



INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	July 8, 2024
SUBJECT/REPORT NO:	Attaining Efficiencies Through the Review of the Use of Consultants (FCS24033) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Abdisalam Osman Duncan Robertson (905) 546-2424 Ext. 4744
SUBMITTED BY:	Kirk Weaver Acting Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

COUNCIL DIRECTION

At the January 30, 2024 Budget General Issues Committee, the following motion was passed:

WHEREAS, the City has and continues to engage consultants to complete work when specific expertise is required;

WHEREAS, a review of the use of consultants would provide Council with the frequency as well as a listing of the expertise the City requires on an ongoing basis; and

WHEREAS, providing staff with training opportunities to acquire the specific expertise would result in the potential for long term cost savings by having the work currently completed by consultants, completed by staff.

THEREFORE, BE IT RESOLVED:

- (a) That staff be directed to review and report back to the General Issues Committee with an interim report by the second quarter of 2024 respecting the projects the City has engaged consultants to frequently complete and any upcoming projects; and

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OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

- (b) That staff be directed to evaluate the potential of long-term cost savings by reviewing the list of projects, the expertise that was/is required and make recommendations for having this work completed by City staff by:
 - (i) Offering training opportunities;
 - (ii) Offering inter-departmental opportunities for staff with expertise;
 - (iii) Hiring staff with the expertise required; and
 - (iv) Include a review of the labour market and competitiveness of the City's ability to bring the expertise in house.

INFORMATION

Purpose

To provide Council with an overview of City expenses on consulting services across City departments between 2019 to 2023. This analysis examines the implications of these trends and the sustainability of current practices, looking at the City's budgetary allocations against actual expenditures. This report represents the interim report requested in section (a) of the motion passed at the January 30, 2024 Budget General Issues Committee

Background

The City of Hamilton (City), like other municipalities and government entities, employs consultants to address a spectrum of operational needs and strategic issues. This practice enables the City to tackle infrastructure design, delivery and development, policy innovation, regulatory compliance and staffing shortages in specialized technical and policy roles. Engaging consultants offers a blend of specialized technical expertise, knowledge and external perspectives, enriching the City's internal capabilities.

The nature of consulting services, in this context, covers not just traditional advisory roles but also the procurement of specific services tailored to the City's unique needs. While the use of external consultants brings specialized broader technical expertise knowledge and fresh innovative perspectives, it introduces challenges such as ensuring cost-effectiveness, maintaining project continuity and avoiding over-reliance on external expertise. This underscores the importance of striking a balance between the use of external consultants and the development of in-house resources.

Analysis

An examination of the City's consulting expenses from 2019 to 2023 reveals a consistent rise in the use of external consultants. The data, as outlined in Table 1 and illustrated in Figure 1, shows a steady increase in consulting service expenditures with actual

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spending frequently outpacing the budgeted projections, most notably in the capital programs of the tax and rate budgets.

Initially, in 2019, actual expenditures surpassed the allocated budgets, indicating possible underestimations of the need or unexpected demands for external consulting. Although this gap narrowed in 2020 it persisted, pointing to ongoing variances between projected and actual consulting requirements.

During this five-year span, the allocated budget for consulting services saw a 73.7% rise from \$20.5 M to \$35.6 M, while actual consulting costs experienced a more modest increase of 15% from \$34 M to \$39 M, as illustrated in Figure 1. This differential growth rate indicates a shift towards budget planning, likely reflecting an intention to align more closely with prior spending trends.

This uptrend in budget allocations for consulting services points to a direction that favours a growing engagement with external consultants. In some areas these budget allocations have increased notably to accommodate consulting fees, sometimes doubling over the period analysed.

The data, outlined in Table 1 and visually represented in Figure 1, indicates a move away from traditional budgeting for consulting services toward a more proactive and comprehensive approach towards engaging consulting services. This shift highlights the City's effort to balance external advice with operational needs against a backdrop of changing project requirements and market conditions.

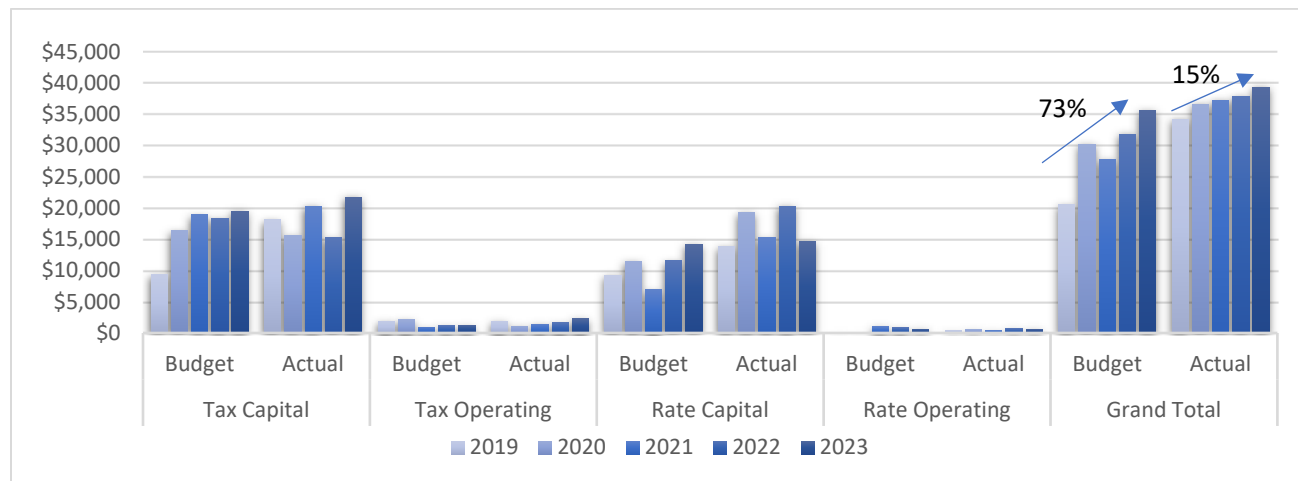
Table 1 – Total Consulting Expenses, Hamilton, 2019-2023 (000s)

	Tax Capital		Tax Operating		Rate Capital		Rate Operating		Grand Total		
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
2019	9,415	18,103	1,889	1,901	9,183	13,779	32	351	20,519	34,135	
2020	16,372	15,615	2,181	1,096	11,520	19,304	20	529	30,093	36,544	
2021	18,878	20,295	928	1,395	6,905	15,190	986	377	27,696	37,257	
2022	18,236	15,229	1,170	1,666	11,561	20,306	843	657	31,810	37,858	
2023	19,487	21,754	1,217	2,320	14,233	14,613	648	604	35,585	39,290	
									5-Yr Total	145,703	185,084

Source: City of Hamilton

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Figure 1 – Total Consulting Expenses, Hamilton, 2019-2023 (000s)



Source: City of Hamilton

Tax Capital and Rate Funded Projects

Tax Capital and Rate funded projects within the City have displayed an enduring reliance on external expertise, as chronicled over the last five years. This consistent engagement with consultants is attributable to the specialized nature and complexity of these initiatives, which often extend beyond the scope of the City’s in-house capabilities. Projects that fall under this category may involve requirements that necessitate a level of proficiency that external consultants are uniquely equipped to provide. Tables 2 and 3 list the largest completed and ongoing projects that have required external consulting resources from 2019 to 2023.

Table 2 – Top Actual Tax Capital Consulting Expense by Year, Hamilton, 2019-2023

Year	Project	Cost
2019	Transit Maintenance and Storage Facility	\$4,529,214
2020	Transit Maintenance and Storage Facility (\$1,264,025
2021	Parkdale Outdoor Pool Redevelopment & Expansion	\$3,618,652
2022	East-West Road Corridor (Waterdown By-Pass)	\$931,743
2023	Public Works Asset Management (PW-AM) System Implementation	\$2,482,110

Source: City of Hamilton

Table 3 – Top Actual Rate Capital Consulting Expense by Year, Hamilton, 2019-2023

Year	Project	Cost
2019	Woodward WWTP - Clean Harbour	\$4,992,010
2020	Woodward WWTP - Clean Harbour	\$6,844,474
2021	Woodward WWTP - Clean Harbour	\$5,004,693
2022	Pier 25 Dredging - Windermere Basin	\$5,707,863
2023	Woodward WWTP - Clean Harbour	\$1,156,593

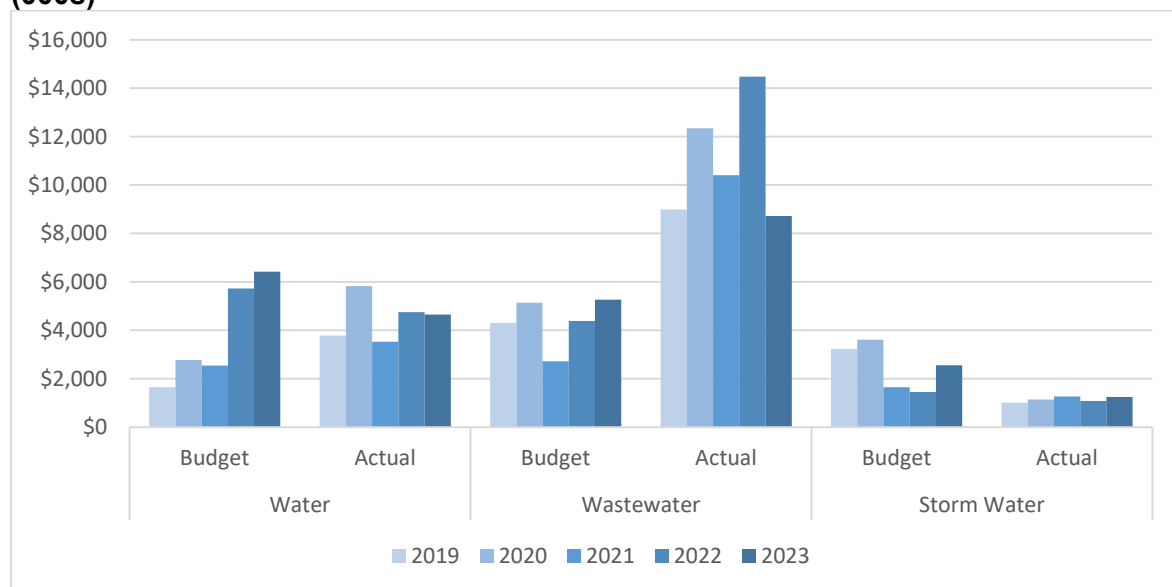
Source: City of Hamilton

Wastewater Projects

As illustrated in Figure 2, actual expenses for Wastewater projects have consistently outpaced budgeted expenses, driving up the overall consulting expenditures in the City’s rate-funded capital projects. This trend suggests a possible increase in the complexity and regulation associated with Wastewater initiatives, or it may reflect the impact of unforeseen challenges such as escalating material costs, regulatory changes requiring additional compliance measures, or the discovery of unanticipated site conditions requiring specialized consulting services.

The Water and Storm Water expenses on consulting services also show variances between budgeted and actual costs, but not as pronounced. The discrepancy in the Wastewater category underscores the need for a possible review of the factors influencing the demand for consulting services.

Figure 2 – Consulting Expenses on Rate Capital Funded Projects, Hamilton, 2019-2023 (000s)



Source: City of Hamilton

Hamilton Spending on Consulting Services Relative to Others

When comparing the use of consultants between the City of Hamilton and the City of Toronto over a multi-year span, there's a contrast in the growth of expenditures. Toronto's actual consulting costs have increased much more rapidly, ballooning from \$37 M to over \$59 M from 2019 to 2022, a 57% increase. In comparison, the City of Hamilton's actual consulting expenses over the same period have shown a relatively smaller increase of 15%, rising from \$34 M to nearly \$39 M. This suggests that Hamilton's approach to utilizing consultants has been considerably more restrained and possibly more efficient. While both cities have increased their spending on external expertise, Toronto's substantial surge indicates a much heavier and growing reliance on consultants compared to Hamilton.

Considerations

Like many municipalities, the City of Hamilton is grappling with several challenges that influence its dependence on external consulting services. Among these challenges are:

- **Infrastructure and Policy Development:** Hamilton's growing population necessitates the expansion of infrastructure and the innovation of new policies. As the existing infrastructure ages, there is an increasing need for regular repairs and renewals. Consultants play a pivotal role in these areas, providing necessary expertise and support..
- **Supporting Council Priorities:** Consultants support the acceleration of the City's response to climate change and the reduction of the City's energy and GHG emissions through:
 - Net Zero and green building feasibility studies
 - Delivery of capital projects that reduce GHG emissions and increase climate resiliency
 - Achieving the Net Zero target by 2050 and transitioning existing facilities to Net Zero

Engaging consultants offers noteworthy advantages when aligned with best management practices. Consulting firms offer the City a reservoir of specialized knowledge, enhancing the City's capacity to manage a diverse portfolio of services. The collaboration with consultants can serve as a means for knowledge transfer, expanding the skill sets and finding effective benchmarking of City staff and enriching internal expertise for future projects.

While the City may benefit from the specialized knowledge and expertise of consultants, enhancing capacity and decision-making, concerns over cost efficiency, dependency, knowledge retention and cultural alignment present significant counter arguments. The reliance on external consultants may lead to increased project costs and create a

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dependency that could detract from the City's ability to develop internal expertise and pool of talented licensed engineers and architects and operate independently.

Additionally, the transient nature of consultancy does not always guarantee the retention of knowledge within the City staff and the potential mismatch in organizational culture and commitment could impact project outcomes. Balancing the advantages of consulting services with these considerations is essential for the City to ensure a strategic and fiscally prudent approach to external engagements.

Next Steps

Report FCS24033 represents the interim report as directed in the Council motion. In accordance with Council's motion, the next steps for staff will focus on a comprehensive evaluation aimed at identifying long-term, cost-saving opportunities. Results will be included in 2025 and subsequent year's budget materials. This will involve a detailed review of the list of projects that have historically relied on external consultants, particularly, those under the Tax Capital and Rate funded categories and the specific expertise that these projects demanded. Efforts will focus on building upon existing opportunities for training, certification and cross-departmental collaboration. This ongoing review will require collaboration with staff in the Human Resources Division and various program areas across the organization.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS24033 – Top 10 Most Consulted Rate Capital Projects, City of Hamilton, 2019-2023

Appendix "B" to Report FCS24033 – Top 10 Most Consulted Tax Capital Projects, City of Hamilton, 2019-2023