



CITY OF HAMILTON
CITY MANAGER'S OFFICE
Human Resources
CORPORATE SERVICES DEPARTMENT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	November 24, 2017
SUBJECT/REPORT NO:	Enterprise Kronos (HUR17017/FCS17093) (City Wide) (Outstanding Business List Item)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY:	Lora Fontana Executive Director Human Resources & Organizational Development Mike Zegarac General Manager Finance and Corporate Services Department
SIGNATURE:	

RECOMMENDATION

That Report HUR17017/ FCS17093 be received.

EXECUTIVE SUMMARY

At the February 24th, 2017 meeting of the General Issues Committee (GIC), staff was directed to present to GIC, a business plan for analytics and data tracking to corporately assist with an overtime strategy.

This report recommends the scoping, design and implementation of a corporate time and attendance system to track and manage a number of employee related costs including, but not limited to, overtime. The main objectives of the system implementation are as follows:

1. Cost Savings/Avoidance
2. Better Data to enable management of employee related payroll costs
3. Increased Compliance and Control

The implementation of such a system, coupled with established corporate standards for data tracking, have the potential to realize significant cost savings related to the City's \$634 million payroll. A conservative estimate of 0.5% savings would equate to \$3,173,000 in annual cost avoidance/savings. Considering that the implementation of such a system is significant, staff recommend a staged implementation, beginning with an exercise in 2018 to design and scope the system, and to establish corporate standards and processes for the data maintenance and approval of payroll related expenses such as overtime, absence and other pay premiums.

Alternatives for Consideration – See page 9

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial:

Staff is requesting \$250,000 for the Phase 1 activities related to a corporate Kronos implementation.

Based on preliminary analysis, the total estimated cost impact for the implementation and maintenance of a Corporate Wide Kronos system is below:

Total Project Costs over Approximately 24 months	
Phase 1 Professional Fees	\$250,000
Phase 2 Professional Fees	\$950,000
Software/Hardware	\$1,460,000
Staffing	\$105,000
Total	\$2,765,000

In addition, staff anticipate an operating budget impact of approximately \$300,000 beginning in 2020 for maintenance licenses and \$105,000 for an internal support resource in the IT department, totalling an annual operating impact of approximately \$405,000.

Estimates have included costs for Hamilton Public Library as they currently use the City's Payroll and Time and Attendance process. Police have recently implemented their own time and attendance system which would require integration but is unlikely to require Kronos licensing therefore, have not been included.

Staff recommend the project be undertaken in two phases as detailed below.

Phase 1 - 2018 Scoping, Design & Business Process Analysis:

Phase 1 will require up to \$250,000 for professional services to scope and design the system. This phase will involve corporate focus groups and business process redesign sessions to ensure we are capturing data appropriately and consistently. We anticipate this phase of the project to take about 6 to 12 months to complete. The cost and length of this Phase will be confirmed via the appropriate procurement process.

Phase 2 – 2018/2019 – Configuration, Testing, & Implementation:

Phase 2 will involve the purchase of Kronos licenses, software and hardware, and the configuration, testing and implementation of the system. Costs are approximate and will be confirmed following the completion of Phase 1 design activities. Estimated costs are broken down in the table below.

Category	Estimated Costs*
Professional Services for configuration/implementation	\$950,000
Kronos Licences	\$1,100,000
Kronos Terminals	\$360,000
Staffing	\$105,000
Total	*\$2,515,000

*Final costs for Phase 2 will be confirmed following the completion of Phase 1. Costs assume internal resource availability as indicated under staffing below and project Phase 2 duration of approximately 12 to 18 months. Professional service fees will be dependent on quotes provided during the procurement process and hardware and software costs will be determined by business requirements and contractual negotiations with Kronos.

Staffing:

Phase 1 - None

Phase 2 - Will require functional subject matter experts from multiple divisions on a full time basis including, Human Resources, IT, Payroll, Finance & Administration and representation from each operating department

IT would require a full-time back fill of a non-union grade 5 Systems Analyst position at a cost of \$105,000 for Phase 2 in order to internally support, test and implement the system.

Following implementation, IT will require an enhancement of one full time equivalent (FTE) position at a cost of \$105,000 annually to provide internal support and maintenance for the Kronos system. There is currently one position in IT supporting the existing divisional Kronos applications. Following implementation, a total of two internal FTE's will be maintained at a total cost of \$210,000 annually.

Legal: None

HISTORICAL BACKGROUND

Kronos was first introduced as a system solution at the City of Hamilton in 2004 in the Lodges division of Community & Emergency Services Department.

In 2010, a project was initiated to upgrade the Kronos solution for the Lodges division of Community & Emergency Services Department and to execute an initial implementation of Kronos for a portion of the Water division of the Public Works Department.

In 2011, external partner Katalogic undertook a full business review and fit-gap analysis to scope and design the implementation of Kronos on a corporate basis. This work validated that Kronos would be a good fit for the City of Hamilton's workforce.

Based on the work done by Katalogic, staff brought forward report CM12002 in 2012 to recommend a corporate implementation of the Kronos solution. The request was denied at that time pending a more robust business case.

In 2016, a project was initiated to further upgrade the existing solutions and extend the use of Kronos to the entire Water division of the Public Works Department.

An implementation for the Paramedic Services Division of Community & Emergency Services Department began in 2015 and is expected to go live in 2018.

In March of 2017, through Council Report FCS17030, Kronos was approved as the corporate standard for time and attendance systems software. Based on this, a procurement process will not be required to extend the use of Kronos beyond the existing Divisions.

As the City has already implemented Kronos for a few divisions, a great deal of configuration around pay rules for a number of employee groups has already been completed. The expansion of these groups to other divisions would be less onerous as much of the work has been done and tested. The table below summarizes some of the configuration work which has been completed to date, as well as the employee groups which require full or partial configuration.

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Configured Groups	Missing Groups
CUPE 5167	Fire Local 288
HOWEA	ATU
ONA Lodges	CLAC
CUPE Lodges	ONA Public Health (minor/partial)
OPSEU	Elected Officials (minor/partial)
CUPE 1041	Part-time, Non-Union (minor/partial)
Full-Time, Non-Union	Boards – HPL & HPS

The table below summarizes existing solutions and their functionality

Division	Functionality
Lodges	Time & Attendance Advanced Scheduling Card Swipe
Hamilton Water	Time & Attendance Scheduling Self Service Absence Requests Biometric Swipe
Paramedic Services (2019)	Time & Attendance Card Swipe Telestaff interface

Although there have been some divisional implementations of the Kronos solution, a corporate business process review and the establishment of corporate guidelines for the tracking and maintenance of overtime and attendance related data have not been established. In the absence of a single corporate system of record, consistency in the tracking and maintenance of data would be difficult to achieve. The outcome of this type of review will require enhancements be made to the existing configuration to meet the established corporate standards.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

None

RELEVANT CONSULTATION

Staff consulted with representatives from each operating departments, including Public Works, Community & Emergency Services, Planning & Economic Development and Public Health Services, in the preparation of this report. Staff also consulted with the Finance, Payroll and Procurement Divisions of the Corporate Services Department.

ANALYSIS AND RATIONALE FOR RECOMMENDATIONS

The City of Hamilton currently administers pay for approximately 8,360 employees, including full-time and part-time staff.

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In administering pay, the City must manage and consider the unique rules associated with fifteen different collective agreements and employee groups, including the Hamilton Public Library (HPL) and Hamilton Police Services (HPS).

In the existing model, pay is submitted and approved for processing by the Payroll section of the Corporate Services Department in a variety of ways including a Kronos interface for a few divisions, manual excel spreadsheets and timesheets for the majority of the organization, and various other ad hoc methods such as forms and emails.

In the current model, divisions track their own employee costs such as overtime independently and by using different tools and methodologies as they see fit for their business. Due to the inconsistency of the model and the absence of a corporate system, data is not collected or managed in a way that supports corporate reporting and analytics. This becomes prohibitive when seeking information to support better management of employee related costs such as absenteeism and overtime at the corporate level. It also results in a very manual process when we seek to collect this information.

Staff feel that the implementation of a corporate time and attendance system, complimented by a full business process review to establish corporate standards for data tracking and maintenance, would be extremely beneficial to the City. Corporate time and attendance systems are known to provide benefits in the following areas:

1. Cost Savings/Avoidance

- Typically related to employee related costs, reduction of payroll error and avoidance of payroll inflation.

2. Better Data

- Ability to produce robust data sets to enable better management of employee related costs and improve overall business visibility through labour reporting.

3. Increased Compliance & Control

- Tools and data to better manage regulatory compliance matters
- Enhanced corporate business processes to put accountability in the right place.

Cost Savings/Avoidance:

The below table highlights payroll earnings which could be better managed through the implementation of a corporate time and attendance system such as Kronos.

Category	2016 Annual Earnings/Costs	Additional Information
Total Payroll Costs	\$634,600,000	This number is inclusive of earnings and employer related payroll costs including CPP, EI, and Employer Health Tax
Total Earnings	\$595,000,000	This number is inclusive of earnings only and excludes other Payroll costs such as employer taxes
Total Premium Pay	\$20,700,000 or, \$24,300,000 including statutory holiday pay	Includes overtime pay, standby pay, call-in pay, and shift premiums
Total <u>known</u> Overpayments	\$153,000	Outstanding cumulative overpayments at December 31, 2016 were \$244,638
Total <u>known</u> Underpayments	\$989,500	510 manual cheques were issued in 2016 to reconcile underpayments and other pay related issues
Total Payroll Errors	783	Equals approximately .2 FTE to reconcile issues, and an error rate of about 1%
Total Cost of Absenteeism	\$6,300,000	Figure includes cost of absences in the IPP program and sick bank program of less than 5 days, chronic absences, and modified hours for short and long term disability. Significant/long term absences are not included.

Kronos estimates a minimum of 0.5% annual savings of total payroll costs at the low end and up to 4% savings at the high end. For the City of Hamilton, this could translate to a range of annual savings between \$3,173,000 and \$25,384,000 respectively. Estimates are based on the assumption that, through the configuration of a rule based system, there is less opportunity for human error in the submission of time sheets and the processing of payroll. In addition, for workers on irregular schedules, the requirement to clock in and out through a terminal would result in only paying for time worked and realize cost savings for late starts, early exits and extended break times. Through automation, administration and manual corrections by staff in payroll and throughout the operational areas should be reduced as well. Further, enhancing manager visibility of costs associated with overtime, absenteeism and other premium payments will enable better overall management of these employee related costs.

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Kronos also estimates that in the category of controllable overtime pay, a business could experience anywhere from 10% to 25% savings through the accessibility and tracking of overtime in a consistent and controlled manner. In 2016, the City spent approximately \$16,000,000 in overtime, including standby and call-in, and excluding statutory holiday pay. At present, we do not have a corporate standard for tracking and categorizing overtime, therefore it is difficult to determine how much of the City's overtime is controllable. A conservative estimate of 5% savings would suggest the City could reduce annual overtime costs by approximately \$800,000.

The implementation of a corporate Kronos system and the establishment of standardized business processes would put the right measures in place to appropriately collect data to enable better identification and management of overtime and other employee related costs. These management tools do not exist today.

A summary of estimated annual cost savings is found in the table below:

Category	Estimated Annual Savings
0.5% of Total Payroll Costs	\$3,173,000
5% of Overtime Pay	\$800,000
Time & Attendance Grievance Costs	*\$50,000
Total	\$4,023,000

*A conservative estimate of savings related to time and attendance grievances has been provided based on the information found in the compliance section of the report.

In addition to the above hard costs, there will be much efficiency to be gained through the ability to more effectively manage and approve staff time in an automated system. The Phase 1 design activities will determine where the City would benefit most from swipe systems and other Kronos functionality.

The City has built capacity and expertise over the past several years through the various Kronos implementations and is well positioned to undertake a corporate Kronos initiative. This includes, sound knowledge of the software in Payroll, Human Resources, Finance & Administration, divisional subject matter experts and IT expertise, including an FTE in IT who internally supports the solution. Much of the work completed to-date, including pay rule configuration and the 2011 analysis conducted by Katalogic, can be leveraged by reviewing and updating information to reflect the current workforce.

Better Data:

In the existing model, departments use various systems and methodologies to log attendance and pay information. They include, but are not limited to, a customized PeopleSoft attendance module, Kronos, Trapeze, Hansen and various manual spreadsheets and forms. All attendance data is loaded into the PeopleSoft attendance

module weekly for payroll processing. As this is an old legacy module which is fully customized, staff would recommend decommissioning this module if we move forward with the implementation of Kronos on a corporate basis.

Due to the variation in the current model and the lack of automation in some divisions, we are unable to provide accurate and robust reporting on a corporate level on matters such as overtime, absenteeism and other premium payments. In addition, even where divisions have implemented systems such as Kronos, a corporate business process to determine consistent standards for data tracking and monitoring has never been established. For example, we do not have corporate guidelines on the information we wish to track in relation to overtime such as the reason for the overtime. As a result, we cannot identify trends or obtain information to corporately identify opportunities to better manage costs related to overtime, absenteeism and other premium payments.

Divisional implementations, although effective at improving administration, lack corporate oversight and ultimately do not optimize the full capacity of Kronos from a data perspective. For this reason, staff recommends that a corporate project be initiated prior to any further divisional implementations proceeding.

Staff propose that as a critical element of a corporate Kronos implementation, we conduct a full business process review to establish and implement standards and guidelines regarding the type of information to be tracked and maintained corporately as it relates to overtime, absenteeism and other premium payments. This step should be taken as an initial phase of a corporate implementation to ensure configuration meets the administration and data needs of the City. Staff also will undertake a full review of all system functionality to consolidate and decommission duplicate systems where possible as part of the implementation and consider interfaces with existing systems where appropriate. This will ensure efficiency as well as promote Kronos as the single system of record for all pay and absence related information. This exercise will ultimately enable better data and create an effective management tool to assist leaders in controlling costs.

Increased Compliance & Control:

Existing processes for the approval of pay related information are varied. For example, absences such as incidental sick days, vacation days and unpaid leaves are often reported late which impact administration and reporting. In addition, due to the absence of an automated system, reporting of absences often falls to administrators in departments who may not have direct contact with employees, creating additional administration and follow up. In addition, overtime pay is often tracked in spreadsheets with limited visibility to senior leadership and robust information around overtime such as the reason for the overtime is not collected. Because of this, it is difficult to identify opportunities for cost savings in this respect.

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The Kronos system is designed to have time and attendance approved on a weekly basis by each employee's direct supervisor. Automation of this function, in addition to having the accountability of approved time being directly assigned to the operational supervisor, should result in more timely submissions, less corrections, and the ability to identify and manage situations where errors are frequent. The implementation of this system will put accountability in the right place and give leaders visibility into their workforce and labour costs.

The automation of pay rules and approvals should also assist with compliance to the City's various collective agreements. From January 2014 until July 2017, the Labour Relations team received a total of 421 time and attendance related grievances resulting in approximately \$310,000 in settlements, mediation, legal and arbitration costs. The reduction of manual processes, coupled with the configuration of pay rules should reduce the opportunity for error resulting in cost savings.

A fully operational Kronos system, coupled with advanced scheduling functionality, can also assist managers in ensuring regulatory standards are met by more effectively managing their staffing levels and ensuring the right staff with the right qualifications are available for work in order to best deliver service.

**ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN
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