



Municipality of Port Hope

Financial Services and Human Resources Review

Draft Report

March 11th, 2022



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Executive Summary

The Municipality of Port Hope (the “Municipality”) is a lower tier municipality in Northumberland County (the “County”) that provides a range of services to its more than 17,000 residents. In order to meet the needs of its residents, the Municipality has budgeted a total of \$34.3 million in operating costs and \$13.4 million in capital costs for the 2022, with more than 200 employees involved in service delivery.

The Municipality’s Financial and Human Resources Division (the “Division”) is responsible for supporting the Municipality and its functional departments through a range of services, including the administration of financial transactions, planning, budgeting and reporting, recruitment and personnel management. In executing its mandate, the Division works with a number of external and internal customers, as well as regulatory and funding agencies.

In order to enhance the Division’s operating effectiveness and efficiency, as well as ensure an appropriate level of customer service and risk management, the Municipality has retained KPMG LLP (“KPMG”) to undertake a review of its processes, organizational structure, policy framework and other aspects of its service delivery. Funding for the review is provided by the Province of Ontario through the Municipal Modernization Program, which is intended to “help small and rural municipalities modernize services”. This report outlines the results of our review.

A. Background to the Review

Pursuant to the terms of engagement, the key deliverables associated with the review included the following:

- Process mapping of the Municipal’s financial and human resources services in order to identify potential opportunities for operating efficiencies, enhanced customer service, improved internal controls and risk management/mitigation strategies;
- An assessment of the Division’s organizational structure and staffing levels, including a comparison to selected lower-tier municipalities with comparable population and household levels;
- An evaluation of the Division’s policy environment in order to identify potential gaps in policy framework as well as opportunities to revise existing policies to reflect best/common practice for municipalities and other local public sector organizations;
- An assessment of the Division’s approach to customer service and the identification of additional elements for improved customer service;
- The identification of potential risks and the development of appropriate response strategies; and
- A suggested approach for future implementation activities relating to the opportunities identified through the review.

We would like to take the opportunity to acknowledge the assistance and cooperation provided by staff of the Municipality that participated in the review and supporting analysis. Reviews such as this require a substantial contribution of time and effort on the part of Municipality employees and we would be remiss if we did not express our appreciation for the cooperation afforded to us over the course of our engagement.



Executive Summary

B. Key Themes

Given the nature of our engagement and its intended outcomes, our review focused on areas for potential improvement and our report includes only limited commentary on the positive aspects of the Division's delivery of services to internal and external customers. Our experience demonstrates that a number of the identified areas for potential improvements exist in other municipalities as well, including municipalities with same or larger population levels and as such, our findings are not necessarily unique to the Municipality. In addition, we note that the Division has experienced a high degree of staff turnover in recent years which, combined with the impacts of the ongoing pandemic, has required a focus on the day-to-day delivery of core services and precluded (at least to some extent) continuous improvement activities. Lastly, we note that prior to our review, the Municipality had already commenced certain initiatives (e.g. procurement policy review, e-commerce project) that will address some of the findings from our review.

Our report includes a number of potential courses of action that can be considered by the Division in its efforts to enhance operating efficiencies, customer service and risk management, which are intended to address the key findings from our review relating to the Division's performance.

1. Aspects of the Division's processes are characterized by operating inefficiencies that increase the level of resource requirements and/or amount of time required for service delivery, while at the same time potentially impacting customer service and exposing the Municipality to internal control gaps. Based on our review, we note that these inefficiencies are the result of different contributing factors, including:
 - The absence of digitization for certain processes and customer service offerings. For example, the Division continues to print all tax and utility invoices as opposed to offering electronic billing options. We understand, however, that the implementation of the new e-commerce/electronic town hall initiative will support increased digitization of finance functions;
 - In certain instances, the Division does not fully utilize the functionality of its financial information management system, relying instead on MS Excel spreadsheets and other manual tracking;
 - Divisional staff are involved in processes that have relatively low value in comparison to the level of resources required to complete the process. For example, the Division will issue tax arrears notices eight times per year for relatively small balances (\$5.00 or greater), incurring associated costs for printing, paper, envelopes and postage in addition to the amount of staff time required to prepare the notices.
 - Our review has identified instances of duplication of work efforts within the Division that consume staff resources. For example, Divisional staff spend two weeks annually preparing invoice packages for capital projects notwithstanding the fact that the invoices are already available through the Division's accounts payable system.
 - We noted a number of instances where management-level personnel were performing lower-level administrative or clerical functions, resulting in higher-cost staff performing lower-value work.

Executive Summary

2. The Division's staffing complement for finance personnel (9.5 FTEs) is the highest of the selected comparator municipalities, which report finance staffing complements of 7.0 to 8.0 FTEs. We note that the difference in staffing is particularly pronounced at the manager level, with the Division currently reporting four finance managers as compared to two to three management positions within the selected comparator municipalities. As a result of the differential in staffing complement, the Municipality also has the highest level of taxation support per household for financial services.
3. The Division's staffing complement for human resources (2.0 FTEs) is at the low end of the range of the selected comparator municipalities, which have reported staffing complements of two to three FTEs. Where municipalities have additional human resource positions, these appear to be related to recruitment or health and safety as opposed to generalist human resources positions.
4. While the Municipality has adopted some elements of long-term financial planning, the Division does not have a formalized long-term forecasting function for key financial decision-making considerations, including but not limited to capital expenditures, reserve and reserve funds, debt and tax policy. As a result, the Municipality's ability to develop long-term strategies for operating and capital requirements is limited, potentially exposing it to significant fluctuations in financial performance.
5. In certain instances, the Municipality's policy environment appears to contribute towards the identified operating efficiencies and challenges from a long-term financial planning perspective. Our review of comparable policy frameworks for other municipalities has identified instances where:
 - The Municipality's policies may be inconsistent with best/common practice. For example, the Municipality's current policy for water and wastewater billings does not include wording with respect to errors in meter readings being settled in the Municipality's favour, while the draft accounts receivable policy requires the retention of written (as opposed to electronic) documentation.
 - The Municipality does not have necessary policies in place for key decision-making processes, including but not limited to debt, capital financing and reserves and reserve funds.
6. While Division staff demonstrate a clear commitment to customer focus, the Division currently lacks a formal structure for customer service management and as such, customer service is delivered on an ad hoc basis. Specifically, we note that:
 - The Division has not established formal service level standards for responding to customer requests for service and as such, customers can receive inconsistent service from the Division;
 - The Division does not attempt to assess customer service satisfaction for both internal and external customers through formal processes such as customer surveys; and

Executive Summary

- The Division's allocation of work responsibilities and other aspects of its processes for service delivery can inadvertently impact customer service levels. For example, the Division currently assigns primary responsibility for responding to customer inquiries for water billings to the same staff member that is responsible for processing water billings, resulting in delays in responding during peak work periods (i.e. water billing processing).
7. The Division (and by extension the Municipality) has identified a number of significant risk exposures from a strategic, operational and/or legislative perspective that have the potential to significantly impact the Municipality's service delivery, result in financial loss to the Municipality and/or pose regulatory or reputational risks. While the Division has addressed these risks to varying degrees, it appears that appropriate and sufficient risk management and response strategies for priority risk areas are absent.
 8. It appears that, to a certain degree, the Division's performance is impacted by other functional departments within the Municipality that contribute towards either (1) increased resource demands; and/or (2) operating inefficiencies. For example, we note that the Division will provide financial services to local boards on a pro bono basis, resulting in a diversion of resources from other finance-related functions. We were further advised that in certain instances, departments will implement new information technology systems or undertake major initiatives without an appropriate level of consultation with the Division notwithstanding their interaction with the Municipality's finance functions.

C. Potential Courses of Action

In response to the results of the review, the Municipality may wish to consider the following courses of action that are intended to address the areas for potential improvement in the Division's performance and operating efficiency.

1. **Process redesign.** The Division may wish to consider implementing incremental changes to its processes for service delivery in order to increase its overall efficiency and enhance customer service and risk management. In addition, this process redesign should seek to reallocate lower level administrative and clerical tasks from senior personnel to the appropriate level within the Division, better matching the cost of undertaking the process with the resultant value.

The suggested approach to process redesign could include the following worksteps:

- Identifying priority areas for redesign;
- Establishing changes on a pilot project basis and evaluating outcomes; and
- For projects with positive outcomes, revising job descriptions and other documentation to reflect the revised process.

The Municipality may wish to consider an application under the Municipal Modernization Program implementation stream to fund ongoing redesign of the Division's processes.



Executive Summary

- 2. Policy evaluation and revision.** As noted through the review, the Municipality's policy framework could be revised to enhance operational decision-making as well as contribute towards longer-term financial sustainability. These strategies would include both (1) revisions to existing policies; and (2) the development of new policies for key financial decisions, with a suggested focus on:
 - Amendments to the Municipality's policies to reflect identified best/common practices;
 - The development of key financial policies, specifically with respect to debt, reserves and reserve funds and capital financing, that will establish a framework for key financial decisions (e.g. reserve transfers) and establish a longer term perspective for financial planning and strategy development; and
 - Develop policy statements to address identified priority risk exposures (e.g. privacy).
- 3. Formalize customer service aspects.** Recognizing the importance of the Division's services to internal and external customers, the Division may wish to develop a high-level customer service strategy that would serve as the basis for monitoring its performance on a go-forward basis. Specifically, we suggest that the Division consider:
 - Establishing a formal customer service strategy that outlines service level expectations;
 - Undertaking staff training relating to customer service;
 - Incorporating customer service into goal setting, performance evaluation and job descriptions;
 - Revising processes to address identified customer service limitations; and
 - Establishing a formal mechanism for measuring and reporting on customer service (e.g. annual surveys).
- 4. Establish a Municipal enterprise risk management strategy.** While the review identified a number of potential risk exposures faced by the Division, we note that (1) certain of these risks are not limited to the Division but rather apply to other functional departments within the Division; and/or (2) the development of appropriate and sufficient response and mitigation strategies relies on resources that are external to the Division. Accordingly, while the Municipality may wish to consider addressing the risks identified through the review, we suggest that this be undertaken on a corporate basis as opposed to by the Division.

Executive Summary

D. Potential Benefits

Based on our review of analyses of cost savings achieved by other organizations undertaking continuous improvement initiatives, we have estimated that the potential benefits that could be derived from addressing the identified areas for potential improvement could be upwards of 5% of administrative staff time for Division personnel, representing the equivalent of up to \$65,000 in staffing costs annually. In addition, potential cost savings in non-personnel can also be achieved, particularly as a result of the digitization of document management and the associated reduction in costs associated with the printing, transfer and storage of documentation.

The potential benefits resulting from efficiency gains that could be realized by the Municipality can be in the form of either financial benefits or capacity benefits:

- **Financial benefits** refer to efficiency gains that provide incremental cost savings to the Division through reductions in supplies, materials and other operating costs. While financial benefits could also be obtained through a reduction in staffing levels, we understand this may not be a practical approach given the extent of staffing turnover experienced by the Division and the anticipated increase in demand for policy review, long-term planning and continuous improvement activities.
- **Capacity benefits** result from workload reductions achieved through efficiency gains, allowing the Division's personnel to focus on other activities. Given that this results in a redirection of staff, as opposed to a reduction in staff, capacity benefits do not result in direct cost savings but rather allow the Division to focus on more strategic and higher value activities such as:
 - Long-term financial planning
 - Customer service strategies
 - Policy review and revisions
 - Risk management
 - Continuous improvement



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