



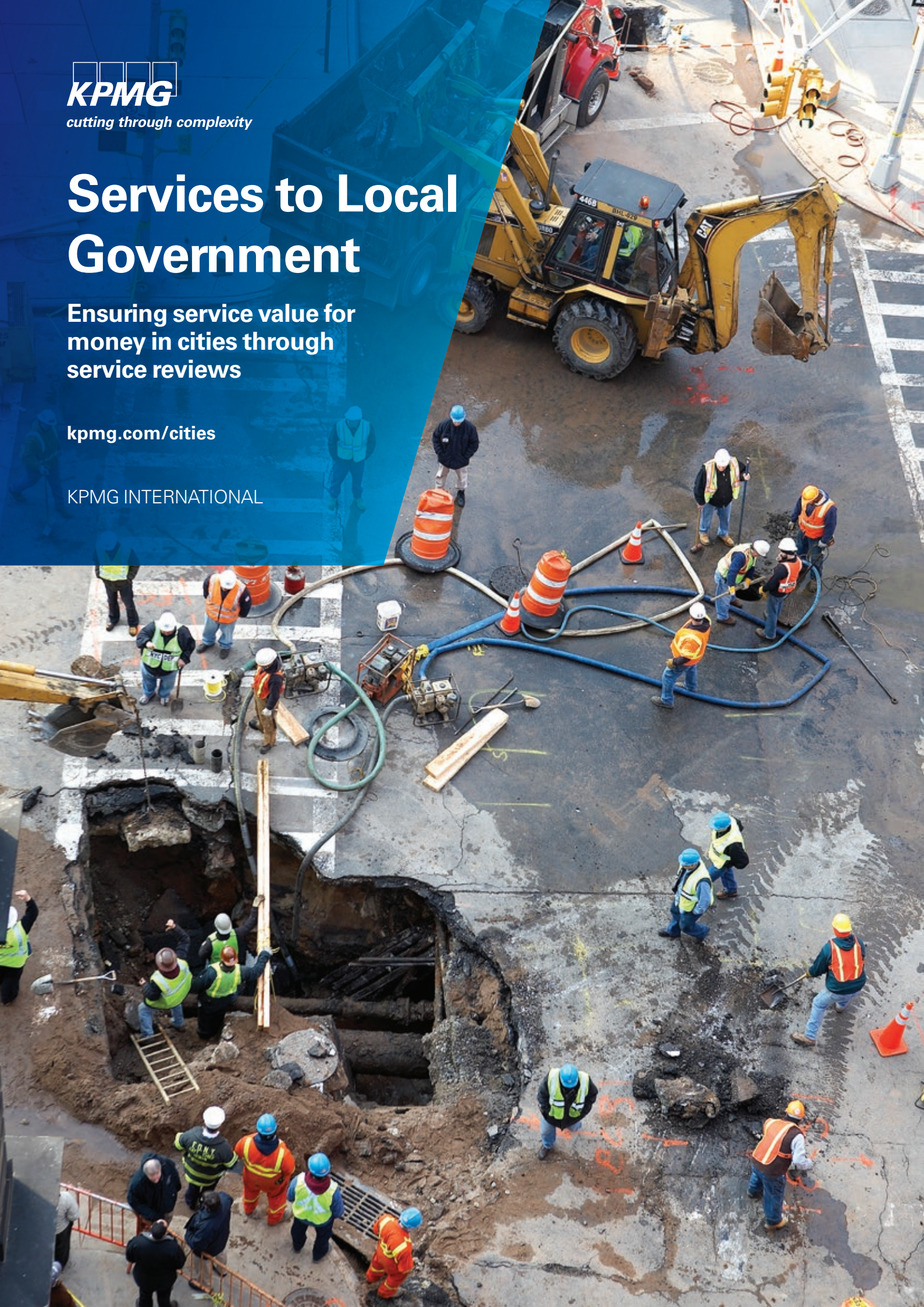
cutting through complexity

Services to Local Government

Ensuring service value for money in cities through service reviews

kpmg.com/cities

KPMG INTERNATIONAL





Around the world, cities are facing tough financial challenges in the midst of delivering services. Many are balancing infrastructure investments with paying down debt. Some cities are dealing with eroding tax bases as 'income-based' property assessments take a huge hit on property values, resulting in increased vacancy rates and decreased property tax revenue. Still others are experiencing increasing demands for services with growing populations or higher unemployment rates. Regardless of the scenario, the result is a budget shortfall, prompting local governments to review their services to ensure they are delivered efficiently and effectively while still meeting the needs of their customers.

City costs increasing beyond their control

A service review helps cities assess their current program and service offerings to determine how to optimize service delivery through a series of service improvement initiatives.

As city budget shortfalls grow year after year, cities are also facing a host of other unavoidable challenges that are increasing the cost of service delivery, including:

- » **Increasing demands** from residents and businesses for improved public service delivery and greater public accountability
- » **Rising labor costs** as a result of collective agreements that continue to support increasing costs, not just for labor rates but also benefits and pensions (note that a typical service can attribute 80 percent of its cost to labor)
- » **Changing legislation**, such as new accounting requirements, greening the environment, reducing carbon footprint and meeting legislative standards
- » **Growing demands to pay for the unfunded liability** associated with aging infrastructure
- » **Rising expectations for new, innovative technology solutions** to access city-based services

In many cases, city councils and administrators have implemented unilateral budget cuts across all departments to address their fiscal challenges. However, years of taking such a simplistic approach have taken their toll, resulting in at times unfair reductions in service levels, with limited concern to the value or importance of the services to customers.

What is a service review?

Increased budget cuts and reduced revenue streams are forcing cities around the world to re-evaluate their current operations to determine if there are more efficient, effective or economical means of delivering their services. While these reviews often go by many different names – including service efficiency reviews, service value improvements, operational reviews and cost saving studies – they all share the same goal: to determine if a city is delivering its services to its customers in the best possible manner.

Service reviews are generally carried out in an open and transparent process designed to solicit information and feedback on opportunities for change and improvement from city staff and the local community. The resulting recommendations and implementation plan are then received much more favorably and in the spirit of ‘service excellence’ rather than a cost-cutting mindset.

How KPMG can help

KPMG professionals work with city leaders to help create high performing local economies. KPMG member firms offer integrated services for cities around the world in key areas, as illustrated by Figure 1.

Figure 1: KPMG’s city services proposition



The City of Moncton, in the province of New Brunswick, Canada, put it this way: "... the city's finances are 'good' only because property tax revenues increased sufficiently over the past five years to cover the increased expenditures. **The problem is our current spending pattern is not sustainable.** If this pattern continues while tax revenues increase at a slower pace or stall, we may soon face serious challenges."¹

Source: KPMG International, 2014

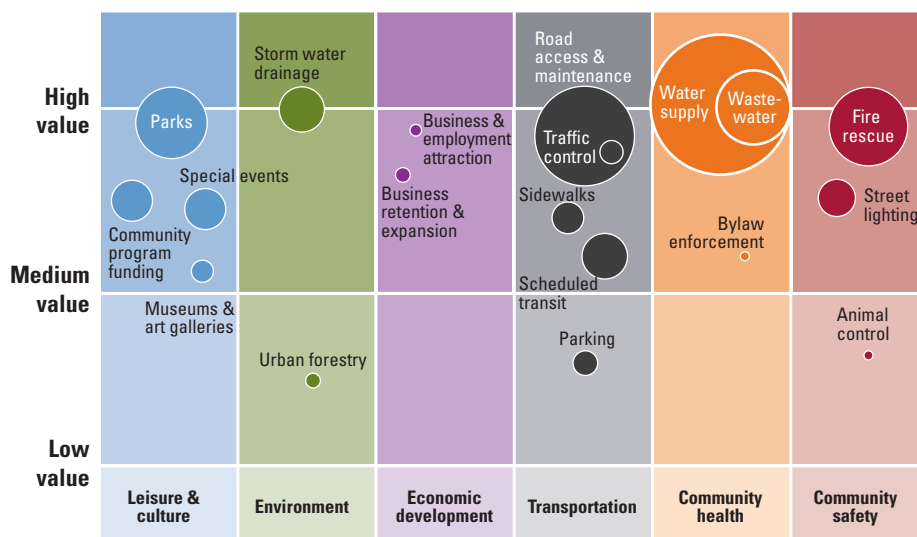
1. <http://www.moncton.ca/Assets/Government+English/Publications+English/Taxation+Report.pdf>



Cities around the world are increasingly looking for strategic ways to cut their budgets and to make sure that spending is directed at the right services. KPMG member firms work with cities to assess the efficiency and value of a city's current service offerings and develop alternative methods for trimming costs while maintaining quality and/or improving effectiveness.

As a first step, KPMG reviews and assesses a city's services based on the cost and value of each service using a common framework referred to as a Municipal Reference Model² (MRM). Figure 2 illustrates an example of such analysis using the MRM, with 19 public service costs (size of circle) across six public programs. The size of the circle is relative to the cost of the service so the larger the circle, the higher the service cost. For example, the size of the water supply service is roughly three times larger than the waste water collection service. The diagram also rates each service in terms of its value contribution to achieving its associated program goal (high, medium and low). In this example, the water supply service provides high value to the community health program whereas the urban forestry service provides low to medium value to the environment program. Not all services are equal, nor should they be treated equally. As such, this exercise provides an important view on the cost vs. value relationship across all services in order to make critical financial decisions while protecting the interests of citizens.

Figure 2: An alternate way of reviewing service costs



Source: KPMG International, 2014

2. MISA/ASIM Canada is the owner of the Municipal Reference Model. KPMG in Canada, along with its member firms, have been granted rights to promote and apply the MRM concepts and methodology in countries around the world.

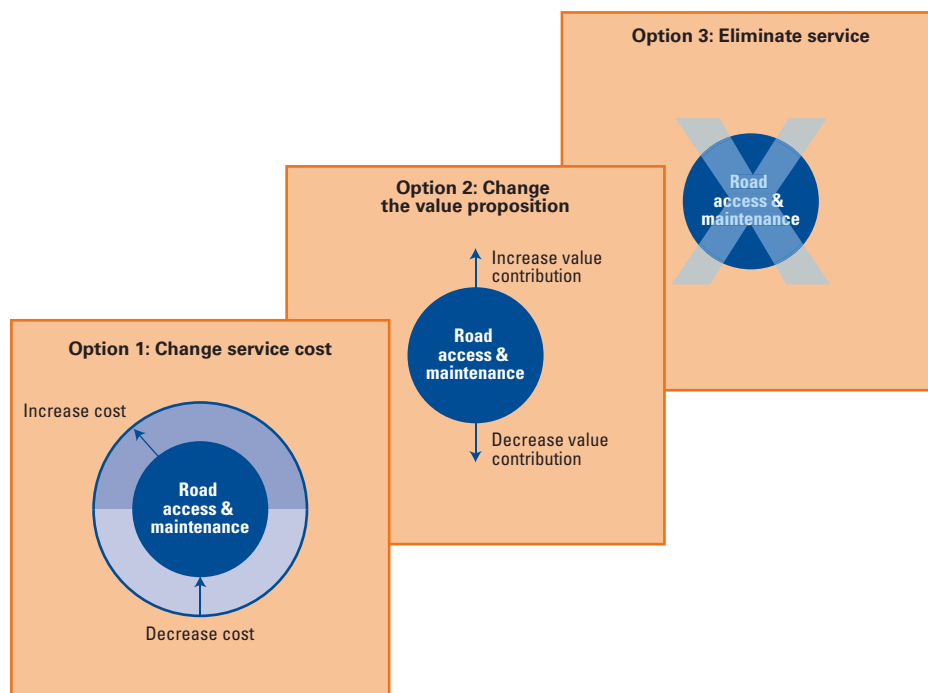
With a better understanding of the cost and value for each city service, KPMG member firms help city governments examine alternate ways to reduce service costs and/or increase service value (see Figure 3). There are three options for each service:

1. Change the service cost
2. Change the value proposition
3. Eliminate the service

Government officials may choose to increase the cost of a service if they want to move the service up the value contribution axis or reduce the cost of a service to reduce the value contribution. By adjusting costs and values, senior management can help maximize the value of their service offerings while minimizing the impact of costs, particularly on their shrinking budgets. Services considered for elimination are typically justified on a service-by-service basis.

What's more, service reviews can facilitate benchmarking across different cities for further in-depth analysis and insight.

Figure 3: Options for changing service budgets



Source: KPMG International 2014



Case studies

KPMG member firms have conducted approximately 50 services reviews in local governments around the world, including 20 such reviews in Canada and 10 in France.

Australian mid-sized city Effectiveness and efficiency review



KPMG in Australia was engaged to review the efficiency and effectiveness of a city council's services and 'back of house' operations. The analysis involved a review of operating costs, but also highlighted opportunities for improvement in service delivery, operating model and outcomes.

Throughout the project, KPMG worked closely with council executives, councilors and members of the Audit Committee and facilitated a two-day leadership workshop to help the executive refine the multiple recommendations into a three-year corporate plan.

In addition, KPMG completed a broad ranging examination into the council's role in the provision of five community based service, including property and assets, labor and community engagement.

Canadian mid-sized city Corporate service review



In the face of significant growth, limited resources and increased expectations for municipal service delivery, a Canadian city engaged KPMG in Canada to review the city's services and create a roadmap towards service excellence.

Through a five-phase approach, KPMG assessed the city's services and value contribution, and identified the projects with the highest return on investment.

The corporate service review offered the city its first ever client-centric view of its programs and services and set out a plan for service improvements to help the city become a desirable place to live, work and play.

US mid-sized city Strategic services inventory and review



With a view to reducing costs, enhancing efficiency and generating revenue, a US city engaged KPMG in the US to perform a broad ranging review of its municipal government services.

KPMG inventoried and assessed over 1,500 services and helped the client identify significant opportunities for service elimination, strategic sourcing, managed competition, public-private partnership, internal consolidation, inter-agency partnerships and shared services – including approximately USD\$50 million in overall and USD\$25 million short-term potential cost savings.

In addition to direct cost savings, the strategy services inventory and review increased visibility into the city-wide service portfolio, and helped the city establish a transformation management office aimed at implementation of the efficiency-enhancing initiatives.

Canadian mid-sized city

Core service review



A Canadian city engaged KPMG in Canada to conduct a core service review to help inform the challenging financial and service provision decisions facing Council as part of the preparation of the city's five-year plan.

Through a four-phase approach, KPMG examined the services provided by the city, identified opportunities for change and presented key recommendations for consideration to the review committee.

Overall, the team evaluated 193 opportunities for service improvement and presented 32 specific opportunities to City Council for consideration that could save US\$3-\$7million annually. Another 67 opportunities were identified that could save US\$1-\$4 million annually.

Australian city council

Review of library service



KPMG in Australia was engaged to undertake a review of the public library service delivered by a city council in a major Australian city. KPMG worked closely with council throughout the process to gain a deep understanding of their goals as well as the practical implications of implementing strategic changes to the library service.

The review included an analysis of the current library service offering, projected and determined key influences and community need over the next 25 years, future outlook for the library service and high level implementation/change strategy to achieve the preferred future for the library service. KPMG also completed case study benchmarking analysis to develop best practice guidelines for the delivery of library services.

Major Canadian city

Core services review



A major Canadian city engaged KPMG in Canada to review its programs and services and prioritize spending in order to reduce its massive fiscal deficit.

Working closely with the city's executives, KPMG conducted and validated an initial screen of services through a 'core filter,' which incorporated numerous analytical elements such as legislative requirements, jurisdictional examples, public input and senior management direction.

The core services review produced a full inventory of the city's services and recommendations to enable the city to make more informed decisions as it sets out on a sustainable fiscal path.

Contact us

To learn more about how a service review can help your municipality, please contact:

Alan Mitchell

Executive Director

Cities Global Center of Excellence

T: +1 (416) 777-3811

E: amitchell@kpmg.ca

www.kpmg.com/cities

kpmg.com/socialmedia



kpmg.com/app



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2014 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve. Publication name: Future Cities – Service Review

Publication number: 131703C

Publication date: October 2014