

Consolidated Clause in Audit Committee Report 3, which was considered by City Council on July 19, 20, 21 and 26, 2005.

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**Performance Indicators for the Purchasing
and Materials Management Division -
Quarterly Report**

City Council on July 19, 20, 21 and 26, 2005, adopted this Clause without amendment.

The Audit Committee recommends that City Council:

- (1) adopt the staff recommendations in the Recommendations Section of the report (June 24, 2005) from the Treasurer;**
- (2) request the Treasurer to:**
 - (a) provide separate performance indicators for Purchase Orders and Blanket Contracts in future reports to the Administration Committee; and**
 - (b) review the Departmental Purchase Orders and report to the Administration Committee out the outcome of this review.**

Purpose:

To provide to the Audit Committee a quarterly report on the performance indicators for the Purchasing and Materials Management Division (PMMD).

Financial Implications and Impact Statement:

There are no financial implications.

Recommendations:

It is recommended that:

- (1) this report be received for information; and**
- (2) future reports on Performance Indicators for the Purchasing and Materials Management division be forwarded only to the Administration Committee.**

Background:

At its meeting of January 17, 2005, the Audit Committee considered Report No. 1, Clause 6d from the Chief Financial Officer and Treasurer entitled “Procurement Process Review Implementation – Status Report”. The Audit Committee received the report and requested the Chief Financial Officer and Treasurer to provide to the Audit Committee a quarterly report, in chart form, on the performance indicators for the Purchasing and Materials Management Division. This report provides the requested information.

Comments:

A high-functioning municipal purchasing operation is one that is characterized by a significant number of blanket contracts and a minimum number of individual calls and departmental purchase orders. Large value blanket contracts allow the City to take advantage of its City’s purchasing power and they also make it easier for divisions to source and order goods and services.

For the warehouse and stores portion of the operation, high functioning characteristics include a balance between the value of stock issued and the value of goods received, and an optimal turnover rate for goods.

Measuring these indicators of performance provide information about work demand, and the efficiency and effectiveness of the operation. This ensures that services are provided within acceptable standards and there are opportunities to identify areas for improvement. These indicators and their values from 2000 to 2004, and the quarterly statistics for the first quarter of 2005 are provided in Appendix A.

Performance Indicators for PMMD

The following section of the report provides a brief analysis of work demand and the operational efficiency and effectiveness indicators. The warehouses and stores are discussed separately from the rest of the purchasing operation. Although the values for the first quarter of 2005 are included in the chart, they are not discussed in the report. The reason for this is the difficulty encountered in analyzing these numbers given that they are for the first quarter only and do not provide a basis for projections for the remainder of the year.

Work demand measures provide an opportunity for resource planning and include total number of calls, number of purchase orders and blanket contracts issued annually, and the total dollar value of purchase orders and contracts. The total number of calls issued annually has fluctuated since 2000, peaking in 2002 at 2,223 and decreasing since that time to 1,991 in 2004. The number of purchase orders and blanket contracts issued annually has decreased from 3,991 in 2003 to 3,175 in 2004. The decrease in the number of blanket contracts is due in part to the corporate consolidation of individual departmental blanket contracts. The total dollar value of purchase orders and contracts annually has decreased slightly from 2003 to 2004 but could be considered stable given the minor differentiation in values. For the purpose of resource planning, these numbers indicate what can be accommodated within current staffing levels.

Operational efficiency measures provide an indication of the cost of work per unit and are important to track as they may provide information regarding resources such as staffing. The efficiency measures tracked by PMMD include cost to purchase \$100 worth of goods or services and the dollar value processed per buyer on an annual basis. The cost to purchase \$100 worth of goods has fluctuated between \$0.23 in 2000 to \$0.30 in 2004. The dollar value processed per buyer on an annual basis has also decreased since 2000. For 2004, the value was approximately \$35 million. The decrease in the dollar value processed by buyer can only be partly explained by the increase in departmental purchase orders issued. PMMD will investigate further to determine other factors contributing to the decreased value.

Operational effectiveness measures provide an indication of quality, turnaround time and client satisfaction. This is an area that is difficult to measure given the varying levels of effort required to purchase different types of goods and services. The operational effectiveness measures tracked by PMMD include number of departmental purchase orders issued annually, the total value of departmental purchase orders issued annually and the average number of days to process from requisition date to issuance of purchase order. The number and value of departmental purchase orders issued annually has increased since 2000. The average number of days to process from requisition date to issuance of purchase order is between 30 and 40 days. This range is consistent with the lower end of the timeframes for the Service Level Agreements that PMMD have co-signed with Toronto Water and Parks, Forestry and Recreation. PMMD will approach other divisions to develop SLAs starting July 2005. The completion date will depend on the Division's agreement to the SLAs but PMMD hopes to conclude this process in 2006.

For the warehouse and stores, work demand can be measured by tracking and comparing the dollar value of stock issued annually to the dollar value of goods received annually. The relationship between these two indicators is what is most important, rather than the dollar values themselves. The dollar values are reflective of divisional workloads and budgets. The closer these two values are to each other the more efficient the operation. Since 2000, these values have been similar, with the exception of 2003. This exception may be reflective of the requirement of City divisions for the stocking of a significant amount of materials for a specific contract.

Operational effectiveness for the warehouse and stores can be measured by the warehouse turnover rate which tracks how well the inventory is being managed. Generally, the optimum turnover rate for the private sector is between 4 and 6. Turnover rate refers to the number of times the value of the inventory has been replenished within the year. Although operationally different from the public sector, staff are of the opinion that the lower end of this range can serve as a guide for the City. The higher the turnover rate, the less cash is tied up in inventory. However, if the turnover rate is too high, the number of "stockouts" could increase which is not conducive to effective service to the Divisions. Future reports will include this indicator.

The warehouse turnover rate has fluctuated between 2000 and 2003 and increased in 2004 to 3.25, closer to the target of 4. This increase could reflect the effect of the change in the City's approach to warehouse and stores management whereby obsolete items are no longer being stocked.

OMBI

The Ontario Municipal CAO's Benchmarking Initiative (OMBI) is examining performance measures and indicators with the purpose of identifying best practices of service efficiency and quality for Ontario municipalities. Purchasing is one of the areas for which benchmarks and indicators are being developed. While OMBI may ultimately provide a set of valuable benchmarks one concern with using the OMBI benchmarks is that there are no other similarly sized municipalities with which to compare Toronto's results. This may result in the City being significantly above or below the average depending on the indicator. Staff will continue their involvement in the development of the OMBI purchasing indicators and where appropriate include this data in future reports on this matter. Improvement Initiatives

PMMD staff are working on a number of initiatives to improve the performance level of the Division. The objective of the Division is to reduce the number of individual calls and increase the number of corporate, multi-year blanket contracts. This will allow buying staff more time to work on each call, increasing both response time to the Divisions and the quality of the call documents.

These initiatives include more regular analysis of procurement activity to identify blanket contract opportunities, allowing Divisions their own blanket contracts within a corporate contract framework that improves monitoring and participation in corporate calls, the development of an informal bid process for calls under \$50,000 and the production of an RFP template to assist divisions in efficient and effective RFP development. PMMD has also been assisting Accounting Services in delivering the Purchasing Card program. It is expected that the impact of these initiatives will likely be reflected in the performance indicators in 2006.

Conclusions:

The brief analysis of the performance indicators in this report, from 2000 through to the first quarter of 2005, has provided Audit Committee with a summary of the work demand and effectiveness and efficiency of the Purchasing and Materials Management Division. Staff will continue to monitor these indicators to track the success of the improvement initiatives that are underway.

Given the operational nature of this report, staff are recommending that all future reports on this matter be forwarded to Administration Committee only. This information can be consolidated with quarterly information the Administration Committee has already requested for Purchasing, Accounts Payable and Accounts Receivable.

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APPENDIX A: PURCHASING AND MATERIALS
MANAGEMENT PERFORMANCE INDICATORS

Purchasing

Performance Indicators	PMMD 2000	PMMD 2001	PMMD 2002	PMMD 2003	PMMD 2004	PMMD January 1 to March 31 2005
Total No. of calls issued annually	1,649	1,776	2,223	2,164	1,991	401
No. of PO's & Blanket Contracts Issued annually	7,106	4,060	3,854	3,991	3,175	639
Total Dollar Value of PO's & Contracts annually	\$1,099,916,619	\$1,003,155,802	\$982,473,041	\$1,092,730,406	\$873,202,077	\$235,205,573
No. of Departmental Purchase Orders (DPO's) issued annually	54,758	58,437	65,487	77,144	79,597	20,281
Total Value of Departmental Purchase Orders (DPO's) Issued annually	\$67,535,908	\$72,798,327	\$66,401,568	\$72,637,131	\$74,819,879	\$17,955,693
Cost to Purchase \$100.00 worth of goods or services	\$0.23	\$0.27	\$0.24	\$0.21	\$0.30	\$0.29
Dollar Value processed per buyer annually	\$57,890,348.39	\$50,157,790.12	\$49,123,652.03	\$44,601,241.05	\$35,376,725.70	\$9,046,368.20
Average no. of days to process from Requisition Date to issuance of Purchase Order	31.42	40.21	36.27	29.38	35.52	34.07

Warehouse and Stores

Performance Indicators	PMMD 2000	PMMD 2001	PMMD 2002	PMMD 2003	PMMD 2004	PMMD January 1 to March 31 2005
Dollar Value of Stock Issued annually	\$8,677,318.39	\$8,534,725.65	\$7,931,872.87	\$9,202,474.66	\$8,183,050.30	\$1,684,091.20
Dollar Value of goods received annually	\$8,579,608.26	\$9,068,106.86	\$8,512,224.85	\$11,516,639.63	\$8,566,224.75	\$1,504,807.78
Warehouse turnover rate	2.39	2.10	2.41	2.89	3.25	0.96