TORONTO

REPORT FOR ACTION

2020 Annual Controller's Report

Date: June 15, 2021
To: General Government and Licensing Committee
From: Controller
Wards: All

SUMMARY

This report provides a summary of the key activities, initiatives, and performance indicators for the Accounting Services (ASD) and Purchasing and Materials Management (PMMD) Divisions for the year ending December 31, 2020, with prior year comparatives, where applicable. This report includes:

- Activities of ASD including invoice payments;
- Consulting services expenditures for City Divisions and Agencies and Corporations (A&Cs) including details by category and vendor;
- Activities of PMMD including competitive purchasing activity; cycle times; PMMD stores and other procurement information;
- A summary of non-competitive purchasing activity valued at $3,000 and above for City Divisions, excluding purchases completed through Schedule A of Chapter 71, Financial Control and Accountability Offices; and
- A response to City Council's request dated December 16, 2020 from GL19.2 to report back to General Government and Licensing Committee on the use of contract extensions up to $500,000, with particular attention to its use more than once on the same contract.

The City's use of external consulting services varies by year and project. Consulting services supplement critical skill sets and expertise that are needed just-in-time and/or are not available within existing staff complements, as well as enable the City to quickly complete special projects or essential initiatives, or respond to emergency situations while maintaining existing service levels. The City obtains external consulting services through a formal procurement process to ensure that individuals and/or organizations with relevant expertise are selected. In addition, expenditures have been budgeted as part of fiscal 2020.

Overall, the City of Toronto and its A&Cs spent $40.1 million on consulting services in 2020 for operating and capital combined, which represents less than 1% of the City's total consolidated expenditures. Notable expenditures in 2020 include:

- The City's one-time operating investment to support enterprise-wide transformations, particularly aimed at improving the effectiveness of procurement and sourcing practices and budget modernization. These initiatives resulted in savings in excess of $41.0 million since the start of these initiatives in 2019. Additional benefits of $110 million are anticipated over a 17-month period in future fiscal periods;
- The City's partnership to improve mental well-being of all Torontonians (THRIVE Toronto);
- Capital initiatives associated with financial sustainability and environment assessments;
- Toronto Community Housing Corporation (TCHC)'s replacement of end-of-life information technology infrastructure; and
- Toronto Transit Commission (TTC)'s review of its new streetcars and subway assets.

COVID-19 had a significant and meaningful impact on operations, resulting in unique circumstances in 2020 due to the City's response and recovery efforts. For example, the City experienced increased consulting operating expenditures associated with the Toronto Office of Recovery and Rebuild; CaféTO; and other COVID-19 recovery strategies.

Similarly, PMMD experienced a reduced number of competitive solicitations issued and the increased solicitation cycle time which can be attributed the focus of both Divisions and PMMD on responding to the pandemic.

The value of 2020 non-competitive procurement was $252.3 million which represents 11% of total purchasing activity in 2020, as compared to 2019 which experienced $119.7 million in non-competitive procurement (4% of total purchasing activity in 2019). The number of non-competitive procurements issued in 2020 was 918 which is an increase of 62.2% over 2019. These increases are directly attributable to the City's response to COVID-19 where the City was required to enter into an additional 160 emergency procurements and a 146 non-competitive procurements on the basis of scarcity in the marketplace when procuring personal protective equipment (PPE). In addition, demands on PMMD and Divisions led to an increased number of non-competitive bridge contracts and time constraint contracts that were needed to ensure services continued. Without the pandemic, the City's use of non-competitive procurement in 2020 would have been comparable to 2019.

RECOMMENDATIONS

The Controller recommends that:

1. The General Government and Licensing Committee receive this report for information.

FINANCIAL IMPACT

There are no current or known future year financial impacts arising from the recommendations contained in this report.

Non-COVID related expenditures were incurred in previous years as part of budgeted operating or capital expenditures. However, the City's investments may generate return on investments in future fiscal periods as modernization initiatives will improve overall service delivery and offerings, in addition to improving service delivery and the lives of Toronto residents.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

This annual report from the Controller addresses Council requests pertaining to the activities of the Accounting Services and Purchasing and Materials Management Divisions, which date back to 2001, including:

- The percentage of invoices that are paid according to terms; and the number of invoices that have been paid past the term and the penalty that is incurred. http://www.toronto.ca/legdocs/2005/agendas/council/cc050221/pof3rpt/cl001.pdf

- Consulting expenditures that will include actual consulting expenditures for the previous year and the year prior organized by: department or local board, by the specific consulting categories, and by vendor. http://www.toronto.ca/legdocs/2002/agendas/council/cc020618/au6rpt/cl001.pdf

- A requirement that reporting of consulting expenditures be based on actual expenditures incurred and not on the value of contracts awarded unless specifically requested by Council. http://www.toronto.ca/legdocs/2001/agendas/council/cc011204/au10rpt/cl010.pdf

- Performance indicators for the Purchasing and Materials Management Division http://www.toronto.ca/legdocs/2005/agendas/council/cc050201/au1rpt/cl006.pdf

- Purchase order activity including all single source purchases exceeding the Department Purchase Order limit and the reasons thereof; percentage of purchase orders processed through the Purchasing Division using single source as justification; and all instances where purchase orders have been issued after the fact.
  http://www.toronto.ca/legdocs/2003/agendas/council/cc030414/au1rpt/cl008.pdf

- A summary of all non-competitive purchases including divisional purchase orders, as well as non-competitive purchases reported to the Standing Committees and Council.
  http://www.toronto.ca/legdocs/mmis/2009/au/reports/2009-10-20-au11-cr.htm#AU11.5

This 2020 Annual Report also responds to a request from City Council on December 16, 2020 as part of Item GL19.2, for the Chief Financial Officer and Treasurer to report to the General Government and Licencing Committee on the use of contract extensions up to $500,000, with particular attention to its use more than once on the same contract.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.GL19.2

ISSUE BACKGROUND

Annual Activity

Past Committee and Council requests for information related to accounting and purchasing initiatives, activities and metrics have been consolidated into one report from the Controller (previously the Treasurer), presented on an annual basis, starting in 2018. This report provides the information requested through multiple reports and other key activities and initiatives. All key indicators and activities are monitored during the year so that exceptions can be managed and current initiatives are focused on multi-year transformational activities. As a result, indicators reflect a more relevant picture of status or progress made when presented annually.

This year's report includes the Annual Activity of Accounting Services and Purchasing & Materials Management; as well as the consulting expenditures and non-competitive procurement experienced in 2020. Due to the inherent linkages and connections within the Office of the Controller, these reports have been presented together this year for a comprehensive view of consulting and procurement activity. Providing one report allows for enhanced and value-added reporting, while ensuring an opportunity to respond to Council requests for information in a complete package.

Currently, Accounting Services Division prepares the Consulting Expenditures for inclusion in the report, on behalf of the City's Divisions, Agencies and Corporations. Typically, consulting expenditures are approved through the annual budget and monitored as part of the in-year variance reporting process. Staff are exploring opportunities to report on consulting expenditures through the City's Open Data Portal.

Consulting Expenditures

Similar to any public or private entity, the City retains consultants for specific projects or assignments requiring certain technical capabilities, or unique and specialized advice, not available in-house or as required by legislation. It is often more cost effective to retain these specialized services on an as required basis, as compared to employing and training staff for specialized skills that are used infrequently and may become redundant as requirements change.

Consulting services are acquired in accordance with the Council approved policy on the Selection and Hiring of Professional and Consulting Services, as well as the City's Purchasing By-law, policies and procedures. As outlined in the Council approved policy for the Selection and Hiring of Consulting Services, the term "Consulting Services" is defined as any firm or individual providing expert advice or opinion on a non-recurring (or non-annual) basis to support or assist management decisions in the following areas:

- **Technical:** undertake activities on a defined assignment to assist managers in analyzing technical problems and recommending solutions (including the selection of engineering/architectural designs, research, appraisals, and planning).

- **Management / Research and Development:** undertake planning, organizing and directing activities to assist managers in analyzing management problems and recommending solutions for a defined assignment (can be operational, administrative, organizational policy in nature); with research and development, investigative study, to provide the City with increased knowledge or information.

- **Information Technology:** undertake activities on a defined assignment to assist managers in needs assessment and system selection including information processing, telecommunications and office automation (can be analytical, testing or of a business process nature).

- **External Lawyers and Planners (Legal):** as determined in consultation with City Legal staff is a service undertaken for legal advice or opinion which requires expertise and time that is not available by City staff.

- **Creative Communications:** inclusive of advice and recommendations on strategies for advertising, promotions, public relations and design which requires expertise and time that is not available by City staff.

Accounting Services staff verify and reconcile actual and budget amounts reported by City Divisions to the City's general ledger. Amounts reported for the A&Cs are confirmed by the specific agency or corporation

Accountability Offices

Consulting services expenditures and non-competitive procurement activity for the Accountability Officers are not included in this report as their expenditures are subject to a review by an external consultant and are reported separately.

COMMENTS

SECTION A: ACTIVITIES OF ACCOUNTING SERVICES - 2020

1. Invoice Payments

Timely vendor payments are an organizational responsibility, requiring a close partnership between vendors, City divisions and Accounts Payable to ensure that proper approvals are received before invoices are paid. Most City invoices follow a three way match process, where the original purchasing document, the goods receipt indicator and the invoice details must match in their entirety before payment is made to the vendor. In situations where this match does not occur, invoices remain parked for divisional action until the match process has been finalized. Frequently, unmatched invoices give rise to payments made outside of the standard 30 day terms.

In 2020, Accounting Services worked with divisions to make incremental improvements to the Procure to Pay (P2P) stream, prioritizing payments, while managing organizational cash flow in response to the COVID-19 pandemic. As a result, payments made within the City's standard payment terms increased over the previous year.

Divisions continued to be trained and encouraged to standardize internal processes, and parked documents that are ready to pay are given priority status by the Accounts Payable team. Marginal changes will continue to be made, however significant improvements in the P2P process and reporting are not anticipated until the completion of the Financial System Transformation Project in 2023.

The table below outlines the percentage of invoices paid in 30 day increments.

Table 1 Payment Cycle time

Year	Invoices Processed	0 – 30 days	31 – 60 days	61 – 90 days	91 – 180 days	180+ days
2020	444,390	64%	17%	8%	7%	4%
2019	454,474	60%	19%	7%	7%	7%
2018	445,608	69%	16%	6%	6%	3%

During 2020, 64% of invoices were paid within the standard 30 days, as compared with 60% in 2019, representing an increase of 4% over 2019. In addition, 81% of invoices were paid in 60 days in 2020 as compared to 79% in 2019 and 85% in 2018.

Penalties associated with late payments total $ 2,095in 2020. Late payment charges are approved by the Division accountable for the correct and timely payment prior to payment being made.

The Accounts Payable section of Accounting Services continues to work with both vendors and divisions to ensure that the match process occurs so that timely payment can be made. Divisions are provided with support when establishing purchasing documents, reviewing parked document listings and identifying and correcting process issues that contribute to the three way match issue. In addition, vendors are required to provide invoices with relevant purchasing documents to assist with the match process; invoices are received electronically to expedite the payment process.

SECTION B: CONSULTING SERVICES EXPENDITURES

1. Consulting Services Expenditures – City Divisions and Major Agencies and Corporations

Consulting services supplement critical skill sets and expertise that are needed just-in-time, such as service delivery modernization, and are not available within existing staff, as well as enable the City to quickly complete special projects or essential initiatives while maintaining existing service levels.

While spending on consulting services is subject to operational and capital requirements and varies from year to year, several measures implemented since 2002 have resulted in improved control. The initial zero-based justification during the budget process, stricter guidelines on the selection of consultants, compliance with purchasing policies, the requirement to report consulting expenditures as a separate item on the quarterly Operating and Capital Budget Variance report as well as this annual report, collectively ensure that City Divisions and A&Cs are maintaining control over their consulting expenditures. The services of external consultants are only used when, and absolutely, required.

Based on the type of projects and initiatives undertaken by City Divisions and A&Cs as seen in the previous sections, consultants are typically used when:

- A specialized skill set is required that aligns with best practices and the most up to date expertise, such as for a system implementation or a COVID-19 recovery and response review;
- The existing staff complement cannot absorb one-time special purpose or project work within existing capacity and hiring permanent staff with the required skills is not cost effective, such as for construction project design or specialized legal advice;
- An independent objective review is required and/or mandated by a funding agreement, and benefits from outside involvement or expertise, such as public engagement or a service delivery review; and
- Work needs to be completed quickly to meet Council or legislative deadline, such as addressing the Province of Ontario's asset management requirements.

Each initiative that uses consultants has unique circumstances and requirements that are considered before determining the most cost effective way of completing the work. Through detailed planning processes and consideration of the above factors, City Divisions and A&Cs determine when the use of consultants is justified.

As a result, the extent of consulting work will be dependent upon the City's annual requirements, as well as business needs in order to accommodate unanticipated requests or changes in the external environment to achieve overall operational and financial efficiencies.

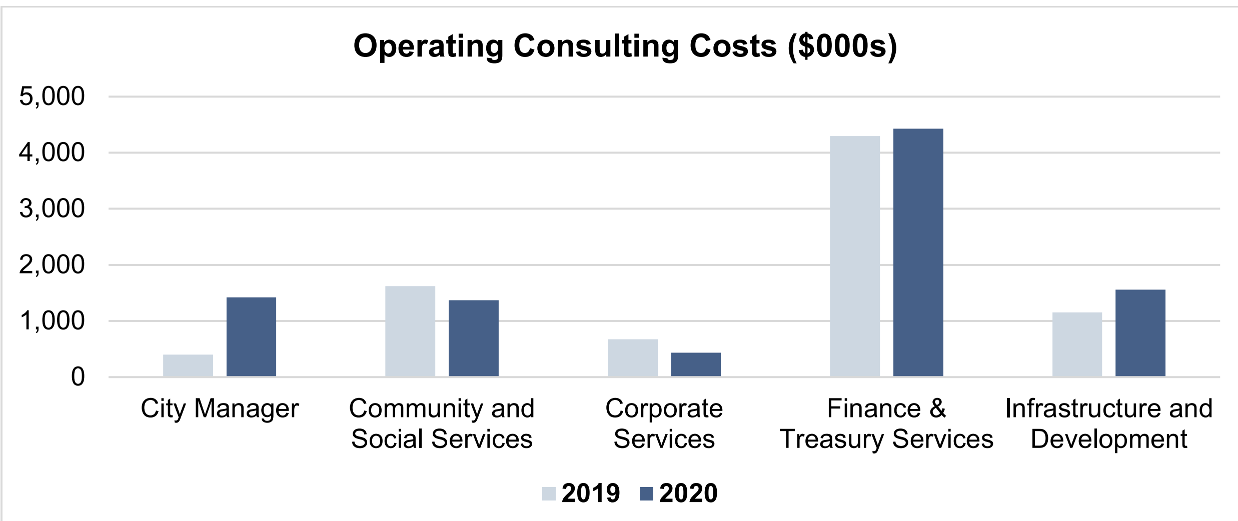
City Divisions and A&Cs have confirmed their 2020 consulting services expenditures, by vendor, for each of the five categories funded from both the Operating and Capital Budgets. A summary of the consulting services expenditures for 2020, with 2019 comparatives, for Operating and Capital, is presented below in Graph 1. The details of the consulting services expenditures for 2020, by category and vendor, for each City division and A&Cs, are shown on Appendix A (Operating) and Appendix B (Capital).

Accounting Services has a database of consulting services expenditures on the Open Data website, which is available to the public. The database presents expenditures for the past five years, and can be accessed using this hyperlink:
http://wx.toronto.ca/inter/fin/consultingservices.nsf/HomePageFM?OpenForm

i. Consulting Services: Operating Expenditures

a) City Divisions (2020: $9.3M; 2019: $8.2M)

Graph 1a: Consulting Services Expenditures by Service Area – Operating



Operating consulting costs increased by $1.1M (or 13.9%) compared to 2019. The following City Divisions were the main contributors to the City's overall operating consulting costs in 2020:

City Manager's Office (2020: $1.4M; 2019: $0.4M)

In 2020, external consultants supported the City Manager's Office with several key initiatives that aimed at improving the City's resilience to cybersecurity threats, developing a City-Wide recovery and response strategy due to the COVID-19 pandemic, and launching the Concept 2 Keys Program (C2K). Consulting services were obtained to access subject matter expertise and knowledge of best practices.

The Toronto Office of Recovery and Rebuild provided advice to the City Manager and Senior Leadership on the development of a municipal recovery strategy for COVID-19, consulting with sectoral and community stakeholders, along with public health guidance.

C2K is a program to transform, enhance and improve how the City attracts, facilities and regulates development activity. An operational pilot was launched in the last quarter of 2020 to improve the process and performance of City-Wide development reviews.

Community and Social Services (2020: $1.4M; 2019: $1.6M)

In 2020, Community and Social Services started various initiatives and projects including establishment of the Toronto Office of Recovery and Rebuild (TORR), evaluation of Transit Fare Equity, partnership with THRIVE Toronto, completion of the first modular building, and review of the Housing Delivery Framework. On an overall basis, Community and Social Services used external consultants for each of the major initiatives in 2020 to obtain access to subject matter expertise (e.g. public health), learn about leading practices, and receive independent assessments of its new programs.

Further details regarding each of these initiatives that were supported by external consultants are as follows:

- To support the development of the public health strategy informing the City's recovery and rebuilding plan.

- Transit Fare Equity was implemented with goals to promote greater social inclusion, allow low-income residents to participate more fully in the community and access greater essential services, and provide support to improve their overall well-being.

- THRIVE Toronto is a partnership of organizations from a variety of sectors to take action and improve the mental well-being of all Torontonians. The aim is to transform Toronto into a city where all Torontonians can thrive by supporting housing, building mental health literacy, and addressing the mental health needs of the Downtown east community.

- The first modular building was completed as part of the Modular Housing Initiative (Toronto's HousingTO 2020-2030 action plan), providing 56 new homes at 11 Macey Avenue. This initiative is an innovative and cost-effective way to build small-scale infill housing while providing a rapid, dignified response to connect people experiencing homelessness with homes and appropriate supports to help them achieve housing stability.

- The Housing Delivery Framework outlines how the City develops and delivers housing policies and programs, and how resources are allocated towards housing and homelessness. Review of this framework was done in 2020 to streamline and improve the delivery of the HousingTO Plan.

Finance & Treasury Services (2020: $4.5M; 2019: $4.3M)

In 2020, Finance & Treasury Services continued its implementation of Category Management and Strategic Sourcing (CMSS) and merger of the City's pension plans with OMERS, as well as completed various initiatives to achieve Financial Sustainability across the City. External consultants provided essential subject matter expertise in each of these initiatives for the purposes of preparing the City for the implementation of new technology and tools, transforming its service delivery models, and complying with the Province of Ontario's new legislative requirements. Examples of major consultant-led initiatives include the following:

- CMSS changed the manner in which the City procures goods and services in a more strategic forward-looking approach from the more traditional procurement processes and techniques followed by the City. With the creation of a new Program Support unit within PMMD and the support of a Specialized Procurement and System Integrator consultant and divisional partners, this has generated $41.0M of benefits for the City.

- The City's Financial Sustainability program will ultimately allow the City to strengthen the overall accuracy, completeness, and transparency of the City's financial information. One of major components of the external consultants' work is associated with capital modernization legislative requirements. Specifically, the City has been leveraging external expertise to identify how leading practices for asset management can be incorporated into the City's existing budgeting, financial reporting, and project management processes. The external consultants' work will be instrumental in addressing the Province of Ontario's asset management reporting requirements.

Infrastructure and Development (2020: $1.6M; 2019: $1.2M)

In 2020, Infrastructure and Development completed various initiatives, which were aimed at improving COVID-19 related support to communities, as well as strengthening its service delivery models and internal operations. External consultants were engaged to obtain an independent assessment of its various services, as well as gain access to leading practices associated with effective responses for COVID-19. Examples of major initiatives, supported by external consultants, are as follows:

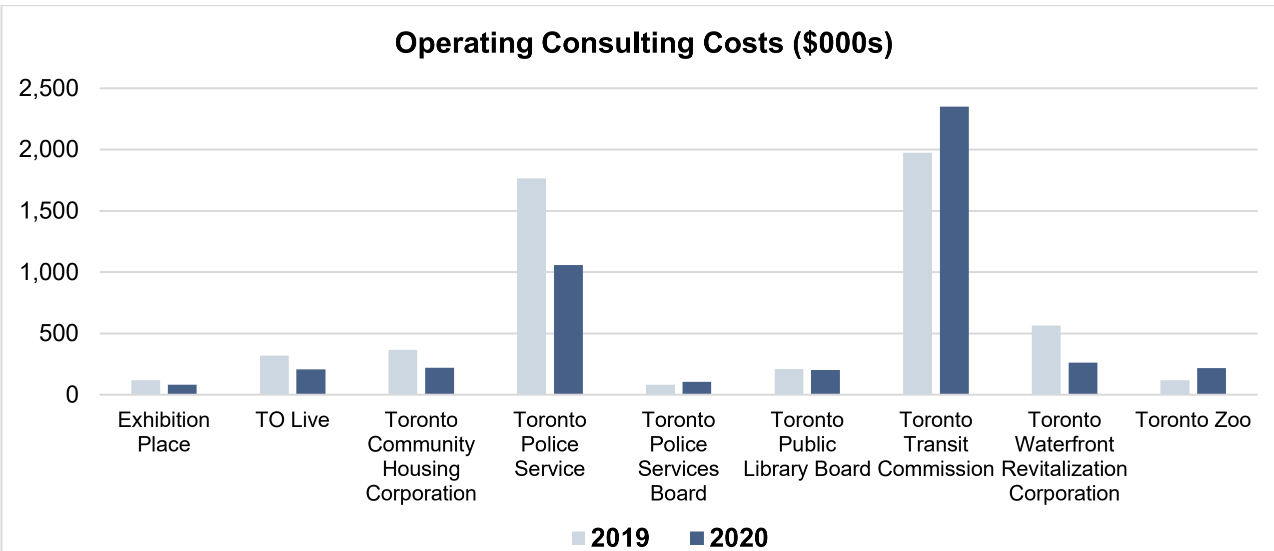
- CaféTO is a program offered in response to COVID-19. It aims to provide space for expanded outdoor dining areas to help local restaurants and bars impacted by the pandemic. In 2020, external consultants performed field investigations, as well as designed traffic plans to help expedite the set-up of various installations.

- A review of the City's winter maintenance services was completed upon request of the Mayor. The external consultants were able to provide an independent cost and benefit analysis of various winter service delivery options, as well as a program service review that focused on service level comparison to peer cities, climatology analysis, compliance with legislation and a sidewalk program assessment. Through the external consultants' analysis, the City has been able to shape the organization's winter maintenance program, including the launch of a pilot project to clear snow on sidewalks that were not mechanically cleared, as well as accelerate the City's procurement process for mechanical snow equipment.

- The Toronto Building Program Review evaluates how Toronto Building currently operates, with the goal of developing an enhanced and resilient service delivery model that meets the needs of applicants and the public. The external consultant is able to supplement and enhance the division's understanding of leading practices, as well as provide an objective investigation of its existing service delivery model.

b) Agencies and Corporations (2020: $4.7M; 2019: $5.5M)

Graph 1b: Consulting Services Expenditures by A&C – Operating



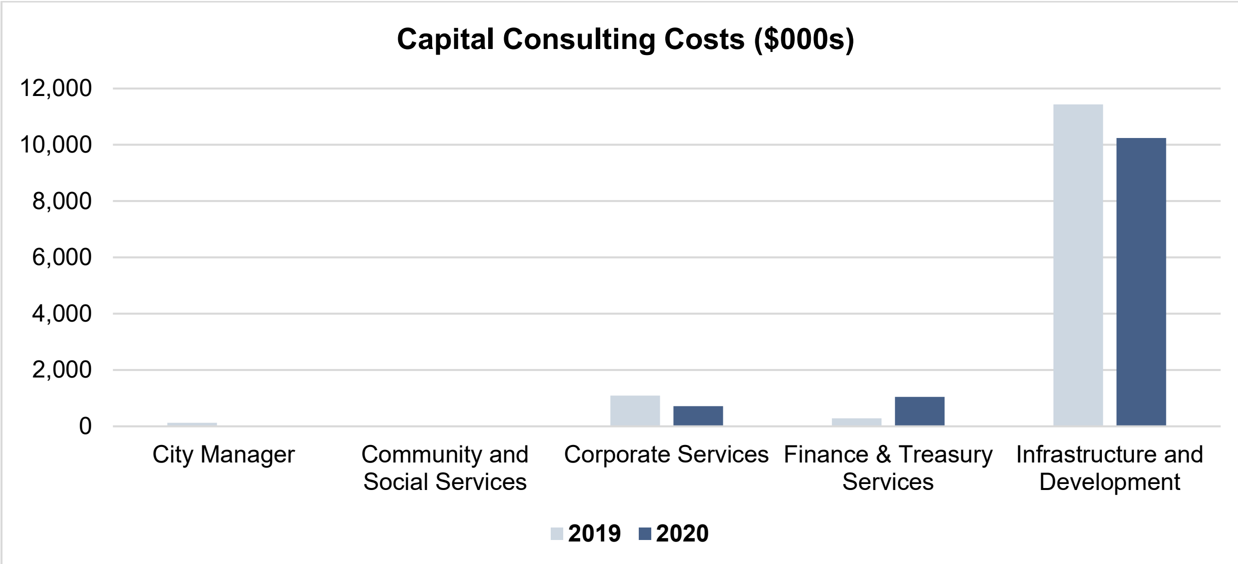
A&C operating consulting costs decreased by $820K (or 14.8%) compared to 2019.

In 2020, the TTC reported operating consulting expenditures of $2.4M, which consisted of the Agency obtaining subject matter expertise on how it could improve its service capacity and fare policy, as well as obtaining an audit of its tank system.

ii. Consulting Services: Capital Expenditures

a) City Divisions (2020: $12.0M; 2019: $13.0M)

Graph 2a: Consulting Services Expenditures by Service Area - Capital



Capital consulting costs decreased by $1M (or 7.7%) compared to 2019. The following City Divisions were the main contributors to the City's overall capital consulting costs in 2020:

Finance & Treasury Services (2020: $1.0M; 2019: $0.3M)

In 2020, Finance & Treasury Services continued to prepare for the development and implementation of its new Enterprise Resource Planning system (i.e. S/4 HANA), which will be implemented over the next few years. The service area received support from an external consultant for expertise that was not available within existing staffing complements, receive robust subject matter expertise associated with the new system, and access leading practices to prepare a procurement strategy for evaluating and selecting the system integrator.

The City is anticipating to realize a number of benefits subsequent to the implementation of the new system, including improving access to reliable financial data, increasing collaboration opportunities, and streamlining end-to-end processes across multiple City divisions.

Infrastructure and Development (2020: $10.2M; 2019: $11.4M)

In 2020, Infrastructure and Development received various consulting services for purposes of improving the City's customer service experience for a number of services, as well as strengthening the City's overall environmental sustainability efforts. External consultants provided invaluable subject matter expertise, as well as supplemented resources in areas where staffing was only required on a limited-term basis. Examples of major initiatives, which required the use of external consultants, are as follows:

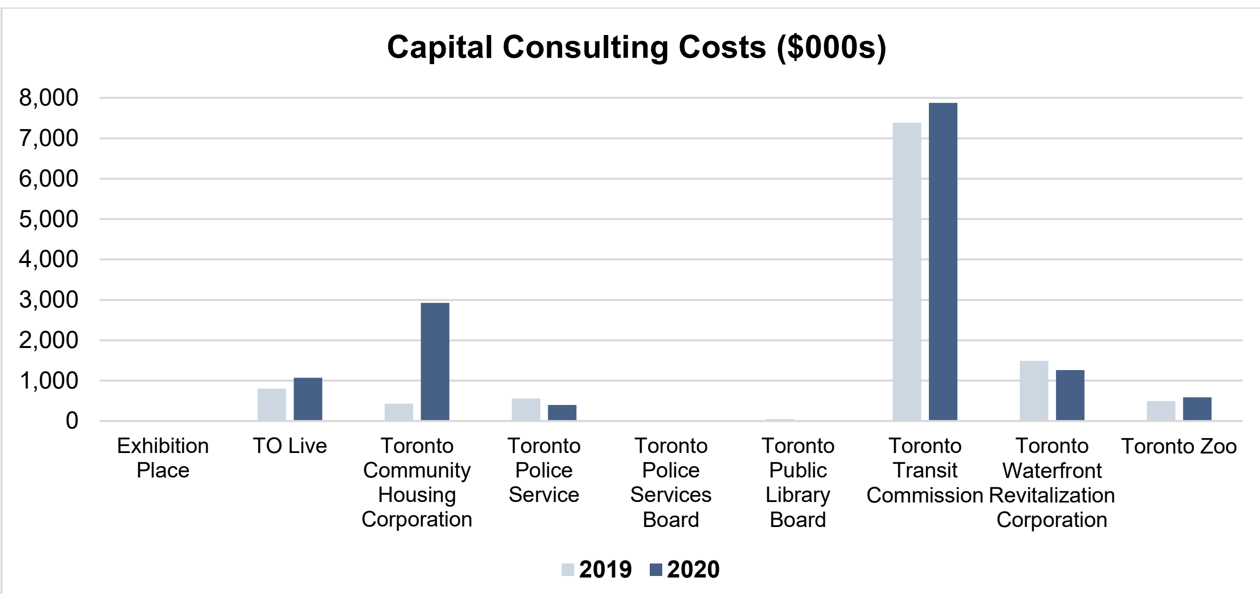
- Study of new technology: external consultants supported the service area with the evaluation of the Mixed Waste Processing with Organics Recovery (MWPwOR) technology. MWPwOR is a new process that allows an organization to maximize materials that could be processed in an organics processing facility. The results of the study and similar initiatives will support the City's Long Term Waste Management Strategy, as well as establishing a circular economy.

- Financial analysis: external consultants are supporting the service area feasibility assessment of transitioning the responsibility of managing the blue box recycling program to external producers. As part of the consultants' work, the service area will receive information regarding optimal utility rate structures, financial impacts arising from the transition, as well as how the handover of responsibilities should occur.

- Environmental and planning assessments: the City is conducting various assessments with external consultants for purposes of evaluating the traffic design associated with key transit routes, as well as improve overall streetscape for various user groups (pedestrians, cyclists, transit and vehicles). Examples of areas and/or projects under consideration include: Yonge Street, Eglinton Light Rail Transit project, bikeway extensions, and the extension of Broadway Avenue.

b) Agencies and Corporations (2020: $14.1M; 2019: $11.2M)

Graph 2b: Consulting Services Expenditures by A&C - Capital



A&C capital consulting costs increased by $2.9M (or 25.8%) compared to 2019. The following Agencies and Corporations were the main contributors to the City's overall capital consulting costs in 2020:

Toronto Community Housing Corporation (2020: $2.9M; 2019: $0.4M)

The Agency incurred the majority of its consulting costs on its development and implementation of the Housing Management Enterprise System (HoMES) in order to replace end-of-life information technology infrastructure and support more efficient and reliable service to tenants. External consultants provided subject matter expertise on leading practices, which were used to re-design processes that would support the new system.

Toronto Transit Commission (2020: $7.9M; 2019: $7.4M)

In 2020, the Agency's consulting expenditures were associated with initiatives which focused on improving overall internal operations and service delivery. Examples of key initiatives, which relied on the use of external consultants, are as follows:

- Responses to audits: the Agency received legal advice concerning potential environmental issues identified as part of the storage tank audit and overall Safety, Health & Environment Management System.

- Quality assurance and control assessments: various external consultants supported the Agency's assessment of the overall quality associated with key tangible capital assets, including buses, streetcars, and light rail vehicles.

- Arbitration services: external consultants supported the Agency in a series of negotiations with Metrolinx regarding the PRESTO program for purposes of addressing unresolved contract deliverables and clarifying business requirements.

SECTION C: PURCHASING AND MATERIALS

1. Competitive Procurement Processed by PMMD Purchasing Units

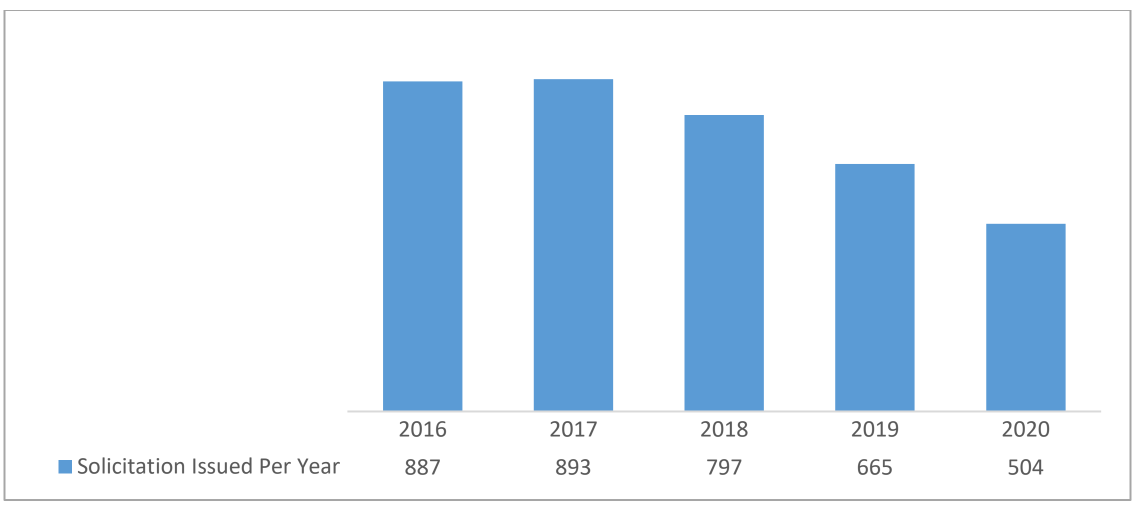
A high-functioning municipal purchasing operation is one that is characterized by a significant number of Blanket Contracts and Purchase Orders and a minimum number of individual solicitations and Divisional Purchase Orders (DPOs). Large value Blanket Contracts allow the City to take advantage of economies of scale while making it more efficient for divisions to source and order goods and services.

In 2020, the City issued approximately $2.3 billion in contracts, through the issuance of over 1,672 purchase orders and blanket contracts. Of this, the competitive procurement process resulted in the issuance of 1,263 purchase orders and blanket contracts valued at approximately $2 billion.

Table 2 Purchase Orders & Blanket Contracts Issued and Value per Year (inclusive of competitive & non-competitive procurement)

	2016	2017	2018	2019	2020
Purchase Orders Issued	1,210	1,166	1,131	1,009	1,061
Blanket Contracts Issued	517	705	612	532	611
Total Issued	**1,727**	**1,871**	**1,743**	**1,541**	**1,672**
Purchase Order Value (000s)	$1,104,515	$1,429,274	$2,168,278	$2,089,832	$1,429,522
Blanket Contracts Value (000s)	$402,549	$760,503	$465,327	$833,409	$849,724
Total Value (000s)	**$1,507,064**	**$2,189,177**	**$2,633,605**	**$2,923,240**	**$2,279,246**

Graph 3: Number of Solicitations Issued by Year



PMMD has been actively working on consolidating procurements of goods and services into larger corporate calls over the last few years, increasing the use of rosters and encouraging the use of leveraging group purchasing organizations procurement contracts (such as the Provincial Vendor of Record). All of these actions contribute to streamlining the number of procurements issued each year.

In addition, COVID-19 has had an impact on 2020 activity as resources in Divisions and in PMMD focused on COVID-19 response efforts which delayed the issuance of solicitations. Finally, PMMD has had a high level of vacancies in 2020 that could not be filled due to the hiring slow down as part of COVID-19 cost mitigation efforts.

These experiences directly correspond with an increased number of bridging non-competitive contracts, from 86 bridging contracts in 2019 to 117 in 2020, which is further discussed on page 17. While there has been a decrease in the number of solicitations issued in the last few years, overall the number of purchase orders and blanket contracts that have resulted from the solicitations issued have stayed relatively constant over the last 5 years.

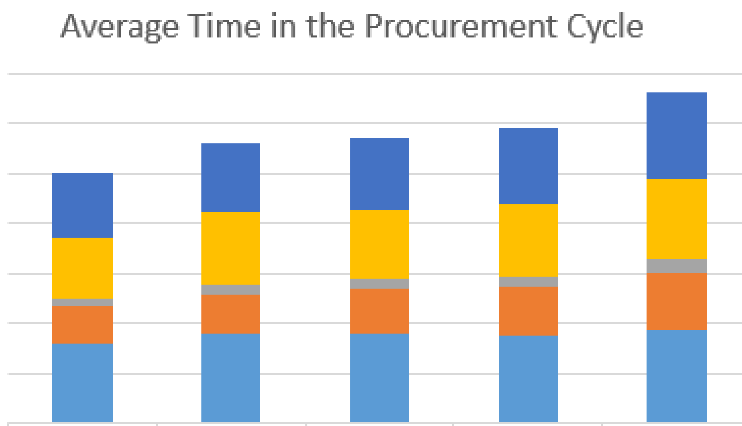
i. Average Cycle Times

Cycle time is broken down into five (5) major events, in which multiple parties are involved from PMMD, the Division, Financial Planning, Legal and occasionally City Agencies or Corporations:

- Initiation of the solicitation, preparation and approval of a solicitation document for issuance;
- Time period between the solicitation issue date and closing date;
- Solicitation closing date and date summary sent to Client Division;
- Divisional evaluation of bids/proposals received; and
- Time period from receipt of recommendation to award to issuance of Purchase Order, which includes entering into legal agreements where required.

Graph 4 displays the Average Time in the Procurement Cycle from 2016 to 2020. In 2020, the overall time it took to complete a procurement on average from the initiation of the procurement with PMMD until the issuance of a purchasing document was 133 working days, which represents an increase of 15 days from 2019's 118 days. Ultimately the increase in time between 2020 and 2019 is a result of the City's response to COVID-19 which resulted in all Divisions to be delayed in dealing with their activities in the procurement process.

Graph 4: Average Time in the Procurement Cycle



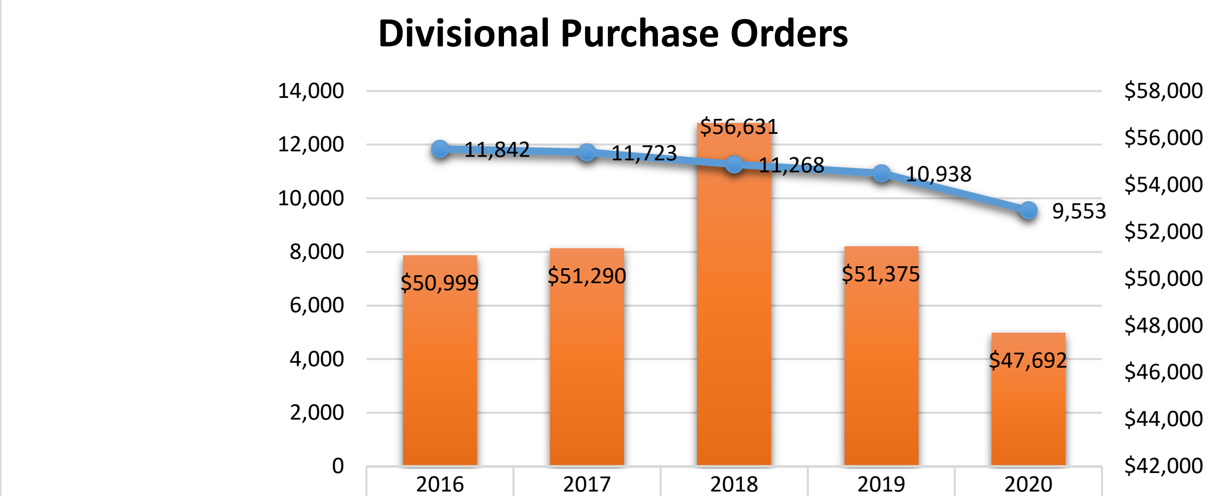
	2016	2017	2018	2019	2020
Average time from receipt of recommendation to award to issuance of Purchase Order (net-work days)	25.5	28.0	29.0	30.0	34.4
Average time for divisions to evaluate bids/proposals (net-work days)	24.8	29.0	27.7	29.0	32.2
Average Closing Date and Date the Summary was sent to Client Division (net-work days)	2.9	3.5	3.6	4.0	6.0
Average time for Solicitation (net-work days)	15.3	16.0	18.0	20.0	22.4
Average time for Solicitation preparation and Solicitation issuance (net-work days)	32	35.9	36.0	35.0	37.6
Total Average Time in the Procurement Cycle	100	112	114	118	133

ii. Divisional Purchase Orders (DPOs) – Competitive Procurements Processed by Divisions

City Divisions are able to conduct a three quote process for contracts up to $50,000. In 2020, the Divisions issued approximately $47.689 million, through the issuance of over 9,553 DPOs, of which $11.878 million was processed under the Non-Competitive Procurement process, with the issuance of 582 DPOs.

In 2020, there was a reduction of 1,385 DPOs compared to 2019. The dollar value of purchases made by DPOs decreased by $3.685 million from $51.375 million in 2019 to $47.689 million in 2020. Only 2.1% of City purchases in 2020 were processed using DPOs. The decrease is primarily attributable to changing priorities of the Divisions to focus on responding to COVID-19 or in relation to the fact that services were slowed down or stopped for periods of time during 2020.

Graph 5: Divisional Purchase Orders (Inclusive of Competitive DPOs & Non-Competitive Procurement DPOs)



	2016	2017	2018	2019	2020
DPOs Dollar Value (‘000s)	$50,999	$51,290	$56,631	$51,375	$47,692
DPOs Issued	11,842	11,723	11,268	10,938	9,553

2. Non-Competitive Procurement

In 2020, the value of all non-competitive purchases for the City totalled $252.3 million (2019: $119.7 million), which represents 11.1% (2019: 4.0 %) of the City's total purchases of approximately $2.3 billion.

The number of non-competitive purchases increased by 8.2% of total purchases over 2019 and increased by 110.8% in total dollar value. The increase was primarily driven by responding to COVID-19, as explained below. Table 3 shows the comparison of non-competitive purchases to total overall purchases in the City showing both 2020 and 2019.

Table 3 Comparison of Non-competitive Purchases to Total Overall Purchases in the City for 2020 and 2019

	2020		2019	
	# of POs, BCs and DPOs issued1	Value of POs, BCs and DPOs issued1	**# of POs, BCs and DPOs issued1**	**$ Value of POs, BCs and DPOs issued1**
Total Purchasing Activity (Competitive and Non-Competitive)	**11,225**	**$2,279,246,028**	**12,479**	**$2,974,615,213**
Non-Competitive Activity $3,000 and Above Only				
Approved by Divisions	509 (4.5% of Total issued)	$11,517,021 (0.5% of Total Purchases)	315 (2.5% of Total issued)	$7,126,037 (0.2% of Total Value Issued)
Approved by PMMD	340 (3.0% of Total issued)	$149,452,042 (6.4% of Total Purchases)	212 (1.7% of Total issued)	$35,837,842 (1.2% of Total Value Issued)
Approved by Council	69 (0.6% of Total issued)	$91,349,405 (3.9% of Total Purchases)	39 (0.3% of Total issued)	$76,750,360 (2.6% of Total Value Issued)
Total Non-Competitive Activity	**918 (8.2% of Total issued)**	**$252,318,467 (11.1% of Total Purchases)**	**566 (4.5% of Total issued)**	**$119,714,239 (4.0% of Total Value Issued)**

1 PO, BC and DPO means Purchase Order, Blanket Contract and Divisional Purchase Order

The increase in the number of non-competitive procurements can be directly attributed to the City's response to COVID-19. If the 4 main exception codes used to support COVID-19 response efforts, Emergency; Scarcity of Market Supply; Bridges; and Time Constraints, were excluded from the overall numbers, the number of non-competitive contracts approved in 2020 would be in the same range of 2019.

COVID-19 and Labour Disruption Planning related non-competitive purchases account for approximately 385 of the 918 non-competitive procurements approved in 2020, valued at approximately $139 million. Additional information is below:

- Divisions had to enter into emergency non-competitive contracts to ensure City services continued. Examples of emergency non-competitive procurements include contracts for personal protective equipment, custodial and enhanced disinfectant services, nursing, testing, and security services.

- Due to the scarcity of PPE, PMMD processed 146 non-competitive contracts based on Scarcity of Market Supply, in order to secure PPE for the City.

- There were also increases in the use of the bridging contract and time constraint exception codes. Both PMMD and the Divisions had to prioritize in response to COVID-19 and as a result, both of these exception codes increased. For example, in 2019 there were 86 bridging contracts, which increased to 117 in 2020.

- Finally, there was also an increase in the Public Interest/Confidentiality exception code which was used to support the Labour Disruption Planning at the beginning of 2020.

Table 4 Usage of 5 Most Significant Non-Competitive Exception Codes in 2020

			Change 2020 vs 2019			
2020 # DPO/ PO/BC	**2019 # DPO/ PO/BC**	**Reason for Non-Competitive**	**No.**	**Value**	**Value %**	**No. %**
206	46	Emergency	160	$86.633,363	291.7%	347.8%
161	8	Scarcity of Market Supply	153	$1,684,440	88.5%	1912.5%
117	86	Bridging Contract	31	$28,319,080	290.3%	36.0%
77	55	Time Constraint	22	$3,046,166	43.8%	40.0%
37	18	Public Interest(Confidential/Security)	19	$19,088,274	517.6%	105.6%
		Total	**385**	**$138,771,323**		

i. Break down of Non-Competitive Procurements

The following tables show the overall change in the use of non-competitive purchases by approval range. Table 5 shows the 2019 to 2020 comparison of the use of non-competitive procurement approved by Divisions in the range of $3,000 to $50,000. For a summary by Division of Non-competitive $3,000 to $50,000, refer to Appendix D.

Table 5 Comparison of Non-Competitive Divisional Purchase Orders (DPOs) $3,000 and Above

	2020	2019	Change 2020 vs 2019		% Change
Total Number	509	315	Number	194	61.6%
Total Value	$11,517,021	$7,126,037	$ Value	$4,390,984	61.6%

Table 6 shows the 2019 to 2020 comparison of the use of non-competitive procurement approved by PMMD from $3,000 to $500,000. A Division can choose to bring a non-competitive contract forward to PMMD for approval that is less than $50,000 if they believe it is complex. For a summary by Division of Non-Competitive approved by PMMD, refer to Appendix E.

Table 6 Comparison of Non-Competitive Purchase Orders and Blanket Contracts Processed by PMMD $3,000 and Above

	2020	2019	Change 2020 vs 2019		%Change
Total Number	340	212	Number	128	60.4%
Total Value	$149,452,042	$35,837,842	$ Value	$113,614,200	317%

Table 7 shows the 2019 to 2020 comparison of the non-competitive purchases greater than $500,000 in value that are approved by Standing Committee and Council. For a summary by Division of Non-competitive contracts approved by Council, refer to Appendix F.

Table 7 Comparison of Council Approved Non-Competitive Purchase Orders and Blanket Contracts

	2020	2019	Change 2020 vs 2019		%Change
Total Number	69	39	Number	30	76.9%
Total Value	$91,349,405	$76,750,360	$ Value	$14,599,044	19%

ii. Quality Assurance and Training

Quality Assurance (QA) Reviews are to be conducted by PMMD staff on a risk based approach to assess whether the Division's use of the Divisional Purchase Order Procedure, which includes when Divisions approve a non-competitive procurement under $50,000 is in compliance with the procedure. Due to the impact and workload demands resulting from COVID on the non-competitive procurement process, there was no capacity for staff to conduct Quality Assurance Reviews in 2020 of the divisional purchase orders, including non-competitive DPOs.   To address this, PMMD is reorganizing work performed in PMMD in order to create capacity to be able to perform these QA reviews.   As well, PMMD is also in the process of revising its Quality Assurance Review Procedure to further analyze Divisions' use of non-competitive DPOs to ensure compliance. These processes will ensure all requirements are met and that adequate justification for each non-competitive purchase is documented and on file.

PMMD provides training on Divisional Purchase Orders (DPO) monthly, as well as ad-hoc customized training sessions for Divisional staff on Non-Competitive Procurement, in order to ensure that all City staff are trained to follow proper purchasing policies and procedures.

DPO Training is a mandatory requirement prior to City staff receiving access to procure goods/services by DPOs. The number of staff trained on PMMD DPO Procedures over the last three years are as follows: 48 staff in 2018, 68 staff in 2019 and 11 staff in 2020. DPO training was paused during COVID and resumed at the end of 2020 which reflects the lower attendance for staff trained. PMMD will continue to work with division staff and provide training where necessary to keep non-competitive purchases to a minimum and where possible use a competitive process to avoid purchasing through non-competitive.

3. Response to GL19.2 - Contract Extensions

City Council, as part of Item GL19.2, requested information on contract extensions up to $500,000, with particular attention to its use more than once on the same contract. The following provides information on the use of contract extensions.
Item: http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.GL19.2

Contracts, whether they may be procured competitively or non-competitively, will have a contract end date. Often the contract that has been put in place is for goods and services that would be needed on an ongoing basis. In those situations, a competitive procurement is done to ensure that a new contract is in place as soon as the original contract comes to an end. Sometimes there are delays in putting in the new contract that necessitates the need to have a "bridging contract" put in place to ensure that there is no gap in the goods or services.

There are also situations in which a contract comes to an end but additional goods or services are still needed. In these instances, t's not intended that the contract would be required on an ongoing basis. In those situations, the non-competitive rationale that will be used is compatibility.

Both situations, bridging contracts and compatibility, are forms of non-competitive contracts.

i. Bridging Contracts

The following is an illustrative example of a bridging contract. The City puts out a competitive procurement for the purchase of laptops. The City enters into the contract with the successful supplier from the competitive procurement and the term of the contract is three years starting on January 1, 2018 and ends December 31, 2020.

Due to delays, the City is unable to issue a new competitive contract in mid-2020 and instead it is issued in December 2020 and the new supplier will be selected by end of February 2021. The City still needs to buy laptops between January 1 and February 28, 2021. To ensure that the City can still buy laptops, staff get authority to enter into a bridging contract with the same supplier to cover the period January 1, 2021 to February 28, 2021 (the "bridging contract").

Bridging contracts can be a result of any of the following:

- Delays from the Client Division or from Purchasing and Materials Management (PMMD) or both. For example, COVID-19 created delays for Divisions and for PMMD, as well resource constraints will also create delays; or

- Change in how to approach the procurement strategy. For example, if multiple contracts need to be aligned for a larger procurement, bridging contracts may create that alignment.

In using a bridging contract, the intention is to have it in place for the minimal amount of time required until the new contract can be issued. However, if further delay occurs, the bridging contract may be amended under the Purchase Order Amendment process. This process allows for staff to amend up to an additional $500,000. If the amendment required was greater than $500,000, a staff report is sent to the appropriate Standing Committee for approval.

As noted above, there has been an increase in the use of bridge contracts primarily due to COVID-19. Divisions and PMMD had to prioritize work in light of the pandemic which resulted in competitive procurement processes being delayed. Further, PMMD had a high level of vacancies in 2020, which has continued into 2021. During 2020, the City implemented a hiring slow down to mitigate costs associated with COVID-19, which impacted PMMD's ability to fill vacancies. PMMD is working with People and Equity to recruit more buyers in order to support the Divisions and to reduce the number of bridging contracts being used going forward.

Table 8 indicates the number of bridging contracts approved in 2019 and in 2020 that were subsequently amended to increase the value. More detail on which contracts were amended are set out in Appendices G and H.

Table 8 Bridging contracts approved in 2019 and in 2020

	2019	**2020**
Number of Bridge Contracts set up	86	117
Number of Bridge Contracts subsequently amended	13	36

ii. Compatibility

Under the compatibility rationale, a contract extension is where "additional deliveries by an original supplier of goods and services that were not included in the original procurement, but a change cannot be made for economic or technical reasons without causing significant inconvenience or substantial duplication of costs for the City." The use of compatibility is similar to a bridging contract, although this may be used where the goods or services are not needed on an ongoing basis. For example, if a consultant is hired to produce a report, and there is a need for a supplementary report that was not contemplated in the original procurement.

In the case of PMMD's request to Council to enter into a further contract with Ernst & Young (EY) as set out in GL19.2, the original contract with EY ended in April, 2020. Due to the impacts of COVID-19 and the need to find additional ways to find savings given the economic conditions, PMMD entered into a non-competitive contract that extended EY from May to the end of July for $500,000. At that time, Standing Committees and Council meetings were canceled.

PMMD intended to report to the July General Government and Licensing Committee (GGLC) meeting, however internally staff discussed including the request to Council for the extension to the EY contract as part of a larger report from the City Manager that would discuss the financial situation. Due to circumstances, the nature of that larger report changed and the request for the EY contract did not fit. As a result, PMMD did not report in July and had to amend the EY contract further to cover August to October for another $500,000. Again, in September there was discussions to include the request to extend EY in a larger report on the financial situation from the City Manager but again the nature of the report changed. This led PMMD to report to the October GGLC meeting.

Table 9 identifies the number of compatibility contracts that were put in place in 2019 and in 2020 and the number that was subsequently amended. The use of compatibility contracts has been consistent between 2019 and 2020. More detail on which contracts were amended are set out in Appendices I and J.

Table 9 Number of Compatibility Contracts approved in 2019 and in 2020

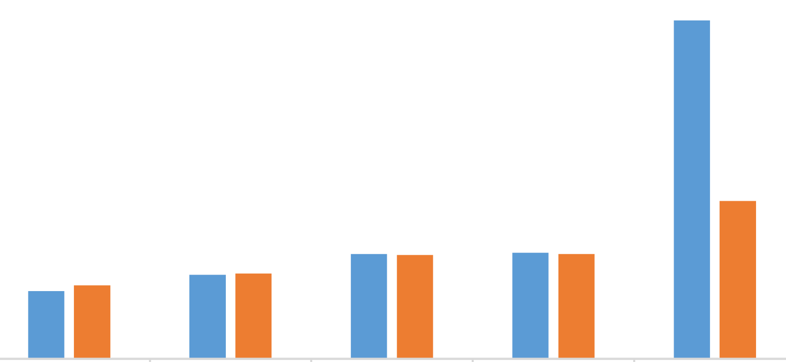
	2019	**2020**
Number of Compatibility Contracts put in place	73	75
Number of Compatibility Contracts subsequently amended	6	11

4. PMMD, Materials Management & Stores

For the Materials Management Unit which runs the corporate warehouses, high functioning characteristics include a balance between the value of stock issued and the value of goods received, and an optimal inventory turnover rate for goods (too low may indicate risk of obsolescence, too high may indicate a risk of “stock outs”). The indicators and their values from 2016 to 2020 are provided in graphs 6 and 7.

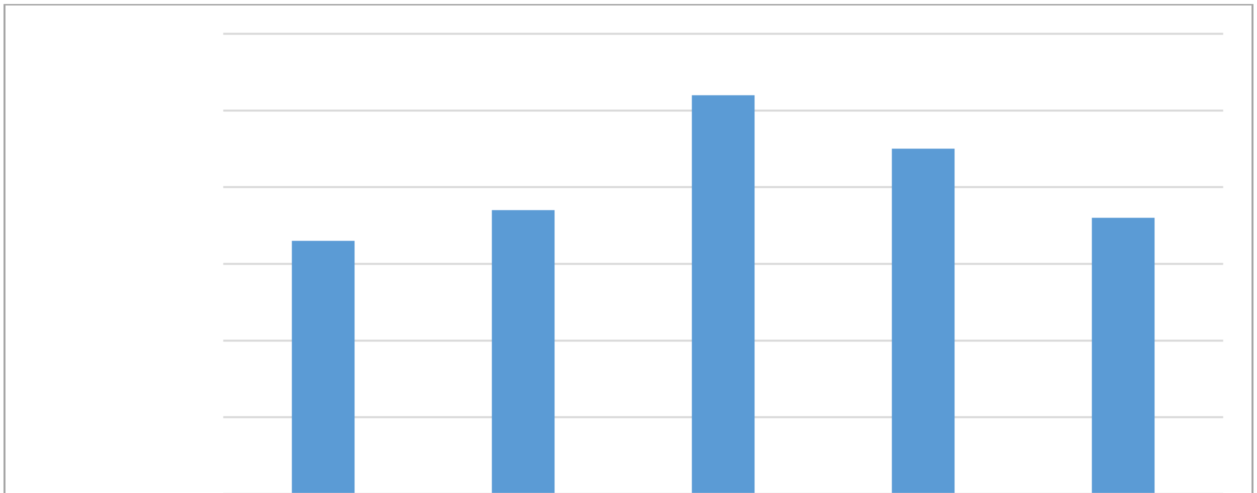
Overall the value of the inventory has increased over the last five years. In 2020, PMMD was directed to establish a 6 month stockpile of personal protective equipment in response to COVID-19. This is the cause for the warehouse inventory value to increase considerably and the fact that the warehouse was unable to achieve an inventory turn rate of 4. For a Maintenance, Repair and Operations (MRO) organization such as the City of Toronto, the appropriate turnover rate is between 4 and 6.

Graph 6: Warehouse Inventory Purchased & Issued



	2016	2017	2018	2019	2020
Dollar Value Purchased (000s)	$11,621	$14,437	$18,020	$18,228	$58,158
Dollar Value Issued (‘000s)	$12,638	$14,657	$17,878	$17,998	$27,120

Graph 7: Turnover Rate



	2016	2017	2018	2019	2020
Turnover Rate	3.3	3.7	5.2	4.5	3.6

5. Other Procurement Related Information

i. Use of Subcontractors in Custodial Services Contracts

At its meeting held on July 16 - 19, 2013, City Council, as part of EX33.2 "Quality Jobs, Living Wages and Fair Wages in Toronto" delegated to Division Heads the ability to approve the use of subcontractors in Custodial Services contracts where, in the Division Heads' determination, the use of subcontractors is appropriate due to extenuating circumstances. Council also required Division Heads to report semi-annually to the Government Management Committee on the exercise of such delegation. There was no use of subcontractors in Custodial Services in 2020 to report.

ii. Policy for Access to Information to Members of Council at Various Stages of the Procurement Process – Councillor Requests

To ensure transparency in this process, PMMD staff is required to report regularly to Council with specific information about these requests by Councillors to access procurement information. There were no requests from Councillors in 2020.

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SIGNATURE

Andrew Flynn
Controller

ATTACHMENTS

Appendix A: 2020 Consulting Services Expenditure – Operating

Appendix B: 2020 Consulting Services Expenditure – Capital

Appendix C: 2020 Non-Competitive Procurements by Exception Code

Appendix D: Comparison of 2019/20 Non-Competitive Purchases Processed by Divisional Purchase Orders (DPO) $3,000 up to $50,000

Appendix E: Comparison of 2019/20 Non Competitive Purchases Processed by PMMD $3,000 up to $500,000

Appendix F: Comparison of 2019/209 Non-Competitive Purchases Awarded by Committee and Council Greater than $500,000

Appendix G: Bridging Contracts approved in 2019 that were subsequently Amended

Appendix H: Bridging Contracts approved in 2020 that were subsequently Amended

Appendix I: Compatibility Contracts approved in 2019 that were subsequently Amended

Appendix J: Compatibility Contracts approved in 2020 that were subsequently Amended