand	Amend quantity in contract		
Opportunity 4 Implement energy saving projects	Refine and prioritize programs	Develop action plan, implement programs	
Opportunity 5 Implement monitoring and analysis on water consumption	Update monthly report	Perform leak detection study	Perform ICI audit, implement recommendations
Opportunity 6 Identify and consolidate redundant software and hardware	Review and update IT roadmap	Decommission software and hardware	
Opportunity 7 Reduce document printing in the City's operation	Update guides and brochures	Launch awareness campaign	Migrate documents, reduce storage
Opportunity 9 Move discretionary notices/advertising in newspaper to digital	Develop and send communications	Configure website page and launch	
Opportunity 10 Move the City onto the Region of York data communications contract	Identify facilities and move to Region of York provider		
Opportunity 12 Perform an analysis of the effectiveness and efficiency of events	Analyze events through framework	Communicate changes	
Opportunities requiring further review and consideration			
Opportunity 2 A) Better match fire dispatch fees to service costs B) Amalgamate fire dispatching	Develop alternative fee structures	Discuss with user municipalities	Negotiate and update contract
	Support amalgamation study, review findings	Develop implementation plan	Amalgamate fire dispatching services
Opportunity 3 Review use of City owned properties and decommission surplus property	Develop framework, assess properties	Decommission or dispose of properties	
Opportunity 8 Implement a formal corporate wide policy around cell phones and desk phones	Review desk phone usage, decommission phones		
	Review and develop a corporate wide policy	Implement new processes and policies	
Opportunity 11 Match complex planning application service fees to the cost of providing the service	Develop plan for costing study	Perform study	Distill results, update fees
Improve procurement – purchases less than \$10k	Perform spending analysis on known opportunity areas	Configure reporting in SAP	Perform analysis
Improve procurement – purchases \$10k to \$50k	Review processes, use Lean resources	Distill findings, update processes	Communicate changes, provide training
Improve procurement – purchases greater than \$50k	Apply quick win contract management best practices	Centralize contract management	Configure vendor master and reporting in SAP
		Implement vendor management best practices	
Considerations for improving control			
Use of devolved budgets	Identify applicable service areas	Manually develop devolved budgets	Configure cost tags and reporting
Business cases and benefits realization	Develop processes, templates, and performance measures	Communicate changes, provide training	Automate and implement devolved budgeting
Expanding Lean initiative	Review opportunities and existing initiatives	Develop plan for use of Lean resources	Assign resources, communicate initiatives

Decision Points:

- 1) Depending on conversations with user municipalities, the City will need to gauge whether it is possible to change the structure of user fees charged to user cities.
- 2) Depending on findings from the fire dispatching services amalgamation study and consensus from other municipalities, the City may choose to move forward with amalgamation.
- 3) Following the assessment of properties, the City will need to determine whether it should decommission properties.
- 4) Following discussions with City leaders, a decision will need to be taken on how to implement the cell phone policy (i.e. grandfathered approach or not).
- 5) Based on the output of the study, the City will need to decide whether it should change the fees and the amount to charge.
- 6) Once the reporting capability is enabled in SAP, the City will need to decide the changes to be made to the current procurement process
- 7) The City will need to decide the updated needed to the current process and how to implement the changes.
- 8) Following the centralization of contract management, the City will need to decide how to utilize and configure the vender and contract management function and reporting tools in SAP to tailor it to the City needs.

System Milestones:

- 1) The EnerGov system will need to be implemented for documents to be migrated to digital.
- 2) Reporting capabilities, through SAP, will be required to analyze minor spending.
- 3) Vendor mapping will need to be configured in SAP to implement vendor management best practices.
- 4) The ability to tag costs by cost type and to divisions within SAP will allow for the automation of devolved budgets.

Appendix A – Project details

Stakeholders interviewed

During the project, 79 stakeholders from across multiple levels and departments were engaged, including Mayor Barrow, Budget Chair DiPaola and Budget Co-chair Beros. Commissioners and directors from each department, and over 50 managers and supervisors were included in the discussions. Interviews were conducted to understand the services provided by each department and their divisions, to review historical financial trends and baseline data, and to discuss best practices and bottlenecks in current operational practices. The information collected was used to identify opportunities for improvement as well as to develop feasible recommendations for implementation.

All stakeholders interviewed are listed in the table below:

Department	Title	Name
N/A	Mayor of Richmond Hill	Dave Barrow
N/A	Deputy Mayor/Regional and Local Councilor	Joe DiPaola
N/A	Ward One Councilor	Greg Beros
Corporate and Financial Services	Commissioner of Corporate and Financial Services	Mary-Anne Dempster
Corporate and Financial Services	Director of Human Resources	Sherry Adams
Corporate and Financial Services	Director of Financial Services and Treasurer	David Dexter
Corporate and Financial Services	Manager of Capital and Development Financing	Gigi Li
Corporate and Financial Services	Manager of Financial Reporting	Anna Jovicic
Corporate and Financial Services	Manager of Revenue Services	Cedric Stone
Corporate and Financial Services	Deputy City Clerk	Ryan Ban
Corporate and Financial Services	Chief Information Officer	Anthony Iannucci
Corporate and Financial Services	Manager, Technology Infrastructure	Davis Kwan
Corporate and Financial Services	Director of Legislative Services/City Clerk	Stephen Huycke
Corporate and Financial Services	Manager of Organizational Development and Talent Management	Tricia Myatt
Corporate and Financial Services	Manager of Employee and Labour Relations, Compensation and Recruitment	Dalya Dumrath
Community Services	Commissioner of Community Services	Ilmar Simanovskis
Community Services	Director of By-law & Licensing Enforcement	Tracey Steele
Community Services	Manager of Event Services	Christine Morgan
Community Services	Manager of Aquatics & Fitness	Melanie Baker

Department	Title	Name
Community Services	Manager of Recreation Programs	Lauren Steckley
Community Services	Manager of Cultural Services	Karin Ash
Community Services	Theatre Manager	Michael Grit
Community Services	Director of Recreation and Culture	Darlene Joslin
Community Services	Manager of Marketing & Administrative Services	Donald Hearn
Community Services	Director of Public Works Operations	Grant Taylor
Community Services	Manager of Parks Operations	Jeff Stewart
Community Services	Manager of Fleet and Supplies	Anthony Lott
Community Services	Manager of Road Operations	Bob Levesque
Community Services	Supervisor of Parks Services and Horticulture	Matt Mintz
Community Services	Manager of Water & Wastewater	Diogo Oliveira
Community Services	Fire Chief	Steve Kraft
Community Services	Deputy Fire Chief - Operations	Bryan Burbidge
Community Services	Deputy Fire Chief - Support Services/CEMC	Brian Ellsworth
Community Services	Chief of Prevention	Randy Pyle
Environment and Infrastructure Services	Commissioner of Environment and Infrastructure Services	Italo Brutto
Environment and Infrastructure Services	Director of Corporate Asset Management and Environment Services	Terry Ricketts
Environment and Infrastructure Services	Manager of Energy and Waste	Vlad Gaiu
Environment and Infrastructure Services	Manager of Corporate Asset Management	Grace McLenaghan
Environment and Infrastructure Services	Manager of Natural Environment	Ann Marie Farrugia
Environment and Infrastructure Services	Manager of Water Resources	Jeremy Wychreschuk
Environment and Infrastructure Services	Director of Infrastructure Delivery Services	Paolo Masaro
Environment and Infrastructure Services	Manager of Capital infrastructure planning and PMO	Lucius Maitre
Environment and Infrastructure Services	Manager of Construction	Doug Morris
Environment and Infrastructure Services	Director of Facility Design, Construction and Maintenance	Nick Kalyvas
Environment and Infrastructure Services	Manager of Facility Engineering Services	Alexander Mandatori

Department	Title	Name
Environment and Infrastructure Services	Manager of Facility Design and Construction	Steve Morgan
Environment and Infrastructure Services	Manager of Facility Maintenance	Luciano Iacobucci
Environment and Infrastructure Services	Financial Management Advisor	Michael Lam
Office of the City Manager	City Manager	Neil Garbe
Office of the City Manager	Director of Strategy, Innovation and Engagement	Meeta Gandhi
Office of the City Manager	Manager of Strategy and Government Relations	Lise Conde
Office of the City Manager	Manager of Access Richmond Hill	Dayna Alexander
Office of the City Manager	Manager of Communication Services	Kathleen Graver
Office of the City Manager	Manager of Service Innovation	Leah Zilnik
Office of the City Manager	City Solicitor	Antonio Dimilta
Office of the City Manager	Manager of Risk & Insurance	Lucy Montalbano
Office of the City Manager	Assistant City Solicitor	Andreea Adari
Office of the City Manager	Assistant City Solicitor	Glyn Onizuka
Office of the City Manager	Assistant City Solicitor	Carlton Thorne
Planning and Regulatory Services	Commissioner of Planning and Regulatory Services	Kelvin Kwan
Planning and Regulatory Services	Director of Policy Planning	Patrick Lee
Planning and Regulatory Services	Director of Development Planning	Gus Galanis
Planning and Regulatory Services	Director of Development Engineering	Dan Terzievski
Planning and Regulatory Services	Manager of Transportation	Richard Hui
Planning and Regulatory Services	Manager of Development Engineering, Subdivisions and Stormwater	Jeff Walters
Planning and Regulatory Services	Manager of Inspections	Scott Simpson
Planning and Regulatory Services	Manager Development Engineering Site Plans Infill and High Rise Construction	Paul Guerreiro
Planning and Regulatory Services	Supervisor of Plans Examination	Chris Burns
Planning and Regulatory Services	Supervisor of Policy, Legislative & Regulatory	Alek Antoniuk
Planning and Regulatory Services	Director, Regulatory Services/Chief Building Official	David Finbow
Planning and Regulatory Services	Manager of Sustainability	Maria Flores
Planning and Regulatory Services	Manager of Policy Planning	Sybelle von Kursell
Planning and Regulatory Services	Manager of Urban Design	Joanne Leung

Department	Title	Name
Planning and Regulatory Services	Manager of Park and Natural Heritage Planning	Michelle Dobbie
Planning and Regulatory Services	Manager of Development - Subdivisions	Denis Beaulieu
Planning and Regulatory Services	Manager of Development - Site Plans	Deborah Giannetta
Planning and Regulatory Services	Manager of Development - Zoning	Salvatore Aiello
Planning and Regulatory Services	Supervisor of Support Services	Judith Goodwin-Hall

Interviews and workshops conducted

As mentioned in the previous section, City staff were closely involved throughout the project. After initial interviews, potential opportunities were identified and were further refined through follow-up discussions. As the opportunities were refined and quantified, validation meetings were held with each department and the feasibility of each opportunity was confirmed.

Throughout the project, two progress update meetings were held with the executive team. In the first meeting, we outlined the project progress and presented a summary of high level findings. In the second meeting, we presented the validated list of opportunities as well as findings from the procurement and contract analysis conducted. Additionally, ad hoc meetings were held with the steering committee to discuss items such as project status and data requests. On a weekly basis we provided a project status update to the executive team.

The following is a summary of data reviewed and the various forms of stakeholder engagement conducted:

Number Accomplished	Activities	Detail
60+	Data sets / documents reviewed	Examples include material contracts, historical purchases through corporate cards, the City's corporate energy plan, service level agreements, FY20 efficiency report, procurement policies and processes, IT roadmap, etc.
26	Financial documents analyzed	FY16 to FY18 actuals by department FY18 and FY19 draft budgets by department
24	Initial interviews conducted	Meeting with Mayor Barrow Meeting with Councillor DiPaola and Councillor Beros Five commissioner meetings 17 meetings with managers
35+	Follow-up discussions held	Various discussion with directors and managers
6	Validation meetings held	One or more validation meetings with each department
5+	Steering committee meetings held	Held bi-weekly and ad hoc updates to discuss various aspects of the project
2	Progress updates held	Meeting with executive team and project leads

Appendix B – Detailed timeline

The project kicked off on September 12. The detailed work plan was developed and agreed to in the following week. The following seven weeks were dedicated to collecting and analyzing information, holding interviews and workshops, identifying potential opportunities, and validate and quantify the opportunities. This final report was shared and aligned on by the executive team.

Activities	September			October			November					
	9	16	23	30	7	14	21	28	4	11	18	25
For the week starting:												
Phase 1: Launch project												
- Kick-off meeting	■											
- Develop and agree on Workplan	■											
Phase 2: Review baseline and financial trends and prepare for meetings and workshops												
- Data analysis on actual and budget data		■	■	■		■						
- Jurisdictional benchmarking			■	■								
Phase 3: Confirm spending trends, confirm initial and identify additional opportunities												
- Interviews with City Staff, Mayor and Budget Committee Chair and Vice-Chair		■	■	■	■							
- Identify preliminary opportunities			■	■	■							
Phase 4: Validate and quantify opportunities												
- Review contracts and procurement processes/spend					■	■	■	■				
- Validate opportunities						■		■				
- Quantify cost savings for identified opportunities							■	■				
- Prioritize opportunities							■	■				
Phase 5: Prepare recommendations and draft report and remaining deliverables												
- Summarize recommendations							■	■	■			
- Develop high level roadmap for implementation							■	■	■			
- Present draft report for review									■			
- Present final report to ELT										■		
- Present final report to City Council												■
Overall: Project management												
- Weekly project progress update report to Project Leads	■	■	■	■	■	■	■	■	■	■	■	■
- Bi-weekly project status calls with Project Leads		■	■	■	■	■	■	■	■	■	■	■
- Monitor project budget and schedule	■	■	■	■	■	■	■	■	■	■	■	■

Appendix C – Other cost reduction opportunities (<\$50k)

As part of this review, the potential annual savings of opportunities were quantified. The top 12 opportunities, which each have greater than \$50k in potential annual savings, have been discussed in detail in the *Opportunities and recommendations* section of this report. Opportunities related to cost reduction and cost recovery with potential savings less than \$50k are outlined below:

Non-personnel opportunities with potential annual savings between \$10k and \$50k

Status <i>To be planned, Planned, Being implemented</i>	Service	Opportunity Description	Opportunity Rationale
To be planned	By Law and Licensing	Optimize and standardize bylaw officer routes	Bylaw officers handle between 200 to 300 requests annually, which each request requiring multiple visits. There is an opportunity to optimize scheduling of visits to reduce time spent driving. If the scope of work that bylaw officers handle is expanded, there is further opportunity to optimize scheduling (i.e. visits in close proximity that would have been done by two separate officers can be given to one officer). This should result in reduced mileage costs as well as a potential reduction in overtime and part time costs. There may be an opportunity to work with Public Works to use GPS technology for scheduling.
Being implemented	Animal Services	Find a more cost effective animal services provider and ensure the agreement incorporates contract best practices	The current animal services contract is expiring at the end of 2019. There is an opportunity to explore other options available (e.g. insourcing the work, partnering with another municipality, etc.). There is also an opportunity to include performance measures in the agreement and incorporate contract best practices to ensure greater accountability over the provider.
Planned	By Law and Licensing	Only send registered mail when it is mandated	Currently all mail is sent as 'registered mail' which costs approximately 3x as much as regular mail. There is an opportunity to review the type of mail sent out by the Division and only send registered mail when it is mandated.

Status <i>To be planned, Planned, Being implemented</i>	Service	Opportunity Description	Opportunity Rationale
To be planned	Operations - Fire	Assess the location and condition of current fire stations	New fire stations have been created as the City grows, with locations being constrained by City properties available at a given point in time. There is an opportunity to review fire service locations and assess the physical condition of the facilities. This will help to identify if the current locations are being optimized and if the current facilities are operationally efficient (i.e. feasibility for future upgrades etc.). This review will also help to identify locations for future stations.
To be planned	Operations - Fire	Amalgamate fire services with nearby cities	Currently, each municipality provides fire services independently and offers support to nearby municipalities as required (e.g. emergency, special skillset required, etc.). There is an opportunity to amalgamate fire services within York Region, which will avoid potential capital expenditure (e.g. the 7th fire station that Richmond Hill is planning to build is near the border with Stouffville which does not have a fire station in the area). The amalgamation could also reduce operating costs through a shared resources model.
To be planned	Energy and Waste	Enhance utility usage reporting to increase accountability	Monthly reports of actual usage and trend comparison to previous year consumption are provided to facilities. Additional metrics can be included in the monthly reporting to allow facility operators to compare energy consumption to comparable facilities. This will enhance the reports as a benchmarking tool to initiate discussion around best practices as well as provide awareness of energy saving progress.
Planned	Parks Design	Establish standards for the design and material used in park related infrastructure projects	Currently, the City's Material, Standards and Specifications Manual needs to be updated to include other business structures. A business case has been brought forward to update the standards and extend the scope. The standards will provide guidelines for City infrastructure designs and material used to avoid over engineering and reduce proprietary components. The unified infrastructure will reduce the costs of operation and maintenance.

Status <i>To be planned, Planned, Being Implemented</i>	Service	Opportunity Description	Opportunity Rationale
<p>To be planned</p>	<p>Public Works Operations & Waste Management</p>	<p>Better match fees to the cost of providing recycling and green bin replacements</p>	<p>The City offers a life time warranty for Richmond Hill labeled recycling and green bins. There is an opportunity to apply a recovery fee at a discounted rate for future replacement. This will also reinforce change of behavior for citizens to potentially reduce the frequency of replacing the bins.</p>
<p>Planned</p>	<p>Facility Operations</p>	<p>Engage all stakeholders to continuously roll out the Service Level Agreement</p>	<p>The Service Level Agreement between Environment and Infrastructure Services (EIS) and Community Services outlines responsibilities for facility repair and maintenance. It also establishes service level standards and procedures. This agreement has been successfully rolled out to approximately 80% of City properties that have onsite facility operators. There is an opportunity to continue rolling out the agreement to all properties. This will enable facility operators to handle non-technical repairs and maintenance in a timely manner, EIS to focus on technical services, and the City to avoid costs for external contractors. In cases where a facility does not have a full-time onsite operator, a shared services model can be used with nearby facilities.</p>
<p>To be planned</p>	<p>Financial Planning & Capital Financing</p>	<p>Implement service based budgeting for priority areas</p>	<p>Current budgets may provide limited transparency into the full cost to provide a service. This can limit the ability to make decisions around how the service should be performed. There is an opportunity to identify service areas for which it makes sense to use service based budgeting (e.g. recreation programs). Coding functionality within SAP could be used to automate service based budgets, however this is a broader theme/initiative and is a long term solution.</p>
<p>Planned</p>	<p>Insurance Risk Management Program</p>	<p>Consider obtaining an actuarial review prior to each contract renewal</p>	<p>There is an opportunity to reduce insurance premiums by increasing deductibles which can result in cost savings. Determining this optimal level requires an actuarial review. There is an opportunity to do an actuarial review, based on changes to market conditions, before each contract renewal.</p>

Status <i>To be planned, Planned, Being implemented</i>	Service	Opportunity Description	Opportunity Rationale
Planned	Insurance Risk Management Program	Review capital plans to determine whether a full appraisal should be conducted	Historically there has been an on-site appraisal of City properties performed every 5 years. In 2019, a desktop appraisal was used as there were no major changes/additions made to properties. There is an opportunity to assess the frequency of on-site appraisal based on changes made to properties since the last appraisal date as well as the City's future capital plans.
Planned	Strategy, Innovation and Engagement	Expand Lean tools and training and better align resources to projects	The City has made strides in providing Lean training and driving a Lean mindset across all departments. There are currently approximately 140 white belts and 9 green belts within the City. By the end of 2019, 7 process improvement projects will be completed with demonstrated improvements to employee engagement and capacity (lead time and staff effort time). There is an opportunity to expand training as well as continue to build the resources and capacity required to use LEAN at a more transformational level. There is also an opportunity to better align Lean capabilities to projects by targeting priority initiatives and/or services.
Planned	Legal Services	Better match user fees for legal services to the cost of providing the service	Current user fees for services related to reviewing applications, handling of legal matters, etc. have remained unchanged for several years. There is an opportunity to increase fees by 5% to 10% to match inflationary increases and other cost pressures. There is also an opportunity to increase the up-front deposit received to ensure that the City is recovering costs in situations when applications are cancelled mid-process.

Non-personnel opportunities with potential annual savings less than \$10k

Status <i>To be planned, Planned, Being implemented</i>	Service	Opportunity Description	Opportunity Rationale
To be planned	By Law and Licensing	Perform a monthly trend analysis of mileage claims	Bylaw officers currently use their own vehicles and expense their mileage. There is currently no formal internal control process for tracking and reviewing mileage claims. There is an opportunity to do a monthly review and trend analysis of mileage claims. If the scheduling and routing of the officers is also considered, the mileage costs should decrease.
Planned	By Law and Licensing	Provide company vehicles for certain bylaw officers	Bylaw officers currently use their own vehicles to handle requests and claim mileage expense. There was a fleet services study done in 2018, using 2015 data, that found it is generally more cost effective to provide City owned vehicles if the vehicles are driven over 10,000 kms. Given that certain officers drive over 10,000 kms annually (e.g. signs officer drives close to 13,000 kms), these officers should be considered for the provision of City vehicles.
Planned	Parking Control	Change the vehicles provided by the City to parking enforcement officers to a more cost effective alternatives	Parking enforcement officers will be using Ford Explorers as a result of the previous vehicles' (Ford Escapes) lifecycles being significantly reduced due to high utilization. Two of the three vehicles have already been ordered. In many municipalities officers drive smaller, more fuel efficient and more cost effective vehicles. There is an opportunity to select a third vehicle that is smaller and more cost effective. An added benefit would be that some officers prefer to drive smaller vehicles.
To be planned	Event Services	Provide support for the Mayor/Councilor's event team	Currently, the Mayor/Councilor's office organizes events independently from the Event Services team in the <i>Recreation and Culture</i> Division. There is an opportunity to use the resources available within the Event Services team. This will enhance operational efficiency and potentially save operating costs on equipment rental, external support staff and staff overtime.

Status <i>To be planned, Planned, Being Implemented</i>	Service	Opportunity Description	Opportunity Rationale
To be planned	General Programs	Procure bussing services for events and camps with other municipalities	There is an opportunity to work with other municipalities to negotiate better pricing for buses for summer camps and other events.
To be planned	Financial Planning & Capital Financing	Develop more rigorous standards for business cases and use ROI-based business casing when possible	Business cases are currently developed for projects and investment decisions however they are primarily qualitative in nature. There is an opportunity to use ROI-based business casing so that potential cost savings, efficiencies, and other benefits are documented and tracked to ensure that benefits planned are fully realized. The added level of accountability and visibility into projects is expected to reduce project costs and expedite cost savings realization. There is also an opportunity for business cases to have more detailed plans around how resources and time will be re-allocated following project implementation.
Planned	Information Technology	Conduct a license utilization exercise	The IT Division has been updating the Configuration Management Data Base in order to better track licenses. There is an opportunity to review the utilization of IT licenses in order to identify areas for cost savings and cost avoidance (i.e. not renew Licenses that are no longer needed).
To be planned	Insurance Risk Management Program	Expand the delivery of risk training within the City	One of the mandates of the Risk & Insurance team is to provide training to other divisions on how to assess, track, transfer, and mitigate risk. The Division has provided risk training to various teams within Operations (e.g. Park Operations, Road and Sidewalk team, etc.). There is an opportunity to expand this training to Community Services, Procurement, and other groups. The training is expected to raise awareness around how to protect the City from potential liabilities.



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Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: November 26, 2019

Report Number: SRCFS.19.048

Department: Corporate and Financial Services

Division: Financial Services

Subject: 2019 Reserve and Reserve Fund Status
(SRCFS.19.048)

Purpose:

To provide an update on the status of the City's Reserves and Reserve Funds as of June 30, 2019.

Recommendation(s):

That Council receive SRCFS.19.048 for information purposes.

Contact Person:

Gigi Li, Manager Capital and Development Financing, Ext. 6435

Ilan Treiger, Financial Management Advisor, Long Range Financial Planning & Policy, Ext. 2415

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Report Approval:

Submitted by: Mary-Anne Dempster, Commissioner of Corporate and Financial Services

Approved by: Neil Garbe, City Manager

All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner, and City Manager. Details of the reports approval are attached.

Background:

Reserves and Reserve Funds play a very important role in the City's finances, and provide a strong indicator of the City's overall financial health. They are established by City By-laws or through Provincial legislation to provide funding flexibility, mitigate risk, operations uncertainty, and to ensure long-term financial stability of the City. Credit rating agencies consider municipalities with appropriate levels of Reserves and Reserve Funds to be more advanced in their financial planning.

Funds are contributed to the various Reserves and Reserve Funds through the following sources:

Internal funding sources: approved budget contributions, approved Capital Asset Sustainability fee, annual surplus contributions, sale of assets, investment income.

External funding sources: development related charges and fees collected, government grants (e.g. Federal Gas Tax) and donations.

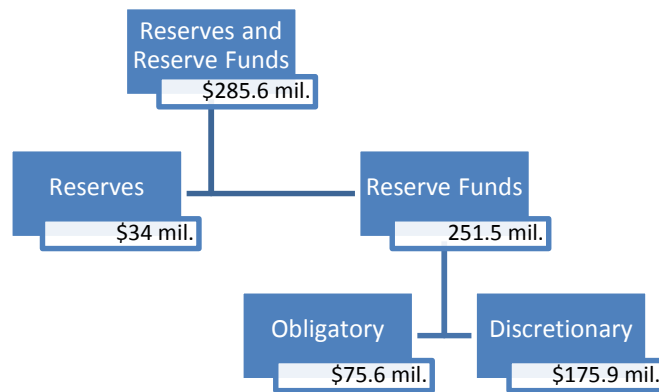
Reserves are allocated at the discretion of Council, often as part of an overall strategy for funding operating programs or projects. They primarily are used to offset against unanticipated expenditures or revenue shortfalls. While Reserve Funds are different from Reserves in that Reserve Fund assets are physically segregated, and restricted by statute or by Council for a specific purpose. Reserve Funds are largely associated with the funding of the City's Capital program, and can be further broken down into Obligatory Reserve Funds and Discretionary Reserve Funds.

As part of the City's long-term financial planning principle and in compliance with the Financial Control By-law, it is necessary to review the financial position of the Reserves and Reserve Funds on a regular basis to ensure appropriate levels and financial sustainability.

2019 Status

As of June 30, 2019, the City had 109 Reserves and Reserve Funds that collectively combined to an uncommitted balance of \$285.6 million. The balances of the two broad categories of Reserves and Reserve Funds are summarized in the chart below:

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Appendix “A” provides definitions of each Reserve and Reserve Fund.

Reserves

Reserves consist of an allocation of revenue set aside through the annual budget or budget forecast at Council’s discretion and are generally used in conjunction with the Operating program. They are not associated with any specific asset and do not retain interest. Historically, interest earned from these Reserves are reflected in the Operating Budget (\$5.8 million budget in 2019). Reserves are further broken down into the following categories: Stabilization reserves (June 30, 2019 balance \$14.7 million), Developer Funded reserves (June 30, 2019 balance \$17.4 million), Other reserves (June 30, 2019 balance \$1.9 million).

Stabilization Reserves

Stabilization reserves are used to mitigate the tax and/or rate impacts from fluctuations in operating costs and revenues or to accumulate funds for future contingent liabilities. The City currently has nine stabilization Reserves totaling \$14.7 million as at June 30, 2019, as shown below:

Stabilization Reserves	June 30, 2019	December 31, 2018
Tax Rate Stabilization	7,383,233	7,822,719
Water Sewage Rate	3,997,048	3,637,048
225 EBC Revenue Stabilization	869,260	867,530
O.M.B	724,304	724,304
Tax Adjustment Stabilization	544,139	544,139
Winter Snow Removal	533,215	533,215
Staffing Training Development	313,204	449,504
Elections	216,463	136,682
Theatre Revenue Stabilization	88,367	69,428
Total	\$ 14,669,232	\$ 14,784,568

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Tax Rate Stabilization Reserve

The Tax Rate Stabilization Reserve represents over 50% of the total balance of all stabilization reserves. It was established to offset extraordinary and unforeseen expenditure requirements and revenue shortfalls to mitigate tax increases. Since 2009, the City has used \$8.1 million to stabilize the tax impact in the Operating Budget. In 2016, Council directed staff to phase out the Growth Rate Stabilization Strategy from the Operating Budget (2020 is the final year of phase out). It is projected the balance of the Tax Rate Stabilization Reserve will fall from \$8.3 million at the end of 2015 to \$7 million at the end of 2019.

Developer Funded Reserves

Developer Funded Reserves capture fees charged for development, which are used to fund development related activities such as inspections, water meters, tree planting, and streetlights. The June 30, 2019 balance for these Reserves was \$17.4 million as summarized in the table below:

Developer Funded Reserves	June 30, 2019	December 31, 2018
Engineering Review Fee	6,561,060	6,541,439
Inspection	5,735,701	5,624,040
Water Meters	1,335,455	1,423,855
Trees	456,173	646,113
Street Signs	558,923	641,077
Park Inspection	506,608	621,608
Administrative / Legal	468,425	554,799
Anti- Tampering Devices	555,730	553,813
Development R&R	508,902	508,902
Monitoring	459,195	477,795
Sewage Inspection	337,231	337,224
Street Lights	(52,680)	(52,680)
Total	\$ 17,430,722	\$ 17,877,984

Other Reserves

Other Reserves include Disabled Parking Fines Reserve and Lake Wilcox Remediation. The June 30, 2019 balance was approximately \$1.9 million.

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Other Reserves	June 30, 2019	December 31, 2018
D.D.O. Woodland Management	1,203,000	1,338,000
Disabled Parking Fines	197,095	197,095
Terrestrial Natural Area Restoration	203,093	178,505
Crosby Park Enhance Reserve	85,427	85,427
Recycling & Green Bin	107,587	54,007
Heritage Centre Donations	16,531	16,531
Yonge St.Comm Rev	10,757	10,757
Ontario Cannabi Legalization	84,168	-
Lake Wilcox Remediation	8,181	9,981
Total	\$ 1,915,839	\$ 1,890,303

Reserve Funds

Reserve Funds differ from Reserves in that Reserve Funds are physically segregated from other assets; all interest earned by the Reserve Funds should be captured and retained within that fund and they are largely associated with the Capital Program. There are two types of Reserve Funds: **obligatory** and **discretionary**.

Obligatory Reserve Funds

Obligatory Reserve Funds are funds received and set aside for specific purposes by legislation, provincial statute or contractual agreements. These funds can only be used for the purposes prescribed. The uncommitted balance in these accounts total \$75.6 million as at June 30, 2019 and is grouped in four main categories: Development Charge (June 30, 2019 balance \$42.8 million), Cash-in Lieu of Parkland (June 30, 2019 balance \$31.6 million), Federal Gas Tax (June 30, 2019 balance (\$2.5) million), and Other Obligatory Reserve Funds (June 30, 2019 balance \$3.7 million).

Development Charge Reserve Funds

As set out under Section 16(1) of the Development Charges Act, these Reserve Funds are comprised of Development Charges collected and their use is restricted to fund development or growth related infrastructure. In 2019 Council adopted new City-wide and Area Specific Development Charges with the next update expected in 2021. The combined balance of these Reserve Funds is \$42.8 million as at June 30, 2019.

Development Charges Reserve Funds	June 30, 2019	December 31, 2018
City Wide Development Charges (Combined)	25,765,290	25,987,422
Area Specific (combined)	17,059,676	17,305,923
Total	\$ 42,824,966	\$ 43,293,345

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Lot Levies and Cash-in-lieu of Parkland

Established as per Section 42 (15) of the Planning Act, for the purchase of new parkland and development of new parks, the Cash-in-lieu of Parkland Reserve Fund has an uncommitted as at June 30, 2019 balance of \$31.6 million. The average annual revenues of \$9.4 million collected since 2009 have been used to fund new parkland, the 10% un-funded portion of growth Outdoor Recreation projects and the portion of theming and sustainable infrastructure in redeveloped parks.

Lot Levies and Cash-in-lieu of Parkland	June 30, 2019	December 31, 2018
Cash-in-lieu of Parkland	31,463,335	30,727,194
Sidewalk	162,502	145,776
Total	\$ 31,625,837	\$ 30,872,970

Federal Gas Tax

Introduced in 2005, the Federal Gas Tax provided Ontario municipalities with a source of stable, predictable and long-term funding towards environmentally sustainable municipal infrastructure. Recent changes to Gas Tax funding expanded the list of eligible capital uses to allow for greater funding towards the City's strategic priorities. The balance as at June 30, 2019 was \$2.5 million. The temporary deficit in this reserve fund is a result of timing differences between allocation of funding and receipt of cash, the second Federal Gas Tax payment is typically received in October/November. It is estimated that the City would receive \$70 million over the 2009-2019 period.

Other Obligatory Reserve Funds

The other Obligatory Reserve Funds totaled \$3.7 million as at June 30, 2019, as indicated below.

Other Obligatory Reserve Funds	June 30, 2019	December 31, 2018
Building Permit Stabilization	3,681,719	4,085,619
Road & Bridge Investment FD	723	723
S.37 Community	-	-
Total	\$ 3,682,442	\$ 4,086,342

Discretionary Reserve Funds

Discretionary Reserve Funds are established by Council for specific purposes, but there are no external restrictions placed on the usage of these funds. The June 30, 2019 balance of \$175.9 million is grouped into the following categories: Tax Supported Repair and Replacement \$41 million, Rate Supported Repair and Replacement \$42.8 million, Hydro \$66.8 million and Other Discretionary Reserve Funds \$25.3 million.

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Tax Supported Repair and Replacement Reserve Funds

There are eight (8) different Reserve Funds in the tax supported repair and replacement category with a combined June 30, 2019 balance of \$41 million.

The Tax Rate Repair and Replacement Reserve Funds provide for repairs and replacement of existing capital facilities and structures in full service and safe operating condition. As with other major municipalities in Ontario, the City is faced with aging infrastructure and population growth resulting in tremendous pressure on the Repair and Replacement Reserve Funds. In 2016, Council approved a 1% contribution from 2016 to 2025 as a capital asset sustainability fee. In order to address the long-term funding pressures, the City has established a Capital Sustainability Committee. The Committee is currently in the midst of a series of consultations to develop a prudent long range capital sustainability strategy. The results of these meetings will inform staff on service levels, and capital priorities continuing into the future. The Committee's review will continue into fiscal 2021, and Staff will report back during the 2021 capital budget process with an updated 10-year forecast and Financial Plan.

The balance of each tax supported Repair and Replacement Reserve Fund is listed in the table:

Tax Supported Repair and Replacement Reserve Funds	June 30, 2019	December 31, 2018
Infrastructure R&R	15,169,956	17,766,234
Capital Asset Continuity	10,418,235	17,602,669
Transportation Network R&R	10,334,492	10,474,862
225 E.B.C R&R	1,769,320	2,310,556
Road Repair	1,249,157	1,251,644
Arena R&R	1,209,640	1,209,640
Theater R&R	674,109	611,166
Cash to Capital	235,851	868,730
Total	\$ 41,060,760	\$ 52,095,501

Rate Supported Repair and Replacement Reserve Funds

There are four (4) different Rate Supported Reserve Funds in the repair and replacement category with a combined June 30, 2019 balance of \$42.7 million. As at June 30, 2019, the balance for the Watermain, Sanitary Sewer, and Watermeter R&R reserves were \$37.4 million, which is meeting the requirement for full provision under the Safe Drinking Water Act.

The Water Quality Protection reserve fund, which provides for the periodic rehabilitation of environmental, and storm water management systems, had a balance of \$5.3 million as at June 30, 2019.

The balance of each rate supported Repair and Replacement Reserve Fund is listed in the table:

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Rate Supported Repair and Replacement Reserve Funds	June 30, 2019	December 31, 2018
Sanitary Sewer R&R	23,312,103	23,169,057
Watermain R&R	13,577,394	12,697,713
Water Quality Protection	5,301,356	9,415,624
Watermetre R&R	538,942	4,235,895
Total	\$ 42,729,794	\$ 49,518,289

Hydro Reserve Funds

In 2003, Council created new Reserve Funds with the proceeds from the sale of the former Richmond Hill Hydro. Three (3) repair and replacement reserves are grouped in the tax rate supported Repair and Replacement reserves. The combined June 30, 2019 balance totaled \$66.8 million.

Hydro Reserve Funds	June 30, 2019	December 31, 2018
Community Enhancement & Vitality	55,142,651	55,141,951
Strategic Rapid Transit Initiatives	8,245,372	8,275,874
Ecological Legacy	3,386,291	3,401,678
Total	\$ 66,774,314	\$ 66,819,503

Ecological Legacy Reserve Fund

This Reserve Fund was established with a \$6 million balance to be used for community based projects for the purpose of furthering ecological initiatives. Initially, Council's approved intent was to maintain the principal. However, given this Reserve Fund was previously the primary source of funding identified for the Emerald Ash Borer (EAB) Management Strategy, the initial \$6 million balance could not be maintained. In 2016, Council directed Staff to protect the remaining principal balance. The principal balance of \$3 million is maintained in the Ecological Legacy Reserve Fund and only the interest earned is available for disbursement.

Community Enhancement and Economic Vitality Reserve Fund

This Reserve Fund was established for capital projects that will enhance the quality of life and enrich the economic vitality of the community. It has been earmarked as part of the equation for funding the phase in of the winter snow windrow removal and public works enhancement program. The June 30, 2019 balance was \$55.1 million.

Other Discretionary Reserve Funds

The other Discretionary Reserve Funds totaled \$25.3 million as at June 30, 2019, as indicated below.

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Other Discretionary Reserve Funds	June 30, 2019	December 31, 2018
Property Divestiture & Acquisitions	10,030,023	10,030,023
Worker's Compensation-WSIB	6,884,972	6,884,972
Yonge St. E&W Boundary	3,909,152	3,909,152
Insurance	1,860,378	1,724,378
Sick Leave	940,142	940,142
Rouge & Don River Watershead	766,715	761,202
Non-Growth Development	421,781	587,737
Payment in Lieu for Parking	443,641	230,595
Public Art Reserve Fund	56,649	46,649
Village of Richmond Hill BIA	23,488	23,488
Elvis Stojko Bursary	4,155	4,155
New Civic Building	3,508	3,508
Mayor's Endowment Art	1,472	1,472
Performances for Int'l Events	550	550
Total	\$ 25,346,628	\$ 25,148,024

Financial/Staffing/Other Implications:

This staff report provides status on Reserves and Reserve Funds. There are no financial/staffing/other implications as a result of this report.

Relationship to the Strategic Plan:

Presentation of the status of the City's Reserve and Reserve Funds demonstrates wise management of resources in Richmond Hill.

Conclusion:

Reserves and Reserve Funds play a vital role in the City's finances. One of the key attributes of financial sustainability is appropriate levels of Reserves and Reserve Funds. It is necessary to review the financial position of the City's Reserves and Reserve Funds on a regular basis to ensure appropriate levels and align their purposes to reflect current priorities. Staff will continue to inform Council regular on the adequacy of the Reserve and Reserve Funds.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. If you require an alternative format, please call contact person listed in this document.

Appendix A: Definitions of Reserves and Reserve Funds

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Report Approval Details

Document Title:	SRCFS.19.048 2019 Reserve and Reserve Fund Status.docx
Attachments:	- SRCFS.19.048 Appendix A - 2019 Reserve and Reserve Fund Status.pdf
Final Approval Date:	Nov 21, 2019

This report and all of its attachments were approved and signed as outlined below:

David Dexter - Nov 20, 2019 - 10:55 AM

MaryAnne Dempster - Nov 21, 2019 - 10:44 AM

Neil Garbe - Nov 21, 2019 - 2:37 PM

APPENDIX “A”

Definitions of Reserves and Reserve Funds

Reserves

Stabilization

- 1) Elections - provides funding to moderate future tax rate impacts due to costs associated with running municipal election.
- 2) Tax Rate Stabilization - used to offset potential tax rate impacts due to unforeseen economic conditions, events or circumstances that would otherwise require excessive tax rate increases to continue delivery of services.
- 3) Tax Adjustment Stabilization Reserve- to stabilize expenses relating to tax adjustments.
- 4) Theatre Revenue Stabilization - to stabilize unexpected and substantial decline in revenues by the Richmond Hill Centre for the Performing Arts.
- 5) Water / Sewer Rate Stabilization - used to offset potential water or sewage rate impacts on the City.
- 6) 225 EBC Revenue Stabilization - to offset net operating losses of 225 EBC due to unforeseen economic conditions, events or circumstances.
- 7) Ontario Municipal Board - used to offset potential tax rate impacts due to OMB hearings that would otherwise require excessive tax rate increases.
- 8) Winter Snow Removal - to fund unforeseen winter conditions, events or circumstances that would otherwise impact the tax rate
- 9) Staffing, Training & Development - to provide funding for future staff training and development.

Developer Funded

- 10) Development Repair & Replacement - to finance repair and replacement of municipal services within the road allowance damaged in construction or development.
- 11) Street Lights - finances the purchase of growth related street lighting equipment and installation on City roads.
- 12) Water Meters - finances the purchase and installation of residential water meters for new homes.
- 13) Street Signs - finances the purchase and installation of signs within new subdivisions.

- 14) Trees - finances the purchase and planting of trees on City boulevards for new lots.
- 15) Inspection - to fund costs associated with design review and inspection of development within the City.
- 16) Administrative & Legal - to fund costs associated with the preparation of development agreements.
- 17) Sewage Inspection - for costs associated with inspection of sanitary sewer systems prior to assumption by the City.
- 18) Anti-Tampering Devices - finances the purchase and installation of devices to secure hydrants during construction.
- 19) Park Inspection - to finance costs related to park inspections.
- 20) Monitoring - to finance costs associated with stormwater management and environmental features monitoring.
- 21) Engineering Review Fees – to fund costs associated with both Site Plan and Subdivision Projects

Other Reserves

- 22) DDO Woodland Mgmt - Funds collected from Corsica Development Inc., pursuant to draft plan conditions applicable to Corsica's subdivision development of the D.D.O. property for woodland management
- 23) Terrestrial Natural Area Restoration – to fund natural area restoration and tree planting
- 24) Lake Wilcox Remediation - to offset potential tax rate impacts for remediation work on Lake Wilcox.
- 25) Yonge Street Commercial Revitalization - to fund the revitalization of the Yonge Street Commercial Corridor.
- 26) Heritage Centre Donations - to finance costs associated with the Richmond Hill Heritage Centre.
- 27) Disabled Parking Fines - to hold fines collected for "Disabled Parking"
- 28) Recycling & Green Bin – To fund the recycling and green bins kits, for site-plans and subdivisions and servicing agreement
- 29) Crosby Park Enhancement Reserve – to provide funding for facility enhancement at Crosby Park

Reserve Funds

Obligatory Reserve Funds

Development Charge Reserve Funds

These reserve funds are collected from developers to fund development or growth related infrastructure.

- 30) Indoor Recreation – 90% Eligible services: Recreation Facilities
- 31) Outdoor Recreation – 90% Eligible services: Outdoor Recreation Services(Parkland Development, Amenities and Trails and Park)
- 32) Fire Services: 100% Eligible Services: Fire Protection Services (Fire Facilities, Fire Vehicles, Small Equipment and Gear)
- 33) Library: 90% Eligible Services: Library Services (Library Facilities, Library Materials)
- 34) General Government – 90% Eligible services: Administration (Study)
- 35) Public Works Yard & Fleet – 100% Eligible Services: Public Works Facilities, Public Works Fleet
- 36) City-wide Engineering – 100% Eligible services: Engineering – Roads and Related; Water

Area Specific Development Charges

- 37) Elgin West
- 38) 19th Avenue
- 39) Bayview N.W.
- 40) North Leslie E.
- 41) North Leslie W.
- 42) Bayview N.E.
- 43) Headford
- 44) Headford – North of Rouge
- 45) Observatory Lane
- 46) Yonge Crosby
- 47) Urban Fringe E.
- 48) Urban Fringe W.
- 49) Oak Ridges Overall

- 50) Oak Ridges Greenfield
- 51) Oak Ridges – Bond Crescent
- 52) Oak Ridges – Douglas
- 53) Oak Ridges – Valley Land
- 54) West Gormley

Lot Levies and Cash-in-lieu of Parkland Reserve Funds

- 55) Road – to fund capital expenditures for new roads. –Do NOT USE- (will close)
- 56) Sidewalk - to fund capital expenditures for new sidewalks.
- 57) Cash-in-Lieu of Parkland - to fund the purchase and development of new parkland.

Federal Gas Tax

- 58) Federal Gas Tax Grant- to hold the Federal Gas Tax Grant until the appropriate time to make use of the funds for its specific purpose.

Other Obligatory Reserve Funds

- 59) Section 37 Community Benefits - to provide funding for facilities, services or matters (community benefits) obtained through height and/or density incentives secured pursuant to Section 37 of the Planning Act within the local community in which the contributing development project is located.
- 60) Building Permit Stabilization – to allow for the provision of funds to guard against future recession as permitted under Bill 124 legislation and any additional costs for reengineering or other costs to meet the mandated service turnaround times required under Bill 124.

Discretionary Reserve Funds

Hydro Proceeds Funded Reserve Funds

In 2003, Council created new Reserve Funds with the proceeds from the sale of the former Richmond Hill Hydro.

- 61) Ecological Legacy - only interest will be used on community based projects for furthering ecological initiatives.
- 62) Community Enhancement & Economic Vitality - for projects that enhance the quality of life or enrich the economic vitality of the community.
- 63) Strategic Rapid Transit - funding long range strategic transit projects which are multi-jurisdictional.

Rate Supported Repair / Replacement Reserve Funds

These reserve funds have been established to provide for the future repair and replacement of various City owned assets

- 64) Watermain R&R – to fund capital expenditures for R&R of watermains as may be approved by Council
- 65) Watermeter R&R – to fund capital expenditures for R&R of water meters as may be approved by Council
- 66) Sanitary Sewer R&R – to fund capital expenditures for R&R of sanitary sewers as may be approved by Council
- 67) Water Quality Protection - periodic rehabilitation of environmental and storm water management systems.

Tax Supported Repair / Replacement Reserve Funds

These reserve funds have been established to provide for the future repair and replacement of various City owned assets

- 68) Road Repair
- 69) Capital Asset Continuity - provide for repairs and infrastructure replacement to maintain existing capital facilities and structures in full service and safe operating condition.
- 70) Infrastructure R&R – to fund capital expenditures for general fleet and equipment, Fire department fleet and apparatus, administration buildings, recreation facilities and park development
- 71) Transportation Network Repair and Replacement - for maintenance of the transportation network.
- 72) 225 EBC R&R – to fund capital expenditures of 225 EBC building as may be approved by Council
- 73) Arena R&R – to fund capital expenditures for arena fleet and equipment, arena buildings as may be approved by Council
- 74) Theatre R&R – to fund capital expenditures for Richmond Hill Centre of Performing Arts
- 75) Cash to Capital – to provide funds for capital projects considered new items not eligible for funding from Development Charges nor Repair and Replacement reserve funds

Other Discretionary Reserve Funds

- 76) Sick Leave - to finance cumulative sick leave gratuities for Fire and Works Departments employees subject to specific labour relation agreements.
- 77) Insurance - to provide for self-insured claims and associated expenses for the operation of risk management.
- 78) Mayor Endowment Art Fund – provides grants for Richmond Hill-based artists and art groups through a grant application review process
- 79) Non-Growth Portion of Development - to finance the non-growth portion of growth related capital projects that are covered by Development Charge Act.
- 80) Payment-in-lieu of Parking - to fund future parking structures or lots within specified areas of City.
- 81) Elvis Stojko Bursary - for bursaries provided to applications to Post Secondary education purposes.
- 82) WSIB - to fund the City's WSIB claims
- 83) Village of Richmond Hill BIA – for contribution towards capital projects within the scope of the Village of Richmond Hill Business Improvement Area and one-time conditions, events or initiatives that would otherwise require an excessive area levy increase as approved by the Richmond Hill Business Improvement Area Board of Management and the Council of the Corporation of the City of Richmond Hill.
- 84) Yonge St. E & W-Boundary- to finance boundary road improvements around Bathurst Street, Yonge Street, Bayview Avenue and part of Gamble Road.
- 85) Rouge River Watershed - to finance quality treatment of stormwater in Rouge River and Don River watershed areas.
- 86) Property Divestiture & Acquisition – to provide for costs incurred in relation to divestiture from City of Richmond Hill surplus property and costs incurred to acquire City of Richmond Hill property not eligible for funding from other sources.
- 87) Public Art – for the acquisition, installation, maintenance, conservation and management incurred in relation to Public Art in the City of Richmond Hill
- 88) New Civic Building
- 89) Performances for Int.'l Events