

**RESEARCH  
BRANCH**

# REPORT

WHEN THE CONSULTANT  
COMES CALLING:  
ARE  
CONSULTANT LED  
MUNICIPAL SERVICE REVIEWS  
JUST AN EXCUSE  
TO  
CUT SERVICES?

MAY 2013



*Canadian Union of Public Employees*

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*"In terms of services we provide, the costs of those services, resources that we use, I'd find it a little bit embarrassing to have to go out to a consultant to have them tell us what it is we do and what it costs..."<sup>1</sup>*

Damian Herle, City Manager, Camrose, Alberta

## **The Issue**

Across Canada local governments are paying external consultants large fees to conduct reviews of the programs and services they deliver. The same process can sometimes also be found at school boards and other institutions such as the universities in Saskatchewan. Sometimes these are called Core Services Reviews, sometimes just service reviews and sometimes they have other names.

This is happening in large and small communities. Ontario has seen it happen in communities as large as Toronto and as small as Wawa. In BC larger communities like Mission and Prince George have paid consultants to tell them how to run their governments, as have communities as small as Keremeos. In Alberta, Edmonton and Calgary have hired the consultants. Regina was one of the first local governments to go through this process. Moncton was also on the scene years ago.

Similarly, consulting firms both large and small are jumping on the gravy train. Small

communities like Keremeos, BC, have paid a few thousand dollars to have a former municipal official do the work. Larger consulting firms like Acton Consulting, TkMC, Maxiumus and the Helios Group have conducted service reviews in communities like Hamilton, Regina, Edmonton, Victoria and Penticton, British Columbia.

*But regardless of what they are called, most of the time these reviews result in reports recommending cuts in services for citizens, cuts in jobs and the outsourcing of work to for profit companies.*

When it comes to consulting firms telling communities how to manage their services, the king of the jungle is the international consulting organization KPMG. KPMG is best known for the controversial Core Services Review exercise in Toronto following the election of Mayor Rob Ford in 2010. However, KPMG has also done review work in smaller communities across the country including Moncton, Wawa, Ontario's Manitouwadge Township, Windsor, Calgary, and Prince George, British Columbia.

Provincial governments have pressured municipalities to undertake these reviews for the past decade. In 2004,<sup>2</sup> updated in 2010,<sup>3</sup> Ontario published *A Guide to Service Delivery Review for Municipal Managers* advising local governments on how to hire consultants to advise them on issues like privatization and contracting out their work.

In British Columbia the Liberal Government has provided funding to develop a template for core reviews. A core services report on the City of Powell River by the Helios Group states:

“The Province has supported the General Operations, Service Delivery and Organizational Review in exchange for receiving templates and methodologies to assist other communities in performing similar assessments in the future.”<sup>4</sup>

Local governments have an obligation to think about the services they deliver to meet the needs of their communities. They have a responsibility for the taxpayer’s money and need to ensure it is spent properly to meet the needs of the community.

But when these outside consulting firms come to call the result is frequently all too predictable.

- The consultants call for services to be privatized or outsourced. Almost never do they criticize the cost of contracted out services
- They call for community infrastructure to be sold whether it meets the needs of the community or not
- They call for a shift in financing from taxation to user fees, a move that is hardest on low income people in the community
- Rarely, if ever, do they acknowledge that some services need to be improved or augmented

- Frequently, they contain recommendations or “opportunities” that are impractical, impossible or, in some instances, potentially illegal

For the main part, service reviews run by large consulting firms are an ideological exercise whose conclusions are determined before the process begins.

### **What is a Core Services Review?**

External core services reviews are often introduced by a government seeking outside confirmation of a need for financial cutbacks. As the KPMG Core Service Review Final Report to the Toronto City Manager put it:

A Core Service Review is a tested mechanism in informing decisions on expenditure reductions.<sup>5</sup>

Core Services Reviews commonly include:

- An inventory of services, staffing and city structure
- Classification of each service as either “core” or “discretionary”
- Exploration of opportunities for “service improvement” or “cost reduction” through “alternative service delivery”
- Examining levels of service, particularly for discretionary services
- Benchmarking against similar communities
- Some form of community consultation either through polling, focus groups or community meetings

## History of Core Service Reviews

*Using external consultants to prepare services reviews can be seen as part of the conservative developments in government administration over the last 30 years.*

Conservative governments are distrustful of public employees even at the highest levels. This has led to a dramatic increase in the role business consultants play in developing government policy.

British Columbia's first experience with core services reviews came in 2001 with the election of the new Liberal government. The reviews were based on similar projects done in Alberta in the 1990s. Every aspect of government service and program delivery was to be screened for the possible elimination of those found "non essential". Ministers were asked to examine whether programs served a compelling interest, were affordable and reflected a "legitimate and essential role for the provincial government".<sup>6</sup>

In examining programs Ministers were asked to consider options including:

- Activity elimination
- Activity reduction
- Transfer to private sector
- Transfer to voluntary sector
- Transfer to other governments
- Alternative service delivery
- Shared services.

The core services review that has captured the most recent public attention has been that done in Mayor Rob Ford's Toronto. There "The review was intended to critically assess what services the City offers, why it offers them, and to what level each service is provided".<sup>7</sup> The KPMG report stated:

Services that were ranked closer to the discretionary sides of the core/discretionary continuum were considered for opportunities for scaling down, divestiture, or elimination.<sup>8</sup>

The KPMG report recommended a wide variety of outsourcing. Cuts to museums and libraries and sale of the Toronto zoo were all presented as "opportunities".

## Why Service Reviews?

Elected municipal officials have faced two kinds of pressure in recent years. First, local governments have very limited revenue sources. Overwhelmingly their money comes either from property taxes or from charges for services. Those sources of revenue provide about eight cents out of every tax dollar collected in Canada. The rest goes to the provinces or the federal government.<sup>9</sup>

*Despite their small revenue stream, local governments provide a huge range of services and are responsible for more than half of the public infrastructure in Canada.*

Second, municipalities are under relentless pressure from the business community to cut business taxes. The Canadian Federation of Independent Business leads the charge supporting candidates who promise to freeze or cut their taxes. Major corporations like Catalyst paper have actually refused to pay their municipal taxes until they were finally forced to do so by the Supreme Court of Canada.<sup>10</sup>

Faced with these pressures local governments should not be surprised to have consulting firms knocking on their doors and promising solutions to their problems.

### **Problems with External (Consultant Driven) Core Reviews**

The outcomes of core services reviews are shaped by the mandates provided and by the bias of people performing the reviews. The process is often driven by elected officials with an agenda to cut costs rather than to provide services. Consultants also often have a business bias. The following are some of the issues that arise.

1. *They get what they pay for*

Consultants make money delivering what their client wants.

*The real agenda of service reviews rarely surfaces in lengthy requests for proposal that go out to the consulting community.*

They more often appear in a political agenda set by Mayors and Council.

On election night in 2010 Toronto's new Mayor Rob Ford said, "Together we built a coalition of voters who agreed with this — to put an end to the wasteful spending and to watch the taxpayers' money and respect the taxpayers' money."<sup>11</sup> He promised to contract out services and cut the size of staff.

In Mission, British Columbia in 2011 a new slate for council and Mayor were elected on a campaign against spending and taxes and a promise to bring in a consultant led core review.

In some service reviews the consultants make their clients wishes more clear.

KPMG's 2013 Township of Manitowadge Service Delivery Review interviewed council and found:

- 60% of Council find contracting out to the private sector acceptable
- 60% find contracting out to another public sector organization acceptable
- 40% of Council agrees with small FTE reductions<sup>12</sup>

Consulting firms know what it is their clients are looking for.

2. *Bias of contractors*

The consultants performing service reviews are management consultants. They bring with them a "business" oriented world view. That world view comes with a built in bias that says the private sector can always perform better than the public sector. And they have a bias that local governments should offer fewer rather than more services.

KPMG makes its presence felt at municipal forums across Canada with its own brand of

how to cut and contract out services.

In 2009 KPMG made its sales pitch to the Alberta Urban Municipalities Association.<sup>13</sup> Municipal employees were defined as the problem with KPMG observing “Increasing labour costs as a result of collective agreements that continue to support increasing costs...not just in terms of labour rates but also benefits!” KPMG told the Alberta municipalities that almost every study they did find “Alternative Service Delivery – we can outsource, in-source, privatize, contract out all or a portion of our services” to be a common thread.

In April 2013 KPMG was still delivering the same message to a Metro Vancouver workshop on Paying for Our Cities.<sup>14</sup> KPMG's Advisory Head for Local Government in BC told the workshop about their “opportunities” including eliminating or transferring services, through increased cost recovery, through reducing service levels and through cutting costs through “alternative service delivery approaches.” KPMG identified the controversial practice of public private partnerships as a vehicle to manage municipal infrastructure.

*It is not surprising that KPMG promotes outsourcing and P3s and then finds the need for it in its service reviews.*

Public private partnerships are part of KPMG's cash flow. KPMG is a Sponsor Member of the Canadian Council for Public Private Partnerships (CCPPP), the lobbying group for P3s in Canada. The CCPPP website says about KPMG:

KPMG's Global PPP Advisory Services team provides advice on various facets of PPP/PFI projects, from initial evaluation and feasibility studies, through structuring and financing, right up to final handover. KPMG's team-specific sector knowledge can assist in providing valuable services to both public and private sector international clients.<sup>15</sup>

On its international website KPMG calls itself a pioneer in P3s citing the success of such projects in the UK.<sup>16</sup> The website does not discuss the growing controversy in the UK where the costs of P3s have undermined hospitals and schools.

### 3. *Here comes the cookie cutter – part 1*

It is not surprising that service reviews almost always come to the same conclusions. They all start out from the same place. Each of the consulting firms comes into communities with their own templates and the templates have much in common.

The templates start from the premise that anything the city is legally required to do is important while any other services are much less important, regardless of how citizens feel about them.

KPMG's Moncton review states:

One of the specific requirements set out in the RFP was to ‘...provide an approach based on best practices to rank city services from core (essential) to less-core (desirable) as well as highlight services that fall beyond the scope of normal municipal purview.’<sup>17</sup>



KPMG narrowed this mandate saying:

Specifically, KPMG requested City staff to determine if there is a Provincial Act/Regulation that requires the City to provide the service or whether there was a By-Law that states that the City “must” provide the service. If the service is required either by legislation or by By-Law, the service is mandatory otherwise the service is discretionary.

TkMC’s Regina services review told the City:

Discretionary services provide opportunities to eliminate cost to an organization by discontinuing a portion of the service or the entire service to reduce service levels to the target or agreed level of service.<sup>18</sup>

And

Services that are deemed to be non-core are candidates for elimination.

Sometimes the results of these are so cookie cutter in approach that the same wording can be cut out of one review and pasted in another. The following is an example of language found in reviews by Acton Consulting for Edmonton and the District of Mission in British Columbia.

From the Mission document:

As the District of Mission’s workforce ages, succession plans need to be in place for the eventual replacement of longer-term employees. Changes in leadership can disrupt the workplace and affect productivity and morale. We recommend the District develop a succession plan to prepare current employees that exhibit potential to be

future the District leaders.<sup>19</sup>

And from the Edmonton document:

As the City of Edmonton’s workforce ages, succession planning needs to be in place for the eventual replacement of longer-term employees. Changes in leadership can disrupt the workplace and effect productivity and morale. We recommend the City develop a succession plan to prepare current employees that exhibit potential to be future city leaders.<sup>20</sup>

While there are many issues unique to each of the two communities, this identical wording does suggest the firm comes to the community with at least a partial template for results in mind.

4. *Here comes the cookie cutter – part 2 – Outsourcing*

***Service reviews by management consultants almost inevitably recommend outsourcing or privatizing community delivered services. This sort of outsourcing is recommended even when there are financial and service costs to the community.***

KPMG recommended outsourcing by-law enforcement in both Prince George and Vernon. In Prince George KPMG was mandated to “benchmark” services against other cities but they failed to do so by

benchmarking by-law work against comparably sized cities. In Vernon the by-law group is one of the few in the province that can provide actual law enforcement services providing both faster service and a reduction in demands on the police.

Despite their suggestion of outsourcing by-law enforcement in Vernon as an “opportunity,” KPMG actually acknowledged:

Integration of wide range of tasks within Bylaw services would make outsourcing more difficult. Commissionaires as contracting agents getting more expensive. Contract services may not be as flexible in terms of range of duties and hours.<sup>21</sup>

In Toronto service reviews, consultants in turn consulted with companies providing contracted out services to validate arguments for outsourcing. The City of Toronto directly delivers hostel services for the homeless. The review looked at the possibility of contracting out food services so the consultant went straight to two outsourcing companies, Aramark and the Compass Group, for advice. Compass declined to participate but Aramark jumped in saying the savings could be between 10% and 20% highlighting lower labour costs. Despite the optimistic predicted savings, Aramark declined to provide costing information.<sup>22</sup>

In service reviews outsourcing is generally suggested for a wide variety of functions including street weeping, custodial and building maintenance, payroll and garbage collection. Invariably, these are suggested as best practices with little or no support. No mention is made of communities in Canada which have chosen to bring these

services back in house.

5. *Here comes the cookie cutter – part 3 – Cutting services and supports for the community*

While the KPMG Toronto report outlined a wide range of service cuts and outsourcing, it did not offer the possible costs of such actions. For example, KPMG in its report on Public Works and Infrastructure identified as an “opportunity” a significant reduction in waste diversion and the elimination of small commercial waste collection. The diversion issue in particular raises policy issues that go far beyond cost. The report acknowledges cutting back on the diversion rate may undercut the City’s attempt to get a landfill extension.<sup>23</sup>

They raise the possibility of eliminated water fluoridation as a cost saving measure but acknowledge, “It is very likely that the dental health of Toronto residents will decline”.

They recommend considering the reduction of snowplowing (as they also did in Prince George and Moncton) but acknowledge that “negative reaction from residents and increased potential for impassable roads during unusually severe weather conditions”.

When questioned before Toronto City Council KPMG representatives acknowledged the limitations of their work. Councilor Mary Fragadakis asked if KPMG had considered long-term costs associated with cutting support to business improvement areas. What about the economic benefits of arts funding, social services and entrepreneurial support, she asked.

“We weren’t asked to quantify the impact of reducing or eliminating a service,” the company representatives replied. “We weren’t asked to look at the implications of continuing the service.”<sup>24</sup>

KPMG’s Toronto report explicitly said options promoted might not actually achieve the savings suggested. “The one-time costs to implement were not within the scope of this study and, therefore, are not factored into the analysis,” KPMG said.<sup>25</sup>

One of the most frequent suggestions in the service review template report is to cut local government support for community organizations. KPMG’s Vernon services review, for example suggested cutting back on tax exemptions despite the fact that actual grants to community organizations were among the lowest for comparable communities. Their Wawa review suggested cutting back on in kind grants to community organizations.

The organizations that provide services partially funded by local governments are often the heart of the community. They struggle financially to provide the services that make communities better.

Transit and recreation services are also often targeted for cutbacks and when they are not targeted for cuts they are targeted for large cost increases. The Vernon service review suggested limiting access to transit services for people with disabilities despite the fact it acknowledged that the barrier to implementation was high (but not impossible) because it might violate human rights legislation.

This was one of the things that led Vernon Coun. Juliette Cunningham to say she was

concerned parts of the report did not fit with community priorities.

“When you look at transportation or the environment, they are aligned with the (development of) the official community plan,” she said. “There was a vision created by participants in that process.”<sup>26</sup>

#### 6. *Lack of public involvement*

While most core services reviews emphasize some form of public participation, this can actually have very little impact. Often citizens are offered simplistic choices with no opportunity for a real discussion of the needs of the community. There is little scope in these reviews, for example, for the public to say that snow removal is inadequate and that more needs to be done.

Looking at such reports in Regina, Councilor Tina Beaudry-Mellor made the point that such reviews might be used to give the illusion of consultation, while really quieting the debate.<sup>27</sup> But even given limited choices citizens often make their feelings known. Surveys in Toronto showed people were more open to raising taxes than cutting services. In terms of priorities “meeting the needs of vulnerable people,” for example, ranked far ahead of “fair and affordable taxes”.<sup>28</sup>

In places like Prince George the community has come out in force to oppose cuts in support for community based organizations serving the community. But this only happens after the consultant’s report has gone to council.

#### 7. *Lack of involvement by the union*

Working people who actually deliver services in communities have a better knowledge of

how those services are delivered than anyone else. Unfortunately, rather than taking advantage of this expertise core services reviews can simply act as an attack on the people who deliver services.

#### 8. *Undeliverable recommendations*

While it can be obvious from the results of service reviews that the consultants have little knowledge of the community they are studying, sometimes it appears they even lack knowledge of the laws of the province they are working in.

In their report for Toronto KPMG recommended selling the city zoo. It turns out that the city owns neither the land nor the animals. All the city owned were the cages.

KPMG's recommendations in its Prince George service review were even more eccentric. They recommended the City increase swimming pool usage by collaborating with the school district and making swimming a mandatory part of the curriculum and establishing fees for the use of school facilities. In British Columbia, as in most provinces, the City has no authority over schools which are run by separately elected school boards.

Even more curiously, in Prince George KPMG identifies increasing corporate taxes as an opportunity, then adding helpfully that a barrier to this is the fact it is "governed by provincial legislation and would require strong political intervention."<sup>29</sup>

KPMG's services review in Vernon, British Columbia, called for:

Return of surplus recovered water to the surface water system: Consider ending

the practice of spreading recovered water on lands where it is not required for irrigation, and return surplus recovered water to the surface water system. This will involve discussion/negotiation with the province of BC on current restrictions.<sup>30</sup>

It would indeed involve discussions because the practice is not permitted for Vernon.

Similarly, in Vernon KPMG made recommendations regarding amalgamation with neighboring jurisdictions. Council decided to simply ignore that recommendation. Mayor Rob Sawatzky told the media that such a move "requires the co-operation of the community neighbours and the provincial government and we have neither."<sup>31</sup>

One other oddly consistent recommendation in KPMG reports is for an end to fluoridation of municipal water systems.

#### 9. *The real cost of core service reviews*

Typically, councils will pass a motion approving the expenditure of funds to hire a consulting firm to conduct a core services review. This can vary dramatically between the \$350,000 paid in Toronto and Prince George to \$40,000 to \$80,000 paid in smaller communities. That expenditure is a matter of public record.

What is not so readily available is the total costs of a services review including staff time spent in interviews and time spent to collate and provide the data required by the consultant in order to develop their recommendations. Additionally, at the conclusion of a core service review, Council may direct staff to conduct further research

and produce reports on specific recommendations contained in the consultant's final report. In Prince George, Council repeatedly refused to disclose the true costs of the core services review, claiming that it was too complex a task to track staff time spent on the review process.

Finally, the initial service review can lead to what is simply an unending bonanza for

consultants. One project cascades to another and that leads to another and the costs continue to rise. The initial \$350,000 KPMG led Core Service Review in Toronto led to additional 14 service efficiency studies all covering different departments and aspects of service delivery. These reviews were carried on for months by a multitude of other consultants (KPMG also participated in this stage).

### **Do consultant recommendations have anything to do with the facts? Ask Powell River, BC**

The City of Powell River went to Vancouver's the Helios Group in 2011 for a service delivery and organizational review. The results they got back in November were scary. Helios told Council over the past three years operating expenses had gone up by 22% while revenues had only grown by 6%. Helios said future capital maintenance was threatened and that the City had to dramatically increase its operating surplus.<sup>36</sup>

Helios told Council it was financially extended and needed to reduce costs. Don't continue to raise residential and business taxes, Helios said. Reduce your operating costs and discretionary services and look at contracting out services, Helios advised.

However, five months later Helios was forced to make some awkward admissions. On March 22<sup>nd</sup> Helios sent an e-mail to a councilor admitting that expenses had actually grown by 13.2% while revenues had risen by 8.6%.

Powell River Councilor Chris McNaughton stressed that he had been asking for the details of the 22 per cent increase long before the report was released. "I had asked at least on four or five occasions to have the 22 per cent question resolved before the document went out," he said. "That didn't happen, obviously. Now what we've got instead of a 16 per cent spread, we have a 4.6 per cent spread. That's huge."<sup>37</sup>

While the error may have been huge, it was not enough for Helios to change its recommendations. The recommendations in the revised March 2012 report remained the same despite the 75% error in the City's financial position.

When a consultant brings their review template to a community, do the facts really matter at all?

## Internal Reviews

These consultant driven external core reviews should not be mistaken for reviews undertaken internally by local governments. Such internal reviews are often ongoing and involve participation from municipal employees and their unions. Developing community plans is often a multi-year process involving heavy participation from the community. This is a stark contrast to the quick in-and-out process when the consultant comes to town.

In house reviews can lead to different results. In January 2012 Nanaimo provided a report with a stark contrast to most reports by outside consultants. The Nanaimo report was specifically tasked “to review programs and services that are currently performed by outside contractors (to the City of Nanaimo) and conduct an analysis to determine whether contracting out provides the best value to the City’s taxpayers”.<sup>32</sup> Communities undertaking internal reviews include Port Coquitlam, British Columbia, which ended up bringing garbage collection back in house.

One other unusual example where an external service review raised questions about the cost of contracting was the Helios report on Osoyoos, British Columbia, which called for further investment in “contract oversight” to provide better value for money and transparency in contractor procurement.

Consultant reports have generally looked for opportunities to outsource work, but very few have examined possible savings from bringing work in house or better contract management.

For the most part, the senior people working for Canada’s local governments are talented and well paid. They live in their communities and they understand their communities.

In 2012 the City of Abbotsford, British Columbia, directed its staff to undertake a services review for the City. Council approved a \$200,000 budget for the process and a request for proposals was issued. But on March 27, 2013 the City Manager issued a report to Council saying:

A number of other local governments, including Penticton, Prince George, Summerland, Fraser Valley Regional District and Mission have undertaken Core Services Reviews of late. While these Core Services Reviews all produced measurable improvements, the local governments have mixed reviews about the actual “returns on investment” derived from the reviews.<sup>33</sup>

In the end Council voted to scrap the outside review and proceed with an internal review. The Abbotsford Mayor said of the City Manager:

Part of his regular duties would be to go through every single department and budget within the city anyway. So taking both of those factors into account, that he’s a CGA and it’s his duty to review each single budget, we can save the taxpayers about 250 thousand dollars by having him doing the work rather than an outside firm.<sup>34</sup>

The Councilor who had originally called for the review, speaking of the City Manager, said, “He is approaching this a bit differently that I initially thought. But for me, the end product is to provide better and more cost

effective services.”<sup>35</sup> In other words, they asked the senior civic employee to do his job.

### **Possible responses to communities thinking about external core services reviews**

1. *Emphasize the expertise within the local government*

Most local governments have highly paid and qualified managers. They also have staff who are the true experts in service delivery. Outside consultants rarely know either the community or its issues. The probable result will be a “cookie cutter” report that does not address the real service issues of citizens. Improvements found through the cooperation of union members, however, cannot be used to damage the interests of employees.

2. *Examine the financial position of the community*

Often the community is in better financial shape than either its managers or politicians will acknowledge. Pleading “poor” is a better excuse to cut services than just meeting the demand of people who want their taxes cut.

3. *Insist the process focus as much on services as costs*

Virtually no core services reviews ask people in the community if service levels are sufficient or if there are new services they wish to see offered.

4. *Involve residents in examining possible consequences*

Involve residents in the review process both through broader public polling and through more specific work with service users (including local organizations). This includes evaluating the full consequences of policy changes, identifying who pays, who benefits and who may suffer any adverse consequences.

## End Notes

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