CITY OF HAMILTON

City Manager’s Office

Report to: Chair and Members, Audit and Administration Committee  Submitted by: Glen Peace, City Manager

Date: January 16, 2008  Prepared by: Glen Peace, Brenda Glover, Connie Wheeler

SUBJECT: Human Resources Organizational Review - Final Report (City Wide) (CM08004)

Discussion of Recommendation b) in this Report will be in camera in accordance with Section 8.1, subsection (b) of the City’s Procedural By-law and Section 239 of the Ontario Municipal Act as the subject matter pertains to personal matters about identifiable individuals.

RECOMMENDATION:

a) That the Consultant’s report entitled “City of Hamilton – Human Resources Organization Review – Organization Design”, prepared by Oliver Wyman, attached as Appendix A to report CM08004 be received.

b) That the alternative Organization Design Option recommended by the Senior Management Team, and distributed under separate cover as Appendix B and Appendix C (In-Camera), to report CM08001, be approved.

Glen Peace
EXECUTIVE SUMMARY:

This report presents the summary results of the Organization and Resource Review of the Human Resources Department. It also presents an alternative organizational structure proposed by the Senior Management Team for adoption by Council.

BACKGROUND:

In April 2007, Glen Peace, City Manager, advised Council that he would be commissioning a Human Resources Organizational Review. The review was designed to make recommendations and determine options for:

1. the appropriate corporate reporting structure for the Human Resources Department (“HR”);
2. the appropriate organizational structure for HR; and
3. level of resources to support the organizational structure.

In determining the various options, the following issues were to be analysed and considered as part of the review:

--service expectations of and demands on HR;
- the current and future challenges facing the City of Hamilton that impact on the services and programs proved by HR;
- the capacity of the existing structure and resources to manage human resources issues within the current environment;
- anticipated resources to meet future demands for HR services; and
- the complexity of the employee groups in the City of Hamilton and in the provision of HR services.

The recommendations flowing from the review were to be tailored to reflect HR best practices and benchmarking of HR services. Further, the structures and level of resources in comparable municipalities were to be considered in designing and recommending the appropriate structure and resources for HR in the City of Hamilton.

Following a competitive process, the firm of Oliver Wyman was selected to perform the review. Consultants from Oliver Wyman interviewed members of Council, members of the Senior Management Team (“SMT”), HR Staff, and representatives of the City’s unions. They also conducted a written survey of all management staff in the municipality and a review of the structure and resources of comparable municipalities in Canada. In addition, the consultants implemented a detailed quantitative review of the functions, activities, processes, and roles within HR, including a review of the level of overtime worked by HR staff and the number and scope of major projects undertaken by HR to respond to organizational needs and demands.

As a result of this comprehensive review, the consultants prepared a summary report for SMT, recommending a preferred organizational design for HR, highlighting key
issues, gaps, and opportunities for HR services, and identifying areas where HR is currently under-resourced to meet current and future demands and organizational expectations.

SMT considered the consultant’s report in November 2007. While SMT appreciated and acknowledged that the consultant’s recommendations reflected best practices for HR services and responded to the identified needs for the City of Hamilton, SMT was concerned about whether the proposed delivery model would be operationally effective in the City’s current environment. Further, SMT concluded that the recommended model and the consequent resourcing of the model would require a significant budget increase for HR services and that such an increase would not be economically feasible in Hamilton’s current fiscal environment.

SMT resolved to place a second option before Council that would respect the most significant of the consultant’s recommendations but would be less costly and more immediately effective.

**ANALYSIS/RATIONALE:**

The summary report prepared by Oliver Wyman is attached as Appendix A. The lead consultant, Ian Smith, from Oliver Wyman will be in attendance at the Audit and Administration Committee meeting to present this report to the Committee. The following will summarize the key findings, considerations, and recommendations from the report.

(a) Report from Oliver Wyman -- Human Resources Organization Review – Organization Design

(i) Key Findings from Interviews, Surveys, and Quantitative Reviews

Key findings from the consultant’s report are:

1. HR plays a critical role in the overall success of the organization;
2. HR is spending a substantial amount of time on transactional and administrative activities;
3. HR needs to spend more time and resources performing strategic activities, such as Workforce Planning, Talent Management Consulting, and developing a Staffing Strategy;
4. HR is significantly under-resourced at the management level;
5. In order to minimize risk, resource considerations should address the identified concern that too many non-specialized HR staff are involved in administering and interpreting the City’s collective agreements and in interpreting labour legislation;
6. Given the demographics of the City’s employee population, HR will see increasing demands for one-on-one, customized (“high touch”) services for employees;
7. HR should spend more time and resources on:
   a. Partnering and consulting with the operational departments;
b. Balancing the need for consistent application of HR policies and procedures with the consideration for local operational needs and requirements; and
c. Positioning the City for the future in terms of managing talent.

Oliver Wyman took those findings into consideration in its recommendations on the preferred corporate reporting structure and organizational structure.

(ii) Potential Resourcing Considerations

While the consultant did not propose recommendations for additional resources at all levels in HR to respond to the identified issues, it highlighted potential resourcing considerations in order to assist SMT to populate the organization structure based on the preferred organizational model:

(1) There should be an increase in the number of managers in the department in order to minimize the amount of time the current Directors are spending on transactional activities, to reduce the amount of unpaid overtime worked by the Directors, and to maximize the amount of time on direct management of staff and development of strategic HR policies, programs, and services;
(2) Additional resources should be dedicated toward providing strategic HR services; and
(3) HR services should be provided through a centralized/distributed model to allow HR to fulfil its dual roles as (i) corporate oversight and leadership and (ii) business support.

SMT considered these issues when identifying the resources that would be required to populate and implement the consultant’s preferred organizational structure to the level of front line HR staff.

(iii) Findings from the Review of Comparator Municipalities

Considerable time was spent on identifying and interviewing the most appropriate comparator municipalities. While the consultant did draw upon its own public sector and private sector research on best practice models and resources in developing its recommendations, it focussed its detailed comparison of four municipalities (London, Ottawa, Sudbury, and Windsor). The selection was based on the fact that these municipalities are (1) single tier; (2) with a population comparable to Hamilton; and (3) similar in a jurisdictional context.

Key findings included:

(1) Hamilton’s HR budget, as a percentage of the municipalities’ total budget, is significantly lower than any of the other municipalities considered;
(2) The total HR employees, as a percentage of total employees, is lower than any of the other municipalities considered;
(3) The span of control (i.e. number of direct reports) for the “head” of HR in Hamilton is at the low end of the range but not out of line with other municipalities;
(4) The span of control for the second level management is HR is 3 times higher than the average of other municipalities considered and 1.7 times higher than the highest span of control in the comparator municipalities.
(5) There is no uniform approach to the corporate reporting structure (i.e. to whom the “head” of HR reports).
(6) The common clustering of HR services into divisions involves four divisions: (i) Occupational Health and Safety; (ii) Labour and Employee Relations; (iii) Staff Planning and Development; and (iv) Rewards and Recognition.

Therefore, based on the key findings, it was evident that HR requires more resources to meet the organization’s needs.

(iv) Recommendations on the Organizational Model

Based on the input received through interviews and surveys, and the findings from the comparator municipalities, along with the findings from its own public and private sector research database on a review of HR best practices, the consultant recommended a distributed model. Essentially, the model calls for centralized resources at the level of strategic policies and programs and distributed resources to provide direct services to the operating departments. The centralized resources would be funded through HR’s operating budgets; the distributed resources would be funded by the operating departments.

This model is an extension of what is currently in place in HR.

Based on its analysis, the consultant recommended that the HR Department be lead by an Executive Director who would report to the City Manager as part of the City Manager’s Office. Further, the consultant recommended adding a management layer to the department in order to:

1. address the span of control issue and other related management issues and gaps;
2. introduce greater differentiation in HR service delivery at the middle management level to improve service; and
3. increase HR’s capacity to meet service expectations and requirements in each of the major operating departments, while complying with the corporate oversight role of the HR department;

In order to ensure that HR is meeting the needs of operating departments, the consultant recommended the use of service level agreements between HR and the client departments. These agreements would define the needs and expectations of the operating department for all HR services (both strategic and transactional) and would govern the level of resources required to meet those needs. Performance measures would be built into the agreements to measure efficiency, effectiveness, and
achievements in meeting the operation’s expectations. SMT would be responsible to monitor and evaluate the ongoing performance of HR in meeting client service expectations and requirements.

The Consultant’s preferred organization design is outlined on page 38 of Appendix A. In addition, the report identifies how the structure would be operationalized and the benefits of the preferred design.

(v) Additional Resources

Although the consultant was asked to identify if the level of resourcing in HR was adequate to meet current and future service demands, it was not asked to detail the individual positions required to address its findings (other than at the management level) or to populate its recommended structure.

Based on these considerations, SMT was able to identify the additional resources that would be required to respond to the consultant’s findings and to operationalize the model.

There would be an increase of 6 management personnel and an additional 13 full-time equivalents in HR to address current and future service needs.

(vi) Performance Measures

The consultant recommends that HR develop a performance management system in order to monitor, evaluate, and report on the performance of the department on an ongoing basis. Critical success factors were proposed to determine the appropriate set of performance measures. In addition, the consultant recommends that the HR performance measure system be aligned with other measurement systems used in the City.

(vii) Implementation Considerations

The consultant identified several implementation considerations that must be taken into account if the recommended reporting and organizational structures are to be successful.

(b) Recommended Option from SMT -- Human Resources Organizational Review – Organization Design

Following Oliver Wyman presentation to SMT in November 2007, the group concluded that Oliver Wyman did an excellent job of responding to the identified scope of the review, of taking into consideration the feedback it received through interviews, surveys, research, and quantitative activities, of identifying best practices, and of presenting reasoned and responsive recommendations.
It should also be noted that a number of other staff-led initiatives were underway coincident with this organizational and resources review:

1. A comprehensive review was being undertaken of the level and effectiveness of HR recruitment services. As a result of this review, it was determined that HR was under-resourced in providing effective and timely recruitment services, as well as in providing strategic services that would help position the municipality to recruit and retain municipal staff given the future needs of the municipality.

2. Current processes were being analysed and enhanced for specific recruitment drives (e.g. for students and for volunteer firefighters).

3. In preparing the 2008 budget, HR staff were assessing the needs for additional resources that would be required to fulfil existing demands for services.

4. Operating departments were identifying areas where the demands for HR service outstripped the current resources available, particularly in key areas such as staffing and workforce planning, labour relations, health and safety, and organization development.

5. Operating departments were pinpointing areas where HR could provide additional support to respond to the results of the employee survey, to assist with requirements from operational reviews (e.g. in health and safety), to enhance labour and employee relations, or to support the achievement of departmental strategic planning initiatives.

*In addition to the consultant’s recommendations, SMT acknowledged the need to take into consideration the results of all of these initiatives in setting out its recommended approach for Council.*

(i) **SMT’s Conclusion**

After having assessed the findings and recommendations from all of the initiatives relating to the provision of HR services, SMT concluded the following:

(a) Even though it is not providing direct service to the public, the value of HR should not be underestimated. Operating departments would not be able to deliver services to the public without a fully functioning and adequately resourced HR Division that provided specialized advice, support, and service.

(b) Although the Consultant’s recommended management structure for the HR department was an identified best practice for HR services, and would undoubtedly respond to the critical fact that HR is underresourced at the management level, the current fiscal environment would likely not support the level of funding required.
There was an identified and supportable need for an Executive Director to lead the HR Division, reporting to the City Manager.

The structure and resources should respond to the critical and evolving demands for strategic HR advice and services related to recruitment and retention of staff; labour and employee relations; health, safety, and wellness; and organizational development and effectiveness.

Although adopting the principle of a centralized/distributed model, an overly decentralized model might destabilize the essential role of HR to provide corporate oversight and consistency in the application of policies, programs, and collective agreement.

The level of clerical/specialized support resources within the HR department should be increased to allow HR management and specialized HR staff to concentrate on providing specialized advice, rather than performing clerical or purely administrative tasks.

Given the number of collective agreements, the risk of incorrect interpretation of agreements and legislation, and the increasing demands for labour relations services, added resources at both the senior and analytical levels were required for the labour relations area of HR.

Some positions could be eliminated to fund other more critical positions.

An operational review should be conducted of the Return to Work/Work Accommodation area of HR to ensure that the services provided are efficient and effective and are structured and administered to enhance collaboration between various units in HR (such as health and safety, labour relations, and employee wellness).

As an alternative to the consultant’s recommended structure and in light of the above conclusions, SMT developed a second option for consideration and identified the consequent resources to implement that option. The alternative option is recommended for approval. The remaining recommendations of the consultant (e.g. service level agreements, performance measures, and implementation considerations) can be accommodated for implementation within this alternative model.

Since the option has an impact on identifiable individuals within the current structure, the City Manager will present Option 2 to Committee during an In-Camera session.
ALTERNATIVES FOR CONSIDERATION:

This report has identified various alternatives for consideration by Council.

Given the demands and expectations for HR services, the current model and resources are not appropriate or sustainable to meet the current and future needs of the organization.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

(1) Report from Oliver Wyman

It is estimated that there would be a net increase of 19 full-time equivalent staff resulting from the implementation of the consultant’s recommendations. This increase includes the estimated additional resources required to respond to the “potential resourcing considerations” identified by the consultant. The net budget impact is estimated at more than $1.8 million.

SMT’s Recommended Option

As set out in Appendix C (see In-Camera Attachment), it is estimated that there would be an increase of 9.4 full-time equivalent staff required to implement the SMT’s recommended option. This also takes into account positions that would be eliminated in order to fund new positions. The net budget impact is estimated at $814,000:

(a) An increase of approximately $160,000 in centralized HR services, predominantly to fund the increased senior and analytical resources in the labour relations area;

(b) An increase of approximately $654,000 in distributed HR services throughout the organization, to be budgeted through the applicable operating department:
   i. Community Services: $105,600
   ii. Public Works: $140,700
   iii. Hamilton Emergency Services: $50,600
   iv. Corporate Services: $6,800
   v. Planning and Economic Development: $122,400
   vi. Public Health Services: $227,900

POLICIES AFFECTING PROPOSAL:

None.
RELEVANT CONSULTATION:

Members of Council – all were invited to participate via individual interview
Members of SMT – all were interviewed
Members of EMT – all were invited to participate in an on-line survey
HR Staff – all were invited to participate via individual interview and/or focus group and were asked to complete a survey
Union Reps – key unions were invited to participate in a focus group
Various individuals from other Municipalities

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Evaluate the implications of your recommendations by indicating and completing the sections below. Consider both short-term and long-term implications.

Community Well-Being is enhanced.  ☐ Yes  ☑ No

Environmental Well-Being is enhanced.  ☐ Yes  ☑ No

Economic Well-Being is enhanced.  ☐ Yes  ☑ No

Does the option you are recommending create value across all three bottom lines?  ☑ Yes  ☐ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants?  ☑ Yes  ☐ No