

## Report to Corporate Services Committee

**To:** Chair and Members  
Corporate Services Committee  
**From:** Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports  
**Subject:** City of London Procurement Process Assessment Review  
**Date:** November 22, 2021

## Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, the following actions be taken:

- a. the attached Appendix “A” Spend Analysis and Procurement Maturity Assessment report by Ernst & Young LLP (EY) **BE RECEIVED** for information;
- b. Civic Administration **BE DIRECTED** to undertake pilot projects to test the hypotheses presented by EY and validate potential opportunities;
- c. As part of the 2024 to 2027 Multi-Year Budget, Civic Administration **BE DIRECTED** to bring forward a business case for consideration to provide additional resourcing to the Purchasing & Supply Services to enable further advancement of the City’s procurement processes; and
- d. Civic Administration **BE AUTHORIZED** to undertake all administrative acts that are necessary in connection with this matter.

## Executive Summary

Working with City staff, EY conducted a Procurement Process Assessment Review which included an expenditure spend analysis for the period of 2019-2020. The purpose of this report is to present the findings, recommendations, and next steps. The review includes a number of recommendations that align with Purchasing & Supply’s continuous improvement plans.

## Linkage to the Corporate Strategic Plan

Council’s 2019 to 2023 Strategic Plan for the City of London identifies “Leading in Public Service” as a strategic area of focus. This includes increasing the efficiency and effectiveness of service delivery by conducting targeted service reviews to ensure Londoners experience exceptional and valued customer service.

## Analysis

### 1.0 Background Information

#### 1.1 Audit and Accountability Fund – Intake 2

On March 9, 2021, the Strategic Priorities and Policy Committee received a report to provide an update on the Audit and Accountability Fund (AAF) and the status of the two applications that were submitted in December 2020 as part of the second intake process:

- City of London Parking Services Service Integration and Digital Modernization Review
- City of London Procurement Process Assessment Review

As part of the report, it was noted that the City of London received confirmation of approval from the Province for both projects under this intake of the AAF. Accompanying the notification, the Province confirmed the requirements of the funding

approval, including the deadline for completion of the service reviews. As part of the timeline for the service reviews, Civic Administration committed to bringing back final reports to the appropriate standing committees with the findings and recommendations from the service reviews as they are completed.

## **1.2 Previous Reports Related to this Matter**

Strategic Priorities and Policy Committee, March 9, 2021, Agenda item 5.1, Service Review: Audit and Accountability Fund Applications & Single Source 21-14 Procurement Process Assessment Review: <https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=78181>

## **2.0 Discussion and Considerations**

### **2.1 Overview of Project (approach, hypothesis and expectations)**

The City of London's Purchasing & Supply section has been on a continuous improvement journey with successful results over the last number of years, including projects such as the implementation of the Bids&Tenders automated electronic bidding portal and electronic Purchase Requisitions. Purchasing staff assistance and feedback were critical to preparing the data for an effective analysis and identification of opportunities for savings. EY leveraged the City's existing commodity codes, based on categorization and classification (taxonomy), to further group the data into major expenditure categories identified with the United Nations Standard Products and Service Code (UNSPSC) categorization adapted for Canadian municipalities. EY then assessed the applicability of various value levers on each of the expenditure categories to identify savings hypotheses. These savings hypotheses were validated for accuracy and relevance with the service area's stakeholders to refine the hypotheses and develop opportunities for the City's consideration. As a by-product of the analysis, EY also provided commentary on the maturity of the data available for expenditure analysis and a guide outlining the steps for future spend analyses.

### **2.2 Process with Civic Administration**

For the review, EY utilized the analysis process previously leveraged at the City of Toronto. Many of the benchmark references in the Spend Analysis and Procurement Maturity Assessment report were made based on this previous work. However, Civic Administration has been unable at the time of writing this report to independently validate the precision of the benchmark information.

EY leveraged their generic public and private sector-based procurement Maturity Assessment Framework to seek feedback on the current and desired future state of the City's Purchasing & Supply Operations. Three key leaders within the Purchasing & Supply completed a detailed questionnaire to assess their current state of maturity and share their aspirations for the future state in the next 2-3 years. The framework captured the City's procurement maturity across six key dimensions, namely:

1. Strategy and governance
2. Operating model
3. Category management and strategic sourcing
4. Procure-to-pay
5. Contract and supplier management
6. Technology

The benchmarks were presented on a five-point scale. The scale is designed to be used for all industries, and public sector respondents naturally score lower due to the number of scenarios, services and products that are typically managed. A maturity score of one indicates a reactive and ad-hoc management of key aspects of procurement functions, while a maturity score of five indicates a best in class, mature organization with well

established organization, processes and supporting technology systems. The City of London scored within the public sector average at 2.4 overall.

EY also conducted collaborative workshops with key Service Area stakeholders to validate the City's procurement expenditures, draft potential savings hypotheses, identify key dependencies, risks and other factors that may affect the achievement of benefits.

### **3.0 Financial Impact/Considerations**

#### **3.1 Investment Required**

EY recommends investing \$450,000 annually for Strategic Procurement staffing. However, this does not look to include potential other costs (one time and on going), such as a possible technology investment. Civic Administration recommends this be reviewed further based on the outcomes of pilot projects and the continuation of existing strategies. Additional investment will be needed to continue a path of strategic transformation as outlined by EY. However Civic Administration will need to test the hypotheses first prior to making and identifying what incremental investments may be required to fully implement the desired state. Any investment would need to be considered as part of a future Multi-Year Budget.

### **4.0 Key Issues and Considerations**

#### **4.1. Results of EY Review**

For the years 2019 and 2020, Civic Administration provided EY the City's spend data in the requested subsets and formats (pre 2021 restructuring). For the scope of EY's review, the City had an average annual expenditure of \$491M per year. Approximately \$355M of this expenditure is considered in-scope for procurement (i.e. external purchases that could be obtained through supply management). The remaining expenditures largely consisted of pass-through expenses (Ontario Works payments, grant payments, appropriations to Boards and Commissions). The largest expenditure categories are Construction and Maintenance with \$163M in combined annual expenditure. The analysis identified 10 unique opportunities of varying execution complexity, projected to generate estimated annual savings of \$7.6-11.8M. Construction and Maintenance is the largest category with seven opportunities accounting for \$5.1-7M in annual savings opportunities. All 10 opportunities are grouped in three separate waves for execution. Opportunities in Wave 1 consist of annual recurring programs related to construction activities. Waves 2 and 3 consist of more complex opportunities. The opportunities identified are hypotheses and their applicability will need to be tested, as actual outcomes will vary.

High level recommendations include:

- Forming a core team within Purchasing & Supply to support strategic procurements
- Establishing and formalizing key processes related to strategic sourcing, demand forecasting, advanced procurement planning, and supplier relationship management
- Developing a comprehensive set of performance metrics to measure and communicate overall value delivered by Purchasing & Supply
- Continue identifying opportunities (e.g., automation and/or integration) within the technology platforms and develop an implementation roadmap

#### **4.2. Resource Requirements**

EY identified that additional resources will be required to engage the increased

workload of developing sourcing strategies for each of the opportunities identified. Purchasing & Supply, as well as identified Service Areas, will require senior leadership support to successfully execute these opportunities. The City will have to incur additional costs for resources to form the core strategic team. The preliminary cost estimated for these resources is estimated to be \$450,000 annually. There are some factors that will be critical for the City to achieve the desired benefits:

- Further additional resources may be required to form the core team that will focus on strategic procurement
- Senior Leadership support would be critical to ensure completion of the activities and elevating Purchasing & Supply's role in the organization.
- Change management and communication are going to be key to ensure organizational alignment to achieve and sustain the expected benefits. Most organizations benefit from external support when undertaking a transformation of the size recommended by EY. This helps minimize risks and accelerate value.

#### **4.3. EY Proposed Timeline (City of Toronto Experience)**

The City of Toronto began their strategic sourcing implementation in 2015 and are presently still on their journey.

For the City of London, EY is recommending an overall execution duration of three years, starting in Q1 2022 for example, for the execution of all observations. However, EY noted on each observation several risks and factors which could extend the timelines out significantly. Given the current Supply Chain risks, competing corporate priorities in addition to a fresh Purchasing & Supply Team, and working through COVID-19, a longer implementation plan and commencement will be required.

#### **4.4. Recommendations**

City staff have conducted a detailed review of the EY Spend Analysis and Procurement Maturity Assessment. The Analysis demonstrates that Purchasing & Supply's progress to date has been driven by Continuous Improvement. There are some opportunities that EY has identified worthy of further investigation and potential pilot project work. The following three actions, manageable within existing resources along with an enterprise wide approach, will help Purchasing & Supply develop from its current semi-transactional state to a more proactive and strategic model, which will provide further efficiencies and improved value to service areas and taxpayers.

1. Continue to enhance the Request for Proposal (RFP) best value procurement approach from the Request for Tender based (lowest price wins) process.
2. Commence advanced annual Enterprise-wide Procurement collaboration and consider multi-year programs (agreements) based on demand planning and forecasting, to replace repetitive annual projects. The City's Multi-Year Budget will help inform this.
3. Consolidate scopes of work, where possible, to leverage combined expenditures across different projects, and possibly Service Areas, to get more favorable commercial terms and conduct business as one buyer and one seller in the market.

#### **4.5. Risk Considerations**

There are immediate issues facing the City of London's Purchasing & Supply Team going into 2022 such as: Global Supply Chain interruptions leading to shortages and

price uncertainty, ongoing pandemic dynamics, adapting processes to be more supportive to remote/alternative working arrangements and developing a newly established team after an almost complete staffing turnover in 2021.

## **Conclusion**

In conclusion, the analysis performed by EY confirmed the strategic direction that Purchasing & Supply along with what the service areas have been working towards, noting there are further opportunities to explore and consider. The analysis was valuable in identifying the City's current status as well as potential opportunities for the future. Purchasing & Supply's continuous improvement journey has been in progress for many years now with customer service remaining a very top priority while balancing the return on investment and value for taxpayers. There is value to pilot certain hypotheses blended with current strategies being implemented by Purchasing & Supply staff with service areas. The cost benefit will need to be monitored going forward to determine resource investment/effort versus cost savings realized.

**Prepared by:** John Freeman, CSCMP, LSSGB, Manager Purchasing and Supply  
**Submitted by:** Ian Collins, CPA, CMA, Director Financial Services  
**Recommended by:** Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports

# Spend Analysis and Procurement Maturity Assessment

The Corporation of the City of London

**Final Report**  
**12 November 2021**

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This report has been prepared solely in order to assist the City of London in spend analysis and procurement maturity assessment. EY assumes no duty, obligation or responsibility whatsoever to any third parties that obtain access to this report (i.e. parties other than those to whom this report is addressed). Our report has not considered issues relevant to third parties. Any use a third party may choose to make of this report is entirely at its own risk. (c) 2021 Ernst & Young LLP. All rights are reserved.

# Glossary of Terms

Below is a description of the terms used in the report

Term	Description
EY	Ernst & Young LLP
Province	Province of Ontario
CoL or “the City” or “City”	Corporation of the City of London
JDE	JD Edwards
P-Card	Purchasing card
PR	Purchase Requisition
PO	Purchase Order
RFx	Catch-all term that captures all references to Request for Information (RFI), Request for Proposal (RFP), Request for Quotation (RFQ), and Request for Tenders (RFT)
UNSPSC	United Nations Standard Products and Services Code
ERP	Enterprise resource planning
“Group” or “group”	Purchasing and Supply Group
Spend Cube	Visual representation of spend data across dimensions such as: suppliers, category, divisions, etc.



# Executive Summary



# Background and Context

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## Background

- ▶ In March 2021, the province of Ontario announced the provision of an additional \$10 million, delivered through the Audit and Accountability Fund, to help large municipalities find better and more efficient ways to operate. This investment is aimed at supporting initiatives that focus on increasing digital services, modernization, streamlining and service integration.
- ▶ City of London applied for the funds and engaged EY to undertake an assessment of the procurement function and assist in identifying opportunities for cost efficiencies and overall enhancement of the maturity of its procurement function.
- ▶ The project activities were completed between June and September 2021. The project team appreciates and acknowledges staff from Finance Supports for dedicating significant time and effort to this project while managing other competing priorities.

## City's Continuous Improvement Journey and Context of this Review

- ▶ The City has been on a continuous improvement journey with successful results over the last number of years. The Procurement of Goods and Services Policy (By-Law) is noted to be current and comprehensive.
- ▶ Projects such as the implementation of the automated electronic bidding portal (eProcurement), Standardized Templates for RFx documents, Administrative Tender Award Approvals, JD Edwards ERP implementation, Purchase Requisition Automation, Standard Operating Procedures, Team Collaboration via SharePoint, etc., demonstrate the significant efforts of the City staff in identifying and realizing better and more efficient ways to deliver services to its Service Areas and residents.
- ▶ This project aims at building on the success of these projects and exploring the next step in continuing this journey for the City's procurement function. It outlines key recommendations alongside critical success factors in the context of the legacy and current resource constraints and other limitations.
- ▶ The scope of this assessment consisted of analysing the City's spend to identify cost savings opportunities, assessing current procurement maturity (utilizing a generic E&Y tool) and recommending actions for improvement, and developing a high-level roadmap to implement recommendations.

# The spend analysis identified 10 *potential opportunities/hypotheses* worth \$8M-\$12M in savings from an in-scope (sourceable) spend of about \$355M

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## Our approach

- ▶ We relied on data sets related to PO/Invoice Data, P-Card data, Contracts master, and vendor master for the years 2019 and 2020<sup>1</sup> to conduct our analysis. The Group's help and feedback were critical to prepare the data for an effective analysis and identification of opportunities for savings.
- ▶ We leveraged the City's existing commodity codes based taxonomy, to further group the data into major spend categories identified with the UNSPSC<sup>2</sup> taxonomy adapted for Canadian municipalities.
- ▶ We then assessed the applicability of various value levers on each of the spend categories to identify savings hypotheses. These savings hypotheses were then validated for accuracy and relevance with the Services' stakeholders to refine the hypotheses and develop opportunities for the City's consideration.
- ▶ As a by-product of our analysis, we have also provided commentary on the maturity of the data available for spend analysis and a guide outlining the steps for future spend analyses.

## Key findings

- ▶ The City had an average annual spend of \$491M for the years 2019 and 2020. About \$355M out of this spend is in-scope for procurement (i.e., sourceable). The remaining spend largely consists of pass-through expenses. Construction and maintenance is the largest spend category.
- ▶ The analysis identified 10 opportunities as hypotheses, of varying execution complexity, expected to generate annual savings of about \$7.6-11.8M. Construction and maintenance is the largest bucket with seven opportunities and about \$5.1-7.2M in annual savings opportunities.
- ▶ **It is important to note that these opportunities are hypotheses and further analysis (e.g. detailed market study) and proof of concept pilots are required to further validate the full potential of savings estimates**
- ▶ Certain strategic approaches to procurement are already underway and have been tried in the past with varied degrees of success. Interactions with stakeholders indicates that there is an opportunity to revisit these approaches and introduce new ones to explore additional value

## Key considerations

- ▶ More resources may be needed to take on the additional workload of developing sourcing strategies for each of the opportunities identified.
- ▶ The Group will need executive support and buy-in to execute the opportunities identified.

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1. Per the invoice date included in the spend.

2. [UNSPSC](#)

# The City has laid a strong foundation in key areas of procurement operations and is ideally placed to transform into a value add partner for the organization

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## Our approach

- ▶ We leveraged our procurement maturity assessment framework to seek feedback on the current and desired future state from leaders within the Group noting this E&Y tool is generic and has both private and public sector measures
- ▶ These leaders filled in a detailed questionnaire to assess their current state of maturity and shared their aspirations for future state maturity to be achieved in the next 2-3 years
- ▶ The questionnaire gathered information on the Group's procurement practices against six unique dimensions<sup>1</sup>, and a five point scale, where one indicates a reactive and undeveloped maturity and five indicates a best in class functional maturity, noting that top scores are the very best global practises and may not be practical in a public sector environment

## Key findings

- ▶ The Group rated itself, on average, at 2.4 on a five point scale, indicating an overall maturity level between developing and established levels. In our experience this state is not uncommon when compared to other public sector organizations (since this is a generic tool), particularly in municipal governments (of which 5 is likely not feasible). Some municipalities, such as City of Toronto, have made significant progress since the start of their journey, others like the Region of York, have significantly enhanced their procurement analytics capabilities to support their journey
- ▶ This indicates that while the City has made significant progress in improving the maturity of its procurement function, there are some minor areas of improvement that will further enhance its maturity
- ▶ Overall, Purchasing and Supply, while viewed as a key support function, does not often have a decision making role regarding key procurement needs

## Our recommendations

- ▶ Form a core team within the Group to support strategic procurements<sup>2</sup>
- ▶ Establish and formalize key processes related to strategic sourcing, demand forecasting (and advanced procurement planning), and supplier relationship management
- ▶ Develop a comprehensive set of performance metrics to measure and communicate overall value delivered by the Group
- ▶ Continue to identify opportunities (e.g., automation and/or integration) within the technology platforms and develop an implementation roadmap

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1. Strategy and governance, Operating model, Category management and strategic sourcing, Procure-to-pay, Contract and supplier management and Technology  
2. As determined by factors such as value of spend, complexity of procurement, and nature of requirements

# A three-year implementation timeline considers the significant efforts required to transition the City towards the future state operating model

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- ▶ Transformations of this nature are typically a multi-year journey that involves continuous improvements in people, process and technology elements of a procurement operating model; we have developed a three year implementation roadmap for City's consideration
- ▶ We have organized all activities required for successful implementation of all recommendations under four work streams, namely: Procurement maturity improvement, benefits realization, engagement and communication and overall project management
- ▶ The rationale behind execution timelines and recommended sequencing of activities takes into account unique challenges faced by a public sector organization like the City.
- ▶ Sequencing of activities: This report is expected to be presented to the Province by Q4 of 2021. Any recommended activities, hence, are not expected to be started before Q1 of 2022. As first step, the City should set up the core strategic procurement team. Execution of the benefits realization stream, can start soon after. The savings opportunities have been grouped in three waves, based on the complexity and size of expected benefits.
- ▶ Implementation timelines: We are recommending an overall execution duration of three years, starting in Q1 2022, for the execution of all recommendations.
- ▶ Expected additional costs: The City will likely have to incur additional costs for resources to form the core strategic team. The cost for these resources is expected to be \$0.45M<sup>1</sup> annually.
- ▶ There are some factors that will be critical for the City to achieve the desired benefits. These are:
  - ▶ Additional resources may be required to form the core team that will focus on strategic procurement
  - ▶ Executive support and leadership buy-in would be critical to ensure timely completion of the activities and elevating the Group's role in the organization. Consider elevating where the Group reports within Finance today, or alternatively move the Group's reporting into Operations per their already close relationship, to become a value-add partner with the business.
  - ▶ Change management and communication are going to be key to ensure organizational alignment to achieve and sustain the expected benefits
  - ▶ Most organizations benefit from external support when undertaking a transformation of the size recommended here. This helps minimise risks and accelerate value.

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1. Analysis and assumptions included in the implementation section of the report

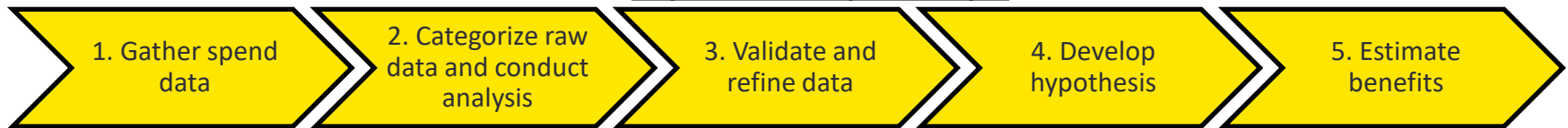
# Spend Analysis

# Context of spend analysis and Approach Stage

## Context and our approach

- ▶ Spend analysis is the process of analysing the procurement related spend of an organization with a specific goal of identifying opportunities for improving the efficiency of procurement spend through the application of savings/value levers.
- ▶ To analyse the City's procurement spend and identify opportunities, we conducted the analysis in by following the steps outlined in the figure below.

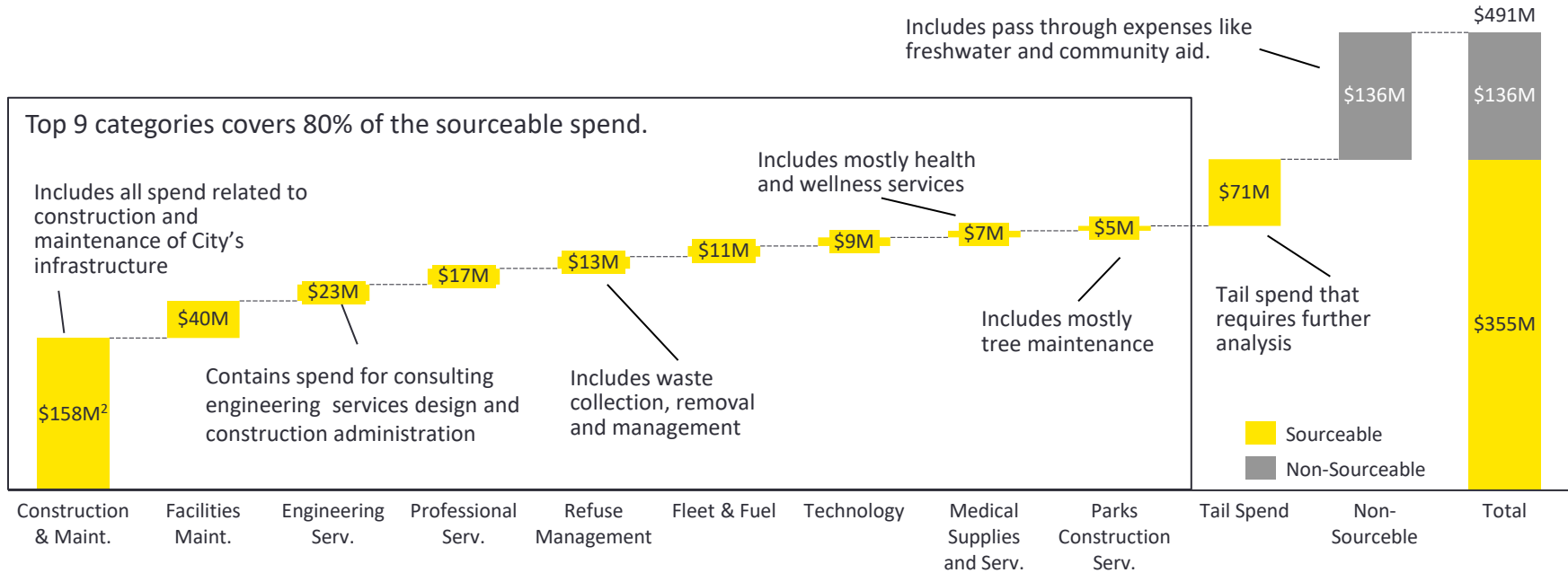
### Steps to conduct spend analysis



	1. Gather spend data	2. Categorize raw data and conduct analysis	3. Validate and refine data	4. Develop hypothesis	5. Estimate benefits
Activities	<ul style="list-style-type: none"> <li>Collected data files for 2019 and 2020 including: purchase order data, P-Card data, invoice data, vendor address book, contracts data</li> </ul>	<ul style="list-style-type: none"> <li>Executed spend analysis and categorized top 80% of the spend</li> <li>Analysed spend down to line item and business unit descriptions</li> </ul>	<ul style="list-style-type: none"> <li>Validated spend distribution across capital projects with division heads</li> <li>Due to the limited ability to categorize information, additional budget related data was requested from FBAs</li> </ul>	<ul style="list-style-type: none"> <li>Considered value levers applicable to the opportunity based on analysis of current procurement approaches and spend analysis</li> <li>Conducted interviews with stakeholders to validate observations and initial hypotheses</li> </ul>	<ul style="list-style-type: none"> <li>Applied EY benchmark range for saving percentages and total size of benefits over the total addressable spend</li> <li>Savings percentage ranges were adjusted for local market conditions</li> </ul>
Observations	<ul style="list-style-type: none"> <li>Categorization of spend data was required to identify key areas of spend</li> </ul>	<ul style="list-style-type: none"> <li>Determined that the City had an average annual spend of \$491M in 2019-2020, an in-scope (sourceable) spend of \$355M and out-of-scope (non-sourceable) spend of \$136M</li> </ul>	<ul style="list-style-type: none"> <li>Detail spend of each spend areas were validated with FBA's data, the data with more detail is used as the size of the spend areas</li> </ul>	<ul style="list-style-type: none"> <li>Certain scope areas were deemed as not applicable or in progress, so the scope was adjusted accordingly</li> <li>Received positive feedbacks for all the saving hypotheses</li> </ul>	<ul style="list-style-type: none"> <li>Identified 10 opportunities with potential savings of \$8-12M</li> </ul>

The City spends about \$491M per year, of which \$355M is deemed in-scope (sourceable through procurement)

### Overview of 2019-2020 Average Annual Spend by Category<sup>1</sup>



### Spend Categories

**Sourceable:**

Spend that can be tactically or strategically sourced

**Non-sourceable:**

Spend that is regulated or pass through

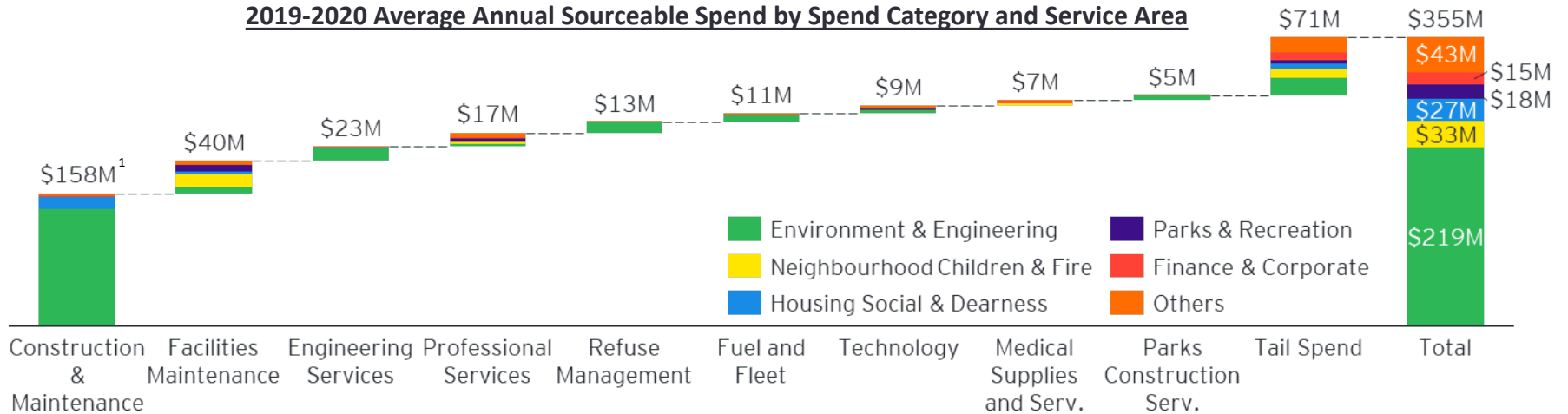
- ▶ A taxonomy was developed to enable understanding of portfolios of spend within the City's procurement spend data. This was based on the UNSPSC spend categories, modified to meet the unique needs of municipal governments.
- ▶ The suggested categorization builds upon the City's current commodity codes (used for MRO inventory stock items).
- ▶ Categorization of procurement spend data is fundamental to conducting a spend analysis and the ability to identify the applicability of value levers (such as consolidation, supplier rationalization) to generate cost efficiencies

1. Spend data comprising of Stock, Non-stock and P-card spend were reviewed  
 2. This estimate is based on procurement spend data, therefore may differ slightly from the data provided by FBAs for opportunity sizing



# Sample Spend Analysis: Multiple service areas purchase similar products or services from similar groups of suppliers

**2019-2020 Average Annual Sourceable Spend by Spend Category and Service Area**



**Top Suppliers Providing Products or Services To Multiple Service Areas**

Top Suppliers	City Managers	Development & Compliance	Environment & Engineering	Finance & Corporate	Housing Social & Dearness	Neighbourhood Children & Fire	Parks & Recreation	Planning	Regional Water Supply	Count of Service Areas
Supplier A										2
Supplier B										4
Supplier C										3
Supplier D										3
Supplier E										3
Supplier F										3
Supplier G										2
Supplier H										2
Supplier I										6
Supplier J										2

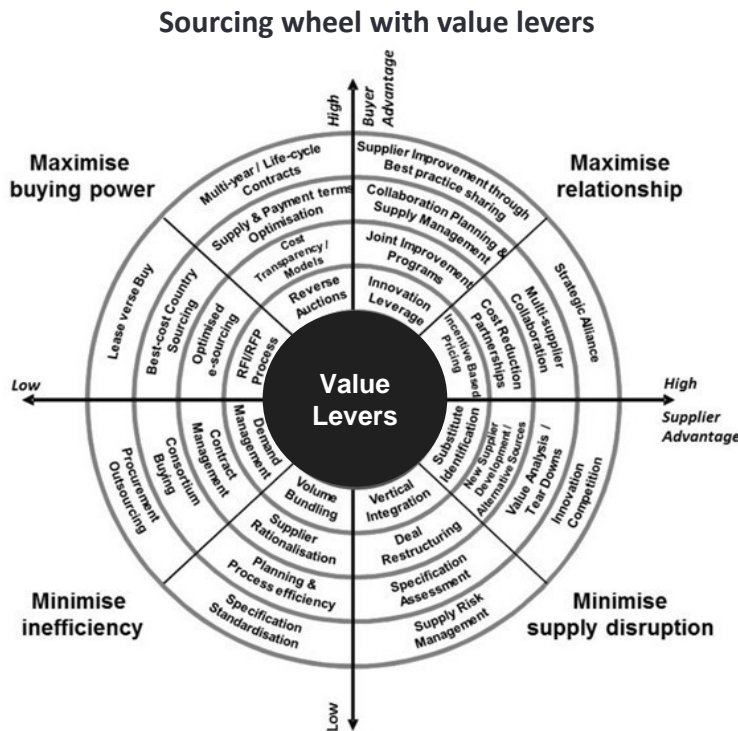
## Key Highlights

- ▶ Service Areas buy similar goods and services in all top spend categories
- ▶ The top 10 suppliers, which account for 30% of total spend, supply goods or services to multiple services areas
- ▶ This suggests that a strong opportunity to consolidate go to market activities across Service Areas and to fully leverage economies of scale across fewer contracts exists

1. This estimate is based on procurement spend data, therefore may differ slightly from the data provided by FBAs for opportunity sizing

# We identified the key value levers relevant to each spend category as the basis for identifying savings opportunities

- ▶ Strategic Sourcing uses a variety of value levers to generate the savings. The sourcing wheel illustrated below is leveraged during the sourcing strategy phase, to determine applicable levers based on type and objective of the good/service being procured.
- ▶ To address the City’s immediate needs we are recommending the levers in the table. Others can be leveraged as the City’s strategic sourcing matures.



Value Levers	Descriptions
Spend/volume Consolidation	Consolidate spend across sectors and scopes for common requirements to better leverage buying power
Alternative Sourcing	Adopt alternative and innovative sourcing vehicles tailored to the divisions’ specific requirements
Increase Competition	Align annual volume with contractor capacity to encourage new entries from adjacent scopes, and increase competition by making contracts more available across the market
Supplier Relationship	Leverage leading practices to develop mutually beneficial relationships with suppliers
Multi-year Contract(s)	Longer duration contracts are designed to help suppliers invest in capability and capacity to deliver the scope of work
Negotiations	Adopt a negotiation based sourcing approach to discuss avenues to reduce cost & risks and identify potential efficiencies

The subsequent slides show a summary of the identified savings opportunities developed using the above value levers, as well as information provided by each of the service areas. Each opportunity has been identified, described with details of total and addressable spend, estimated savings range and target savings.

## The analysis identified opportunities/hypotheses that may generate savings of \$6-8M. Further analyses and pilots may be required to confirm the value (1/2)

The table below shows the expected savings and key applicable procurement levers by spend category. The savings may consist of both cost avoidance and reduction. Cost avoidance will not typically result in a decrease of the overall budget

Sub-category	Opportunity	Applicable Value Levers					Annual Sourceable Spend <sup>1</sup> (\$M)	Est. Addressable Spend <sup>2</sup> (\$M)	Est. Savings range (%)	Est. Savings range (\$M)
		Multi year contract	Volume consolidation	Supplier rationalization	Negotiations	Operating model				
1. Spend Category: Construction & Maintenance										
CM1: Sewer and watermain replacement projects	Leverage a multi-year contract and consolidate the scope to generate savings, thus using the strategic sourcing approach	√	√	√	√		\$105	\$84	5-7%	\$4.2-5.9
CM2: Sewer structural lining		√	√	√	√					
CM3: Watermain structural lining		√	√		√					
CM4: Wastewater and treatment plants construction	Leverage alternate construction approaches (design-build) for wastewater and treatment plant construction					√				
TM1: Roadways construction and renewal	Leverage a multi-year contract and consolidate the scope to generate savings, thus using the strategic sourcing approach	√	√	√	√		\$57	\$11	6-10%	\$0.7-1.1
TM2: Traffic control and street lights		√	√	√	√		\$6	\$2.5	6-8%	\$0.2-0.2
Sub-total:							\$168	\$97.5	5-7%	\$5.1-7.2

1. Annual Sourceable Spend is based on Spend data received from various service areas

2. Est. Addressable Spend is a subset of the annual sourceable spend, as there will be a small portion that may not be strategically sourced

## The analysis identified opportunities/hypotheses that may generate savings of \$6-8M. Further analyses and pilots may be required to confirm the value (2/2)

The table below shows the expected savings and key applicable procurement levers by spend category. The savings may consist of both cost avoidance and reduction. Cost avoidance will not typically result in a decrease of the overall budget

Sub-category	Opportunity	Applicable Value Levers					Annual Sourceable Spend <sup>1</sup> (\$M)	Est. Addressable Spend <sup>2</sup> (\$M)	Est. Savings range (%)	Est. Savings range (\$M)
		Multi year contract	Volume consolidation	Supplier rationalization	Negotiations	Operating model				
2. Spend Category: Engineering Services										
VS1: Various Services <sup>3</sup>	Leverage the enterprise spending on engineering services across all major programs to get commercially favourable terms	√	√	√	√		\$26	\$6.5	6-8%	\$0.4-0.5
3. Spend Category: Technology										
ITS1: Information Technology Services	Expand enterprise asset management to track and manage all asset to effectively manage demand		√	√	√		\$5	\$4	4-6%	\$0.2-0.3
4. Spend Category: Facilities Maintenance										
FF1 and FF2: Mechanical and HVAC Services	Strategic sourcing of HVAC maintenance services by leveraging the combined spending at the City Strategic sourcing of capital replacement for HVAC equipment by leveraging the combined spending at the city to get commercially favourable terms	√	√	√	√		\$3.5	\$3	4-6%	\$0.1-0.2
Sub-total:							\$35	\$13.5	5-7%	\$0.7-1.0
Grand Total:							\$203	\$111	5-7%	\$5.8-8.2

1. Annual Sourceable Spend is based on Spend data received from various service areas
2. Est. Addressable Spend is a subset of the annual sourceable spend, as there will be a small portion that may not be strategically sourced
3. Various services include multiple services like water and wastewater, transportation and mobility, etc.

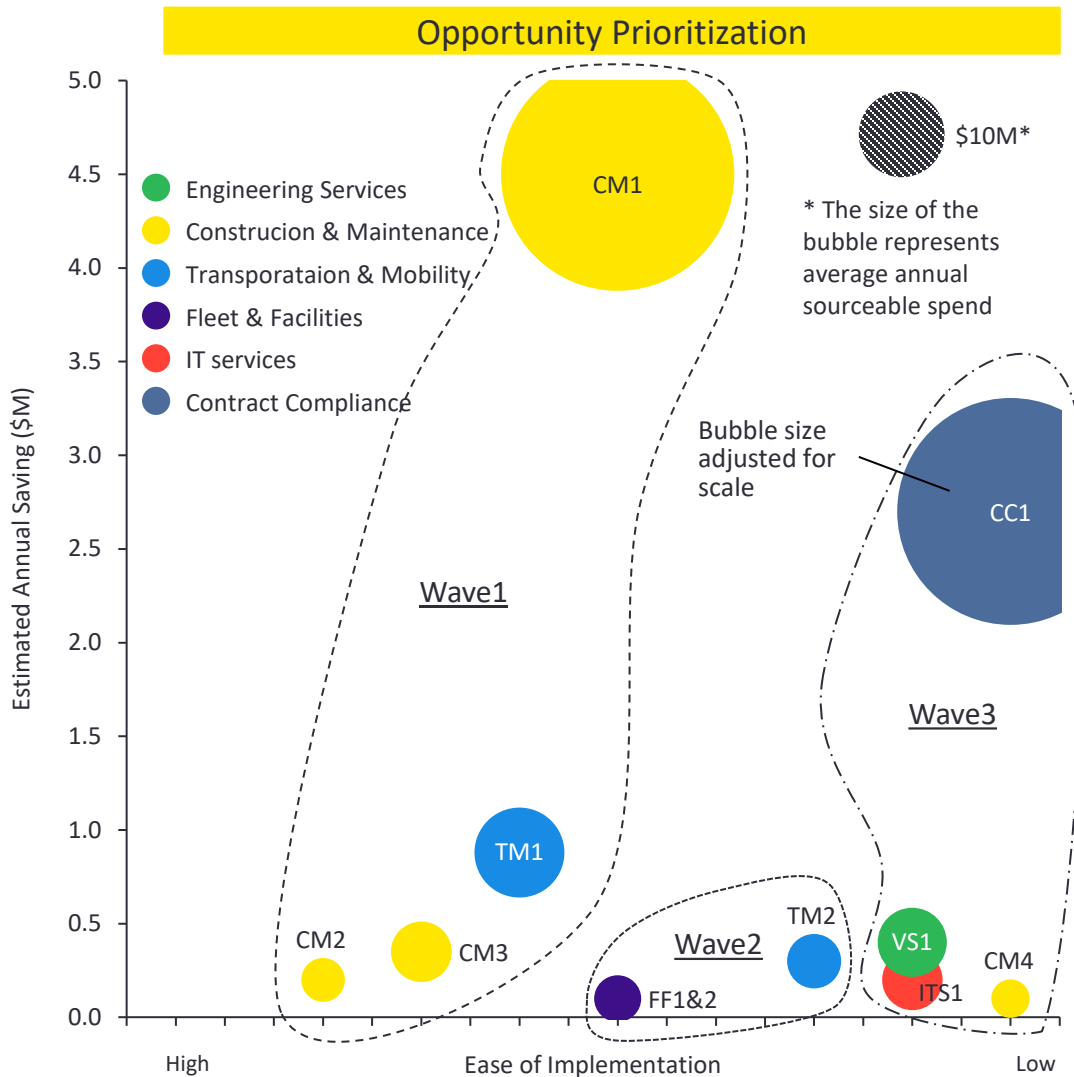
The review also identified potential additional opportunity that requires further exploration and may yield additional benefits of \$2.0-\$4.0M

Sub-category	Opportunity	Applicable Value Levers				Annual Sourceable Spend <sup>1</sup> (\$M)	Est. Addressable Spend (\$M)	Savings range (%)	Savings range (\$M)
		Multi year contract	Volume consolidation	Operating model	Negotiations				
CC1: Contract Compliance	Opportunity to explore any potential value leakage due to contract non-compliance and consider setting up mechanism to monitor and track key contracts for compliance to terms and conditions. This may includes analysis such as warranty vs rework costs, scope creep, change order responsible and costs, backed or justified price fluctuations, price difference between approved rates and paid invoices.			√	√	\$355	\$178 <sup>2</sup>	1-2%	\$1.8-3.6
Total:									\$1.8-3.6

1. Annual sourceable spend is based on the spend data received
2. Assuming 50% of the sourceable spend is addressable



# To inform the sequencing of activities in the implementation roadmap, opportunities are prioritized based on estimated savings and ease of implementation



## Key Considerations

Prioritization of these opportunities is based on the following factors:

1. Estimated savings: It is important to demonstrate success through “early wins” and hence potential savings is considered as a key factor in determining higher priority opportunities
2. Ease of implementation: In addition to potential savings, equally important is to consider factors that impact the execution of the opportunities. Early focus should be on opportunities that are relatively easier to implement based on:
  - a) Contract expiry: recurring annual contracts can be executed earlier than long-term contracts
  - b) Opportunity Complexity: types and number of value levers, number of Services involved, required changes to modes of operation

# Procurement Maturity



# The City requested an assessment of the maturity of its procurement function to identify improvement areas as it continues its journey of improvement

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## Background

- ▶ The Purchasing and Supply Group at the City is aligned to the Finance Supports vertical and caters to all the procurement and supply needs within the City (except for Boards and Commissions that include London Police Service, London Transit Commission, London Hydro, Public Libraries, Museum London, etc.)
- ▶ Over the last ten plus years the group has been on a journey of continuous improvement and has made key contributions to several projects geared towards increasing efficiencies in processes. Some of these are:
  - ▶ Started the procure-to-pay automation at the City through the implementation of eProcurement using Bids&Tenders for electronic bidding
  - ▶ Enhanced and transformed the purchase requisition process through a six sigma green belt project to reduce lead-time, rework and improve the quality of work
- ▶ This assessment is to help the City continue the journey towards continuous improvement of its procurement function by identifying potential opportunities to further enhance maturity of its Purchasing and Supply Group

The following slides will list our approach and key recommendations for improvement



# A procurement maturity assessment framework was leveraged to identify focus areas for maturity enhancement

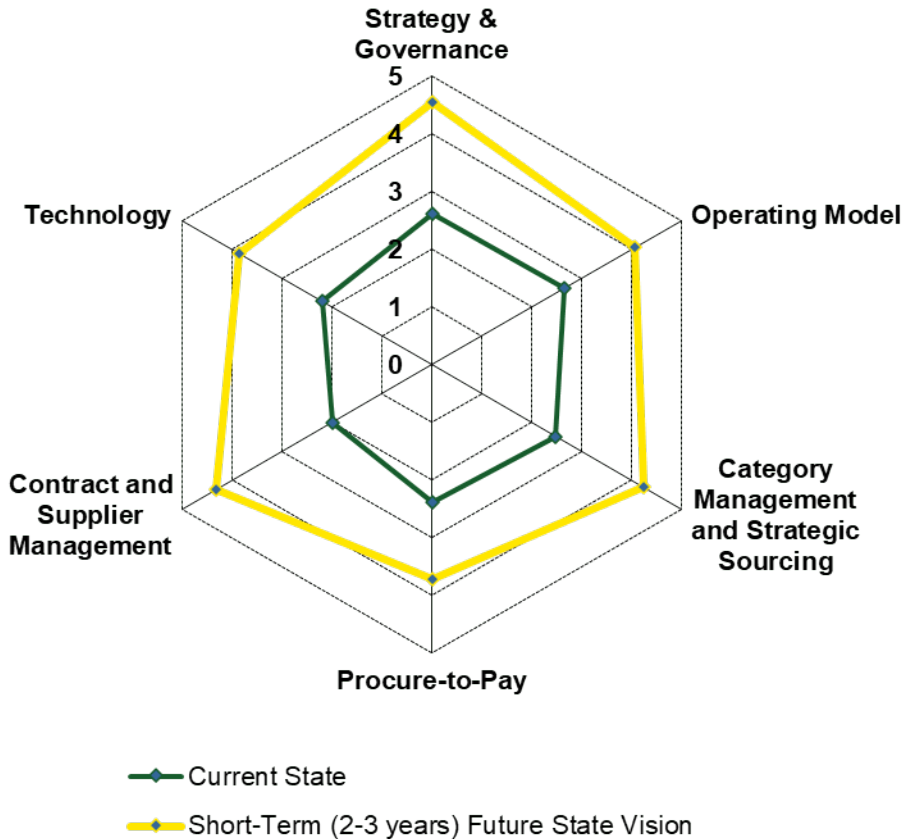
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## Our Approach

- ▶ We leveraged our procurement maturity assessment framework to seek feedback on the current and desired future state.
- ▶ Three key leaders (two of which are new to Purchasing and Supply management roles in 2021) within the Group filled in a detailed generic E&Y questionnaire to assess their current state of maturity and share their aspirations for future state maturity in the next 2-3 years.
- ▶ The framework captured the City's procurement maturity across six key dimensions, namely:
  - ▶ Strategy and governance
  - ▶ Operating model
  - ▶ Category management and strategic sourcing
  - ▶ Procure-to-pay
  - ▶ Contract and supplier management
  - ▶ Technology
- ▶ A variety of questions were presented for each dimension and stakeholders were requested to select the benchmark response that best matches the City's current state and desired future state.
- ▶ The project team deployed a leading practice to measure an organization's procurement practices.
- ▶ The benchmarks are presented on a five point scale, with the top score being very best practise for both private and public sectors. A maturity of one indicates a reactive and ad-hoc management of key aspects of the procurement functions, while a maturity of five indicates a best in class, VERY mature organization with well established organization, processes and supporting technology systems.

# Current level of maturity is consistent with other public sector organizations that are embarking upon the next step of operational improvement

## Summary Procurement Maturity Ratings

















## Summary of observations

- ▶ The City rated itself, on average, at **2.4 on a five** point scale, indicating an overall maturity level between developing and established levels. In our experience this state is not uncommon when compared to other public sector organizations, particularly in municipal government
- ▶ Some municipalities, such as City of Toronto, have made significant progress since the start of their journey, others like the Region of York, have significantly enhanced their analytics capabilities to support their journey
- ▶ This indicates that while the City has made significant progress in improving the maturity of its procurement function, there are areas of improvement that may further enhance its maturity
- ▶ Overall, Purchasing and Supply, while viewed as a key support function, does not often have a decision making role regarding key procurement needs
- ▶ While the subsequent slide captures observations across each of the framework dimensions, specific areas of potential improvement include demand forecasting, invoice matching and processing, and supplier relationship management

# We observed that the City has established a strong foundation of processes and procedures enabled by technology and is ready to further enhance its maturity

The maturity score is derived from feedback collected across twenty seven unique elements on the six dimensions, covering the full spectrum of procurement functional maturity

Maturity:	1	2	3	4	5	Observations and Desired Future State (2-3 years)
<b>Strategy and Governance</b>						<ul style="list-style-type: none"> <li>▶ Strong stakeholder relationships with high degree of influence on spend</li> <li>▶ Aim to become a value add strategic function within the organization</li> </ul>
<b>Operating Model</b>						<ul style="list-style-type: none"> <li>▶ Clearly defined roles and responsibilities exist; key personnel frequently collaborate in cross functional teams</li> <li>▶ Target to establish authority in strategic procurement and expand metrics to cover all drivers of performance (beyond cost savings)</li> </ul>
<b>Cat. Mgmt. &amp; Strategic Sourcing</b>						<ul style="list-style-type: none"> <li>▶ Pioneered and supported a few strategic sourcing approaches and is frequently consulted on key procurement events</li> <li>▶ Endeavour to improve demand forecasting, advanced procurement planning and applying strategic procurement approach consistently</li> </ul>
<b>Procure-to- Pay</b>						<ul style="list-style-type: none"> <li>▶ Started automation of procure-to-pay processes through the implementation of JDE and automation of the PR process</li> <li>▶ Improve invoice matching and processing to reduce the frequent need for manual intervention and maintain data sanctity</li> </ul>
<b>Contract &amp; Supplier Mgmt.</b>						<ul style="list-style-type: none"> <li>▶ Defined processes for managing key supplier contracts effectively</li> <li>▶ Enhance supplier management by shifting from an as-needed and reactive approach, to one that is consistently applied</li> </ul>
<b>Technology</b>						<ul style="list-style-type: none"> <li>▶ Implemented JDE to automate its procure-to-pay processes</li> <li>▶ Aim to minimize manual effort required in invoice matching and processing to gain further efficiencies</li> </ul>

 Current   
  Desired

## Continued leadership support, allocation of resources, and sufficient time will be key to further enhancing the maturity

ID <sup>1</sup>	Recommendations	Rationale and critical success factors
OM-1	Form a <b>core team</b> within the Group to support strategic procurements as determined by factors such as value of spend, complexity of procurement, and nature of requirements	<ul style="list-style-type: none"> <li>▶ Establishing a small team to conduct strategic procurements will help test the approach, deliver successes (through a pilot) to consequently gain buy-in from broader organization to enhance procurement's role as a value add partner.</li> <li>▶ Additional resources may be required if repurposing of existing staff is not feasible.</li> </ul>
OM-2	Establish and formalize <b>key processes</b> related to strategic sourcing, demand forecasting (and advanced procurement planning), and supplier relationship management	<ul style="list-style-type: none"> <li>▶ It is important to formalize the key processes identified in the recommendation such that the strategic procurement team and the broader function is able to apply and communicate the process consistently.</li> <li>▶ External support may be required for the function to establish processes using leading practice frameworks and internal consultations.</li> </ul>
OM-3	Develop comprehensive set of <b>performance metrics</b> to measure and communicate overall value delivered by the function to the organization	<ul style="list-style-type: none"> <li>▶ Measuring and communicating results is a key part of helping procurement become a strategic value add function of the organization. Metrics related to key areas including financial benefits, internal stakeholder satisfaction, supplier feedback, and operational should be considered.</li> <li>▶ External support may be required to establish and operationalize performance metrics.</li> </ul>
OM-4	Continue to <b>identify opportunities</b> (e.g., automation and/or integration) within the technology platforms and develop an implementation roadmap	<ul style="list-style-type: none"> <li>▶ Integrating key datasets (such as contract master and PO/Invoice data) is a good practice for enabling spend analysis. Additionally, finding process efficiencies in areas such as invoice matching and processing will help reduce manual effort and ability for staff to focus on strategic aspects of procurement.</li> <li>▶ Planning and operationalization of such initiatives requires resources and effort that will need to be weighed against other competing priorities<sup>2</sup>.</li> </ul>

1. The ID follows the nomenclature of Operating Model-Number

2. E.g. Contract master and JDE integration, Invoice processing

# Implementation Plan



# We are recommending a three-year implementation horizon in consideration of the significant efforts required to implement all recommendations

We have organized activities required for successful implementation of all recommendations under four work streams<sup>1</sup> as shown in the roadmap on the next slide. The sections below include the rationale behind execution timelines and recommended sequencing of activities.

## Sequencing of activities

- ▶ This report is expected to be presented to the province by Q4 of 2021. Any recommended activities, hence, are not expected to be started before Q1 of 2022
- ▶ We recommend Wave 1 execution to start after the core team is setup in the first quarter<sup>2</sup>. Subsequent execution of activities in Procurement maturity stream are staggered to allow equitable distribution of workload. Technology enhancements is recommended to start in 2023 to capitalise on the momentum generated through improved maturity in 2022.
- ▶ The execution of benefits opportunities are sequenced in the order of complexity. Wave 1 consists of annual recurring programs and can be executed first, followed by Wave 2, which requires coordination across multiple Services for execution. Finally, Wave 3 opportunities require changes to operating model and are sequenced last
- ▶ The stakeholder engagement and communication stream will run throughout the duration of the program

**Implementation timelines:** We are recommending an overall execution duration of nearly 30 months, starting in Q1 2022, for the execution of all recommendations. The key considerations for the recommended timelines is below:

- 1. Procurement maturity improvement:** We are recommending a six month duration for the setup of the core team as additional hiring and skill training may be needed. Since some ad-hoc practices exist for supplier relationship, contract management, etc. a nine month duration is sufficient to set up key processes. We estimate six months to set up all key KPIs since some procurement metrics already exist<sup>3</sup>. Since most of the gaps related to data integration and automation are known<sup>4</sup> we estimate a nine month execution duration
- 2. Benefits realization:** All savings opportunities are grouped in three waves for the execution. The opportunities in Wave 1 include annual recurring programs like water and sewer replacement, which can be executed in nine months, before the start of the following year's construction season. Wave 2 is expected to take fifteen months since it consists of opportunities that are complex and require coordination with multiple Services. Wave 3 consists of opportunities that may requires a change in operations and may need a year to execute
- 3. Stakeholder engagement and communication:** Activities included in these sections will continue for the duration of the project

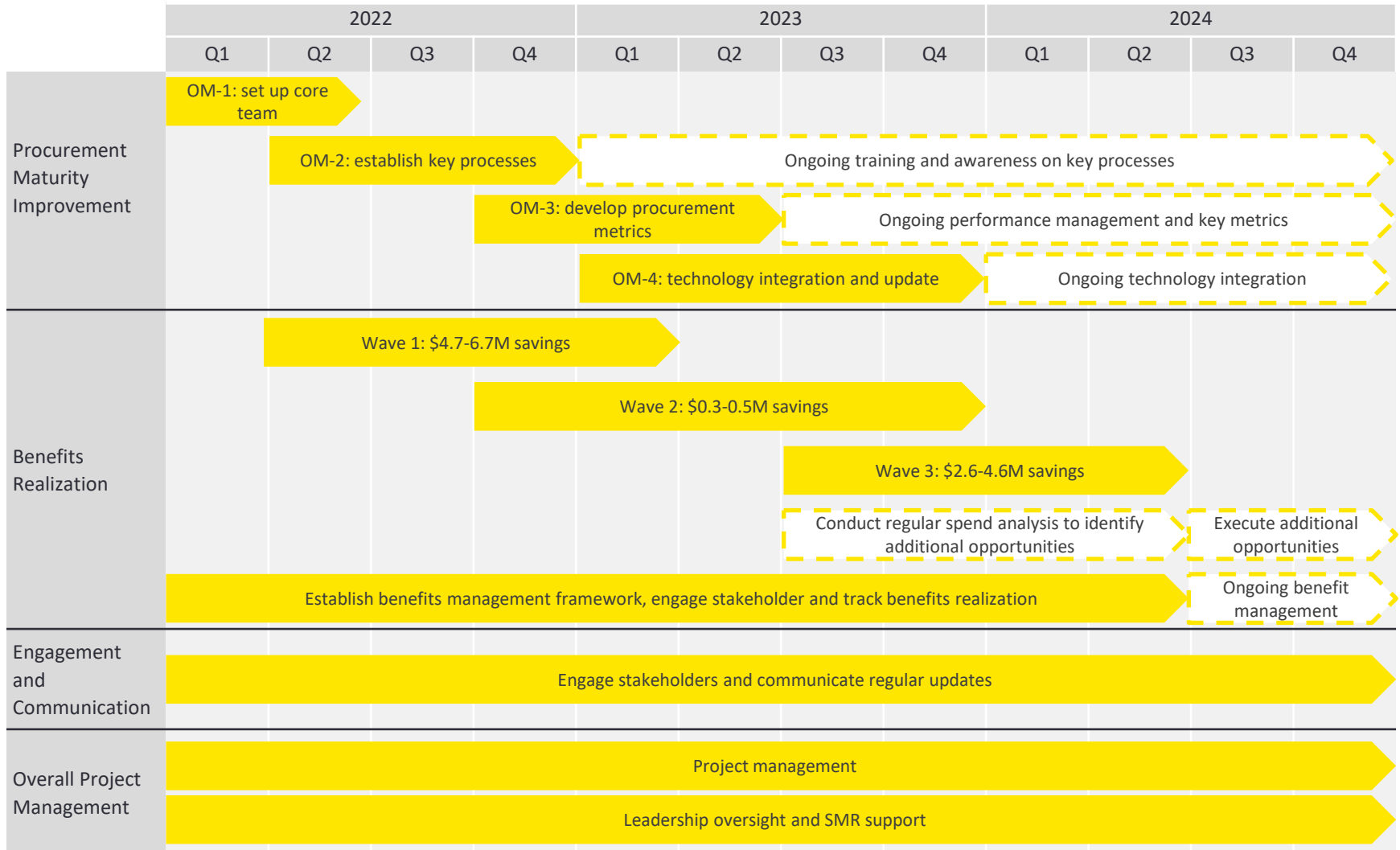
1. Procurement maturity improvement, benefits realization, engagement and communication and overall project management


2. Remaining three months of the six month duration are expected for additional training and hiring, if needed.


3. Based on feedback from the procurement maturity assessment

4. Based on the maturity questionnaire and the data maturity review conducted earlier

# A three-year implementation timeline considers the significant efforts required to transition the City towards the future state operating model



 Activities to enhance maturity and achieve saving

 Business as usual activities



# The implementation of the recommendations in this report is expected to generate net benefits of about \$8-\$13M by 2024

	Benefit Schedule from 2022 to 2024		
	2022	2023	2024
<b>Benefits</b>			
Sourcing Opportunities Potential	\$2.35M - \$3.35M	\$3.3M - \$5.0M	\$1.95M - \$3.45M
<b>Total Benefits</b>	<b>\$2.35M - \$3.35M</b>	<b>\$3.3M - \$5.0M</b>	<b>\$1.95M - \$3.45M</b>
<b>Costs</b>			
One (1) Full Time Strategic Sourcing Manager	\$0.15M	\$0.15M	\$0.15M
Three (3) Full Time Strategic Sourcing Specialist	\$0.3M	\$0.3M	\$0.3M
<b>Total Costs</b>	<b>\$0.45M</b>	<b>\$0.45M</b>	<b>\$0.45M</b>
<b>Net Annual Benefits</b>	<b>\$1.9M - \$2.95M</b>	<b>\$2.85M - \$4.55M</b>	<b>\$1.5M - \$3.0M</b>
<b>Cumulative Annual Benefits</b>	<b>\$1.9M - \$2.9M</b>	<b>\$4.75M - \$7.45M</b>	<b>\$6.25M - \$10.45M</b>

## Assumptions:

1. The analysis does not consider the recurring nature of the benefits; in other words, benefits estimated above are from projects completed within the given year (in-year benefits).
2. Resourcing based on American Productivity and Quality Center (APQC) benchmarks (6 full time strategic sourcing managers and 21 full time strategic sourcing specialist per billion purchase)
3. Assumes a fully loaded cost of 150K and \$100K for a manager and sourcing specialist, respectively
4. Assumes 50% benefits of Wave 1 achieved in 2022, remaining upon completion in the subsequent year
5. Assumes 25% of Wave 3 achieved in 2023, remaining upon completion in the subsequent year

## Key dependencies:

- ▶ Additional resources may be required to form the core team that will focus on strategic procurement
- ▶ Executive support and leadership buy-in will be critical to ensure timely completion of the activities and elevating the Group's role in the organization
- ▶ Change management and communication are going to be key in achieving organizational alignment and sustainment of the expected benefits
- ▶ Most organizations benefit from external support when undertaking a transformation of the type recommended here. This helps minimise risks and accelerate value. Any costs related to additional support are not included in the analysis presented in the table above, but would still result in net positive benefits.