REPORT OF THE

ALTERNATE SERVICE DELIVERY COMMITTEE

DATED OCTOBER 10, 2000

On motion of Councillor Angus, the Report of the Alternate Service Delivery Committee dated October 10, 2000, was considered clause by clause.

Moved by Councillor Angus,
That the Consent Agenda, Clauses 1 and 2, be adopted.

Carried.

Fleet Services Alternate Service Delivery Feasibility Study
Files GL-5.6.1 (Vol. 4) and S-8 (Vol. 1)

959 - 1. Following the March 20, 1997, adoption of the *Reshaping Our Civic Government* document, direction was given to review Alternate Service Delivery (ASD) options for Equipment and Material Services (EMS) Fleet Services. The study was conducted by KPMG Consultants and prepared in accordance with the *Policy and Framework for Alternative Service Delivery in the City of Winnipeg*, approved by Council on March 25, 1998.

The feasibility analysis was to identify and evaluate ASD option(s) for fleet services (maintenance and supply) within the following parameters:

- Review background information related to equipment supply and maintenance
- Establish a costing baseline – reflecting the status quo as a reference point for evaluating options
- Review specific functions and approaches within the Branch, including:
  - methodology for recovering costs
  - financing equipment replacement
  - information systems and their ability to support best practices
- Review ASD experiences of comparable fleet services
- Identify industry best practices to assess current competitiveness
- Evaluate and recommend the most appropriate delivery option, including preparing a qualitative analysis that considers the impact on customer service, internal processes, and implementation risk.

The review team included Senior Managers, various EMS stakeholders and union representatives from both CUPE and WAPSO. A project team comprised of supervisory and CUPE employee members was also established to gather data and act as a verification unit to confirm current activities and processes.

In 1998, EMS adopted a new enterprise system that incorporated a full cost recovery approach in the provision of its fleet services. Maintenance costs are charged back to the user departments based on real costs that are in line with the industry standard. Currently EMS provides fleet services to its customers through three distinct utility operations: Company 35 Equipment Services, Company 36 Shop Services, and Company 37 Stores Services (outside of the study scope). Fleet maintenance services are provided to a core group of dedicated customers:

- Water and Waste Department
  (Local Water and Sewer, Solid Waste, and Engineering Divisions)
- Planning, Property and Development Services
- Fire-Paramedic Service Department
- Corporate Services Department (Corporate Safety)
- Community Services Department
- Property Assessment Department
- Public Works Department

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Utilizing 1998 costs as a baseline, the feasibility study found that in an overall comparison to other jurisdictions of equivalent size and experience in fleet maintenance and supply, EMS is average or in the "middle of the pack", with fleet maintenance and repair, fuel, and fixed costs, being very comparable to industry standards. In relation to other jurisdictions the EMS fleet was slightly older with a higher portion of equipment such as graders, front end loaders and tandems. Fleets from other jurisdictions were predominantly light fleet such as cars and vans. In establishing benchmarks the study found that the replacement criteria utilized by EMS is also similar to the industry standard.

As part of the feasibility study, a competitiveness analysis was conducted which identified approximately 42 best practices, as described in Appendix "A" hereto, and are in the categories of:

1. Asset Management (Life Cycle Costing)
2. Fuel Management
3. Maintenance and Repair Management
4. Inventory Management
5. Administration

The best practices identified potential savings of approximately $3.0 million dollars, which are summarized as follows (based on the 1998 Budget as a baseline):

IDENTIFIED BEST PRACTICES	COST SAVING ESTIMATE	SAVINGS BENEFACTOR
Asset Management	$1,090,000.00	Fleet Customer and Fleet Entity
Fuel Management	$ 130,000.00	Fleet Customer
Maintenance and Repair	$ 400,000.00	Fleet Customer and Fleet Entity
Inventory Management	$ 380,000.00	Fleet Customer and Fleet Entity
Administration	$1,000,000.00	Existing Fleet Customers
TOTAL	**$3,000,000.00**	

As noted, the estimated savings are not all attributed to the fleet entity. With the implementation of fuel management best practices, the identified savings would be attributable solely as customer savings through the more efficient use of equipment and a reduction in idling time, resulting in less fuel usage.

The savings identified in asset management and life cycle costing would accrue to the fleet entity and flow directly to the customer. In life cycle costing vehicles and equipment are replaced once they have reached their optimum life cycle. This practice eliminates the need for the customer to contribute to equipment depreciation beyond its useful life as is the present practice. Both the customer and the fleet agency save by reducing maintenance costs on equipment that has effectively surpassed its life expectancy.

With the implementation of administration best practices, the feasibility study identified further potentially achievable savings. These would be direct savings to the current customer base of the EMS Division. Administration best practices would allow existing fleet customers to save with reduced overhead costs if the fleet inventory is increased by attracting new customers. The overhead costs can be spread over the larger inventory. Although the study is not explicit in this regard, it is also assumed that by expanding fleet services to additional City departments, real administration savings would accrue to the City overall.

The feasibility study identified one time implementation costs associated with incorporation of the best practices. The investment cost would be in the acquisition of new technology, enhancements to current systems and staff training, etc. With the incorporation of these best practices and their increased efficiencies, EMS would be able to attract a larger customer base by offering its customers lower overall costs, resulting in the global savings as identified in the feasibility study.

Once the best practices were identified, the service delivery options were established and evaluated. The alternative service delivery options selected for evaluation were:

- Status Quo
- Status Quo with Improvements
- Municipal Enterprise Model
- Special Operating Agency (SOA)
- Contracting out all or part of the services

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A description of each of these service options is outlined in Appendix "B" hereto. Each of these service options incorporates varying degrees of the best practices categories and has an associated cost savings.

The incremental savings attributed to each service option compared to the base year costs are summarized as follows (utilizing the 1998 Budget as a baseline):

ASD OPTIONS	POTENTIAL ANNUAL SAVINGS	ONE TIME INVESTMENT COST
Status Quo	$ 0.00	$ 0.00
Status Quo with Internal Improvements	$1,500,000.00	$100,000.00
Municipal Enterprise Model	$2,000,000.00	$200,000.00
SOA	$3,000,000.00	$500,000.00

All options were evaluated using a balanced scorecard approach, which considered the following perspectives: customer, stakeholder, process/service, organization and people, financial, and implementation risk. It was determined that the SOA model would provide the best mix of direct service and efficiency. The SOA option was also the only service delivery method in which all the established best practices could be incorporated to achieve the most efficient organization.

Although not noted in the table above, the evaluation conducted showed contracting out appeared to be the least attractive option with significant potential for increased costs. The Consultant outlined a significant range of financial outcomes, estimated to be increased costs of at least $1.2 million and possibly as high as $12 million. To arrive at this conclusion a comparison was conducted to evaluate EMS costs to the lowest long term lease rates available. The lowest and highest total operating and maintenance costs for the EMS fleet were compared to the lowest lease rates. The cost differences between the lease rates and the total operating and maintenance costs resulted in an additional cost to the City compared to the 1998 base year.

The evaluation of the contracting out option concluded that, regardless of contributing variables including the age of the fleet, it was more cost effective for the City to own its fleet. In addition to the increased costs for this option, the loss of control to an external company, a potential to be held captive at the time of renegotiation, and a significant negative impact on staff, were also identified as dissenting characteristics of this model.

It must be recognized that the potential savings defined by the Consultants are only estimates utilized exclusively to provide direction regarding the overall most appropriate delivery option. Further, the projected savings would only be realized once the fleet services area was a fully operational SOA and all identified best practices have been implemented. The Fleet SOA alone would not realize the total of these potential savings. All of the savings would be shared and passed onto its customers. The future refinement of savings can only be quantified during the preparation of a comprehensive Business Plan for an SOA option.

It should be noted that in parallel with this feasibility study process, the EMS 2000-2003 Budget has incorporated savings that will be realized through the ongoing downsizing of the fleet, the reduction from seven repair facilities to four and the corresponding reduction in staffing levels, the continued modernization of the fleet and the anticipated reduction in repair costs. These measures, along with the addition of evening shifts, and the incorporation of performance standards along with a standardization of repair rates have already resulted in an approximate $600,000.00 savings to the Division compared to 1999. There is still opportunity to realize more of the suggested savings and it is believed, based on the results of the feasibility study, an SOA is the best means of achieving these savings.

The critical success factors necessary for a Fleet SOA model to excel and achieve its vision and objectives are:

- being recognized as the "fleet manager"
- acquiring "ownership" of the fleet
- maintaining a dedicated customer base for a specified period of time
- becoming one financial company
- having active executive sponsorship for a potential SOA of this size and scale
- having authority to establish clear guidelines for the replacement of equipment, as well as to access funds for equipment replacement consistent with identified best practices, i.e., life cycle costing, maintenance and repair, etc.
- having administrative freedom to increase the customer base (external and internal to the City)

All of these principles and their implementation impact on the organization, staff, internal processes, and finances will be considered in detail in the development of the Business Plan and Operating Charter for the Fleet SOA.

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Further, the scan of other jurisdictions conducted by the Consultants identified that SOA fleet management models experienced increased employee and customer satisfaction. EMS and its core customers have identified service, quality, responsiveness and cost as critical to the creation of an effective fleet management entity. The increased administrative flexibility of an SOA model would allow for competitive pricing, ensuring EMS's capacity to provide cost effective service to its customers.

The SOA option is congruent with several of the City of Winnipeg's objectives of ensuring the best value for the municipal tax dollar, and achieving the optimal balance of overall benefits to the City and the community. The City of Winnipeg's vision of "doing more with less", and its creation of a more entrepreneurial form of government would also be met with a transition to an SOA model for the provision of fleet services.

The Fleet SOA would allow for improved efficiencies in the provision of fleet services by allowing the fleet entity the necessary discretion to rationalize the fleet size, the mix and usage of equipment and vehicles, to acquire vehicles and equipment that are multi-purpose and year round with the lowest cost of total ownership, and the fleet entity would be able to implement capacity planning leading to a more effective scheduling of facilities. The creation of an SOA for fleet would ensure that policy and direction are aligned to the City, but program implementation would be the responsibility of the SOA, a discrete, accountable business unit.

A risk identified in the feasibility study was the loss of customers. Due to the magnitude and scope of establishing a Fleet SOA a lengthy time period will be required to augment the revenue and volume of business in the process of becoming a viable agency. In the case of the proposed SOA, customers would only be held captive during the transition period, after which they would be allowed to opt out of the service by preparing business cases for the selection of other fleet management suppliers. Maintaining a dedicated customer base for the initial start-up period is a critical success factor in the future viability of the recommended SOA. The future viability of EMS as a fleet manager and its potential transition to an SOA will depend on the maintenance and continued loyalty of its current dedicated customer base. As EMS develops a sustainable and cost effective fleet management model for the future, it must ensure that its core customer base does not opt out of the service.

The feasibility study identified ownership of the fleet as a critical success factor in the creation of a viable SOA. The Consultant's report recommends that for successful implementation of the identified best practices, and thus the accruement of the associated savings, the fleet entity must own the fleet. As an SOA the fleet organization would own the fleet and develop service agreements with its customers to lease back the equipment. Ownership of the equipment would allow the fleet entity to standardize the fleet, rationalize the fleet size and mix, and control the usage and costs of equipment.

Currently, the Equipment Replacement Reserve Fund may be used for purposes other than replacement of equipment. In an SOA model, the Charter would stipulate the use of the Fund solely as a financing source for the replacement of equipment. The rules governing the administration of the Fund would ensure that the fleet management entity would have the capacity to replace equipment at the optimal time which is in keeping with the identified best practices in the area of asset management. The Equipment Replacement Reserve fund is currently being reviewed by the Corporate Finance Department and the fleet customers. The Business Plan for the Fleet SOA will be reflective and congruent with the principles established through the review process for the replacement of equipment.

The SOA model would implement the administration best practices that would include a marketing component that would allow it to increase its overall customer base. The SOA's ability to increase its customer base internally and externally, will be a crucial factor in its capacity to meet the projected additional $1 million dollars savings identified in the Consultant's report. With the implementation of the administration best practices any accrued savings would result in a reduction in costs to the SOA's customers as overhead costs would be spread over a larger customer base.

Due to the magnitude of this proposal, sufficient time will be required to adequately deal with, and evaluate all potential implications. These would include all the identified critical success factors and required development of financing initiatives to ensure the success of a Fleet SOA. Once prepared, the Business Plan will provide a full financial impact of the proposed SOA, including the development of financing initiatives for the various areas of the agency.

The Alternate Service Delivery Committee therefore recommends:

I. That the Equipment and Material Services (EMS) Division of the Public Works Department prepare a Business Plan and Operating Charter for the provision of Fleet Management Services as a Special Operating Agency (SOA).

II. That the Business Plan and Operating Charter be premised on the following principles:

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A. The SOA maintain the existing dedicated customer base for a period of three years.
B. The SOA assume ownership of the fleet of its current customers.
C. The SOA have authority to access the Equipment Replacement Reserve Fund as a financing source for the replacement of equipment.
D. The SOA have the authority to increase its customer base both internally and externally.

III. That the Director of Public Works begin a recruitment process for a Chief Operating Officer (COO) for the proposed Special Operating Agency.

IV. That, following the recruitment process, the newly appointed Chief Operating Officer (COO) of the SOA be directed to prepare the afore-mentioned Business Plan and Operating Charter, for consideration by Council no later than June 2001.

V. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing, including the execution of any documents related thereto.

A copy of the documents referred to in the above clause are on file in the office of the City Clerk.

Adopted by consent.

Communications Systems Branch (Radio Shop) Alternate Service Delivery Feasibility Study
Files GL-5.6.1 (Vol. 4) and GP-1.30 (Vol. 1)

960 - 2. On February 24, 1999, Council approved a list of fifteen potential ASD initiatives to progress to the next phase of development as outlined in the *Policy and Framework for Alternative Service Delivery in The City of Winnipeg*. The Communications Systems Branch (CSB) was one initiative approved to proceed to develop a feasibility study.

CSB, often referred to as the "Radio Shop", is a business area that is presently a branch of the Corporate Services Department. The Branch has the corporate responsibility to provide radio communications services, telephone related communications services, and general electronic services to City departments, as well as computer maintenance and data communications services to emergency services departments. It exercises this responsibility both through direct service provision and through out-sourcing, adding value through liaison, consulting, and negotiation expertise.

The detailed feasibility study for CSB identifies the advantages and disadvantages, both conceptual and practical, of the following ASD options:

- Contracting Out – a complete out-sourcing of all CSB services. Certain services are currently out-sourced and a key service is a private/public partnership
- Special Operating Agency (SOA)
- Innovations (Enhancements to the Status Quo)

The study provides an assessment of the economic feasibility of each option and recommends the course of action necessary to implement the preferred option. Both qualitative (customer survey) and quantitative (financial forecasts) information was used in the evaluation of the ASD options. The study concluded that the Innovations option is the preferred option as it is the least expensive and predicts high customer satisfaction.

The following table summarizes the financial impact of each ASD option including the Net Present Value for the five year period:

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OPTIONS	TOTAL NET ESTIMATED ANNUAL COSTS TO CITY						
	Year 1 (2000)	Year 2 (2001)	Year 3 (2002)	Year 4 (2003)	Year 5 (2004)	5 Year Total	5 Year Total Present Value
Baseline Cost	$ 2,439,040	$ 2,479,839	$ 2,512,102	$ 2,546,362	$ 2,575,148	$12,552,491	$10,993,972
Innovations	$ 2,439,040	$ 2,387,463	$ 2,410,715	$ 2,409,372	$ 2,435,999	$12,082,589	$10,601,103
SOA	$ 2,439,040	$ 2,441,079	$ 2,492,109	$ 2,514,340	$ 2,504,807	$12,391,375	$10,860,482
Contracting Out	$ 2,439,040	$ 2,725,936	$ 2,855,831	$ 2,899,856	$ 2,910,683	$13,831,346	$12,068,730

The Innovations option will enable CSB to provide competitively priced, quality products and services. The changes that need to be implemented should be carried out by the Corporate Services Department. Implementing the recommended delivery model does not preclude exploring other alternative service delivery models (ASD) in the future.

The following are specific administrative steps for implementing the Innovations option:

- That CSB pursue 100% identification of costs in those *maintenance* services that are identifiable to departments. This is not recovery of all maintenance costs but an accounting and notification to the benefitting departments of the monies spent on their behalf. Actual charging for internal maintenance services will not be undertaken at this time.

- That *net new services* delivered by CSB at the request of City departments be charged at fair market value, or at full cost to CSB if fair market value is unavailable (these services are currently charged to the departments at less than full cost).

- That any third party charges (i.e. currently out-sourced) readily identifiable to a single department be paid for by that department.

- That any monies received from customers external to the City be recorded by CSB as revenue to be managed by CSB (e.g. invest in equipment and/or staff training).

- That CSB client departments regularly negotiate Service Level Agreements (SLAs) with CSB for services delivered on an ongoing basis as mutual acknowledgement of the value and cost of the service. These should include lists of infrastructure and equipment serviced, time to repair guarantees, staffing levels, and performance measures.

- That CSB and the Materials Management Branch work together to update and streamline purchasing procedures to increase the purchasing efficiencies for departments while continuing to protect and maintain the integrity of the City's strategic communications architecture.

The Alternate Service Delivery Committee recommends:

I. That an enhanced status quo model be approved for the Communications Systems Branch. Implementation and ongoing operation to be based on the following major principles:

   A. Costs of providing services to City departments be clearly identified to client departments so that they can assess service value for the costs incurred on their behalf.

   B. "Best practice" arrangements be pursued, including contracts, strategic alliances, external partnerships, etc. where and when it is appropriate to do so and proper approvals have been given.

   C. City communications systems be acquired and implemented with consideration for future value and integration into the existing and planned City communications infrastructure.

II. That the Communications Systems Branch facilities be consolidated into one major facility, and one satellite facility at the Public Safety Building.

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III. That funding in the amount of $50,000.00 be assigned from the “Idea Bank” to the Communications Systems Branch to implement cost tracking information systems and assist with facilities consolidation costs, to be repaid with interest at the City’s cost of borrowing over four years.

IV. That the Director of Corporate Services take all other steps necessary for implementation within nine months of approval of the enhanced status quo model for the Communications Systems Branch.

V. That at such time as all changes have been implemented and the Branch is operating as efficiently and competitively as possible, opportunities for further improvements in efficiency and effectiveness, including the possibility of moving towards another alternative service delivery model, be considered during the Department's annual strategic planning process.

VI. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing, including the execution of any documents related thereto.

Adopted by consent.