

November 13, 2019

To: Members
Executive Committee

Re: Benefit and Cost of Outsourced Professional Services

RECOMMENDATION

1. That this report be received and filed.
2. That item CM18-15 be removed from the List of Outstanding Items for Executive Committee.

CONCLUSION

The City's Professional Services operating budget represents services the City acquires or contracts from third parties. The Professional Services budget for 2019 is \$30.5 million. The City acquires third party services for a variety of reasons including but not limited to seeking expertise or specialized skills the City does not have internally, supplementing City resources to meet service levels during seasonal or peak periods of demand, contracting third parties to provide a City service where doing so results in a more efficient or effective delivery of that service, and when there is a strategic benefit to engage an independent third-party to gain outside perspective.

A review of the key services where the City contracts a third party to supply a City service such as paratransit, waste diversion, parking enforcement, and animal control finds that prior to entering into those contracts an analysis is typically conducted by Administration to determine the most cost effective or efficient service delivery model prior to seeking a third party to provide the service. As well, it was noted that as these contracts approach the end of their term, it is Administration's intent to review the service model on how those services are delivered prior to entering into future contracts to ensure a third party service delivery model continues to be the most efficient or effective way to deliver those services.

The review also shows the City contracts third party services where specific expertise is required that is not available within the City where such expertise is intended to inform the development of key planning documents, service reviews, or process improvement initiatives. As well, the review shows that for certain services that are seasonal in nature, or where service demand can vary (e.g., winter road maintenance), third party services are contracted to supplement City resources to ensure service levels are maintained in a more cost effective manner than retaining resources internally to meet that service level where demand will fluctuate during the year.

BACKGROUND

On December 10, 2018, City Council (Council) passed a motion (CM18-15) directing Administration to report to Executive Committee on the benefits and costs of replacing outsourced Professional Services with in-house staff and operations from a service quality and financial standpoint.

This report addresses the requirements of this motion.

DISCUSSION

The City's 2019 budget for Professional Services is \$30.5 million. In undertaking a review of the benefits and costs of replacing outsourced Professional Services, the services purchased have been broken down into thirteen categories for analysis purposes:

Waste Diversion Related Services – \$6.7M

The City has a budget of \$6.7 million for waste diversion related services provided by Emterra and Loraas. The Emterra contract is a 10-year contract ending June 30, 2023 while Loraas' contract is an eight-year contract ending June 2021 with two one-year extensions.

When the contracts approach the end of their term, Administration plans to review a range of options to determine the most appropriate path forward including continuing to deliver the service through contracts with third party service providers, bring the full service in-house, or a blended model (e.g., processing facilities operated by a contractor, collection done by City staff, etc.).

Contracted Property Management Services for Mosaic Stadium – \$4.6M

The City has contracted with Regina Exhibition Association Limited (REAL), a municipal corporation owned by the City of Regina, to operate and maintain the stadium on the City's behalf. In return the City pays REAL a minimum of \$3.6 million per year. The City also pays REAL a per event fee for the services provided during Saskatchewan Roughriders Football Club (SRFC) game days, SaskSport affiliated user group events, etc. These fees are reviewed by the City and REAL on a regular basis to determine if any adjustments to the fee(s) is required. The agreement between REAL and the City has periodic renewal terms allowing both parties to discuss and assess whether the agreement continues to be the appropriate mechanism to operate and maintain the stadium.

Paratransit Services – \$3.9M

The City contracts out the operations and maintenance of its paratransit operations to a third-party service provider. The delivery of paratransit services varies across municipalities from the operation being an in-house service to it being contracted to an external service provider. The City of Regina has chosen the external service delivery model because it offers flexibility, cost effectiveness and excellent customer service. The current contract expires in 2021. While the City believes it is receiving good value with the existing service model, the City plans to review the current service model at that time.

According to the Canadian Urban Transit Association, which provides statistics on paratransit services, the 2017 hourly cost (2018 data not available) of paratransit service excluding taxis was \$78.17 per hour in Saskatoon (in-house service) and \$64.20 per hour in Regina. This equates to a \$13.97 per hour difference. Based on the 74,000 hours of paratransit service that Regina provides, the additional cost would be at least \$1 million more using Saskatoon as a comparator.

Aside from cost efficiencies, the biggest advantage with the external service provider model is the flexibility to schedule trips and service hours around customer demand on short notice, thereby providing as many customer trips as possible. To compare, Saskatoon denied 8,377 paratransit trips requested in advance compared to 236 in Regina.

Seasonal or “As Needed” Services – \$3.3M

Approximately \$3.3 million of the Professional Services budget is spent on services that are seasonal in nature or are required on an “as needed” basis. Some of the larger budgeted services under this category include:

- Winter maintenance service contracts with a budget of \$1.3 million related to obtaining motor graders, loaders, snow blowers, skid steers, trucks, etc. to supplement the City’s winter maintenance equipment inventory in order to meet the objectives and timelines outlined in the *Winter Maintenance Policy* during peak winter maintenance activity. The City uses external service providers for winter maintenance to supplement the City’s equipment and workforce for a number of reasons including the unpredictability of winter weather conditions, high capital cost to own and operate (staff) equipment that is not regularly used, and the availability of professional equipment contractors in the city to supplement the City’s resources when needed. As an example, the value of the contract to supply up to 20 motor graders with operators when needed has fluctuated from \$0.4 million to \$1.3 million annually over the last few years. In comparison, the upfront cost of purchasing 20 graders (without attachments or operator costs) is estimated at over \$7 million.
- Roadway crack sealing service contracts with a budget of \$0.6 million are used to seal surface cracks that have formed on pavements in order to extend the road’s service life. This work is seasonal in nature as it must be completed in late summer and is completed over a short period of time (seven to ten days) typically at night-work when traffic flows are minimized in order to reduce traffic disruption and increase safety of workers. Due to the training, expertise, lack of specialized equipment, risks (night work, traffic safety, equipment safety, etc.), and very short-term nature of this work, it is more efficient and cost effective to use external service providers to perform this work.
- Sweeping and alley service contracts with a budget of approximately \$0.3 million are used to supplement the City’s paved alley reconstruction and maintenance (tree pruning and pavement patching) program. Historically, internal City crews completed all paved alley reconstruction but due to some less than ideal construction seasons the planned work had fallen behind and has resulted in the contracting of some external resources to meet the program’s objectives. It is expected that once the paved alley reconstruction work is caught up, this work can be managed internally.

Seasonal or services that are only needed on an “as needed” basis are generally provided on a more cost effective basis through the use of third party service contracts than delivering them in-

house due to the cost of hiring and training staff for activities that are undertaken at certain times of the year or on a periodic basis, and the related equipment costs where the equipment is used infrequently.

Humane Society Contracted Services – \$2.0M

The City has an agreement with the Regina Humane Society (RHS) to provide animal control, animal impound, and administrative and education services. RHS is an approved humane society pursuant to *The Animal Protection Act, 1999* with facilities to manage impound services and employees that have obtained animal protection officer status pursuant to *The Animal Protection Act, 1999*.

In November 2014, Council approved the City to maintain the current animal control service level and continue to work with the RHS. The contract for these services is for 20 years and expires December 31, 2035.

Specialized Services – \$1.9M

Approximately \$1.9 million of the Professional Services budget is spent on services that are specialized in nature where it would not be efficient or appropriate for the City to invest in having that expertise in-house. Third party services acquired under this category include but are not limited to:

- Payment of veterinary fees related to bylaw enforcement and animal rescue;
- Instructor fees where the City hires instructors to perform a variety of services including land, water, and sport related fitness programs (i.e., these programs generally require a specialized skill set/certificate to instruct and most programs are of short duration – 45 minutes to 1 hour);
- Inspections and testing of assets that require specialized expertise such as bridge inspections, railway crossing maintenance, and maintenance of some City assets that cannot be readily maintained internally either because of their specialized or unique nature; and
- Towing services.

Consulting Services – \$1.6M

Approximately \$1.6 million of the Professional Services budget is spent on consulting services which includes services related to:

- Specialized human resource consulting services such as payment of fees to the City's Employee Family Assistance Plan service provider, and support for the work being undertaken by the City's joint job evaluation committee;
- The development of master plans and other city planning related activities where outside subject matter experts help inform and resource the development of those plans (e.g., Fire Master Plan); and
- Consulting services to provide specialized expertise to support service, efficiency, and process improvement reviews where depending on the review being undertaken, different forms of expertise are required (e.g., the building permits service review).

External consulting services are used to acquire specialized expertise, where the type of expertise needed will change from year to year depending on the projects that are being undertaken. Using outside experts allows the City to access individuals or companies that are experienced, leaders in their field, and knowledgeable about changes in industry standards, best practices and technological innovations.

Financial and Third-Party Assurance Services, and Payment of Commissions – \$1.5M

Approximately \$1.5 million of the Professional Services budget is spent on services such as:

- Banking services fees including bank charges, credit card fees, etc.;
- Investment management fees related to the City’s long-term and short-term investment portfolio;
- Audit and actuarial fees for independent third-party opinions such as the audit of the City’s annual financial statements;
- Payment of commissions related to the collection of amusement taxes, sale of animal licenses, and the payment of commissions when surplus/retired City assets are sold through auction.

These services by their nature do not readily avail themselves to being provided in-house and should continue to be provided by third parties.

Information Technology Services – \$1.4M

Approximately \$1.4 million of the Professional Services budget is allocated to information technology third party software services. These services relate to specific or specialized software where the vendor’s in-depth knowledge or management of the software is required. The Stadium SaskTel managed IT services contract is also included in this service category. The nature of these services does not readily avail themselves to be provided in-house.

Advertising and Media Services – \$1.0M

Expenditures related to advertising and media services relate mainly to the advertising and media work undertaken by the City’s “agency of record”. Services provided by the agency of record include development of strategic communication and marketing materials designed to ensure the City’s communications are seamlessly integrated between paid digital or traditional media and social media initiatives, creative services focused on making emotional connections, improving perceptions, generating awareness and changing behavior, development of communication content, etc.

Administration is currently reviewing how it delivers and supports its Communication and Service Regina functions. Part of the review will include an assessment of whether there are opportunities to be more efficient and effective in bringing some services currently contracted out to the City’s agency of record in-house. While the review may identify opportunities to reallocate some resources in-house, there will continue to be a need for an agency of record due to the flexibility such a relationship has in ensuring the City has access to necessary expertise to manage specialized/one-off needs/projects, and managing fluctuating resource requirements depending on the timing of various public communication/engagement initiatives.

Parking Enforcement Services – \$1.0M

Prior to 2012, the Regina Police Service was responsible for parking enforcement which they delivered through a third-party services contract. In 2012, the City of Regina took over parking enforcement and the existing parking enforcement services contract. In 2013, through a Request for Proposal (RFP) process, the City contracted with the Commissionaires to enforce parking bylaws. Prior to issuing that RFP, significant analysis had been undertaken to examine options on how best to delivery this service. The external service delivery model was chosen from a quality and financial perspective. Contracting this work to a third-party service provider results in cost savings as staffing costs under the contract are less than an estimated internal cost based on similar job types within the City’s job/salary structure. In addition to cost savings, the external service delivery model allows more flexibility to re-direct staff to other more strategic work associated with parking.

The current contract expires May 31, 2021 and is renewable for two additional one-year terms. Prior to renewal, Administration will review and analyze its options regarding how this service should best continue to be delivered prior to issuing a Request for Proposal and/or using an in-house solution.

Mamaweyatitan Centre Operating & Maintenance Contract – \$0.5M

The City is one of three partners who funds the maintenance and operating costs associated with the Mamaweyatitan Centre. These payments are budgeted and accounted for under Professional Services.

Other – \$1.0M

The budget includes numerous small budget items that total approximately \$1 million. Individually they are small from a dollar value perspective and as a result from a cost/benefit perspective were not analyzed further for the purposes of this report. In general, Administration assesses the need to seek third party services versus the ability or cost of addressing the need in-house before acquiring the service.

RECOMMENDATION IMPLICATIONS

Financial Implications

None related to this report.

Environmental Implications

None related to this report.

Policy and/or Strategic Implications

Balancing community need and affordability across all services is one of the City’s targeted strategic outcomes. Using third party service providers can be a tool in achieving this outcome. The City delivers services at affordable cost by using third party service providers where it is

efficient and effective to do so or where there is limited in-house expertise or experience. In addition, using third party service providers prevents the requirement for the City to invest in ongoing staffing and equipment costs that are only needed seasonally or on irregular basis, such as snow clearing equipment. Strategic sourcing of services from third party service providers supports the City's financial priority of achieving long-term financial viability.

Other Implications

None related to this report.

Accessibility Implications

None related to this report.

COMMUNICATIONS

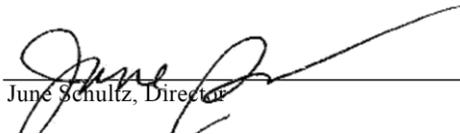
None related to this report.

DELEGATED AUTHORITY

The recommendations contained within this report are within the delegated authority of Executive Committee.

Respectfully Submitted,

Respectfully Submitted,


June Schultz, Director

8/30/2019


Barry Lacey, Exec. Director, Financial Strategy & Sustainability

11/5/2019

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