

Category Management and Strategic Sourcing Update #3

Date: June 13, 2022
To: General Government and Licensing Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report is to provide a final update to the General Government and Licensing Committee with respect to the contract with Ernst and Young to support Phase 2 of Category Management and Strategic Sourcing (CMSS) as requested by City Council on December 16, 17, and 18, 2020.

The Phase 2 fixed deliverables as noted in the agreement have all been completed and there has been success on various fronts throughout the seventeen (17) months of this engagement which are detailed in the relevant sections below. Phase 2 of this engagement has concluded as planned on May 31, 2022. This report provides a progress update on three components of this engagement: 1) Strategic Sourcing Opportunities; 2) Operationalization of Category Management including updates of all relevant process and procedure documents as well as the training delivery to all CMSS staff 3) Recruitment as set forth at the onset of Phase 2 to provide the General Government and Licensing Committee. .

During the second phase of CMSS, the City has achieved confirmed financial benefits of \$81.53M against an aspirational target of \$110M through the application of a strategic approach to high value and highly complex procurements. Further opportunities, where EY was involved, are in progress with estimated financial benefits of \$1.47M and are expected to be completed by June 30, 2022. The total annual financial benefits as a result of this second phase is estimated at \$83M, or 75% of the \$110M target. Several additional opportunities have been identified through this project, planned to be executed after May 31, 2022.

The estimated benefits are lower than the original aspirational target of \$110M due to the following reasons:

- Changes and reprioritization within Divisional plans and adjustments due to focus on response and recovery efforts associated with COVID-19.
- Divisional resource constraints involved in strategic sourcing projects as well as resource challenges in Purchasing and Materials Management Division (PMMD).

- Timing of opportunity identification did not permit a strategic sourcing approach as it would take some time to conduct activities required within this process and the time to market was critical.
- Insufficient time to execute a strategic sourcing approach due to urgent service delivery priorities. However earlier engagement with the CMSS unit by Divisions will assist in addressing this challenge.

Beginning in 2021 and continuing to date the CMSS team has been working on several strategic procurements with the Divisions which include: the Gardiner Expressway Rehabilitation, Integrated Pumping Station, ModernTO and Concept 2 Keys (C2K) programs that may not have defined benefits at the moment, however are financially significant investments, large in scope, complex and high risk programs. These programs are strategic City initiatives that have an impact on the residents, businesses and visitors to the City of Toronto and require a more disciplined approach to the procurement through the CMSS unit.

The City has identified an additional pipeline of strategic procurement opportunities which the CMSS unit is, in the discovery phase, exploring and validating with the City's Divisions that have the potential to yield \$46.59M in additional financial benefits for the City, bringing the total benefit to \$129.59M. This requires further collaboration and partnership between PMMD and the Divisions responsible for the delivery of their programs. It is envisaged that through the continued application of the category management governance model, appropriate supports will be generated on key strategies to achieve the City's long-term capability uplift and procurement transformation goals.

Overall, within the last two years of the introduction of Category Management & Strategic Sourcing, engagement across the organization within the top five (5) spend categories has increased. Divisions are actively identifying large, high risk and highly complex projects and are requesting the procurement to be conducted strategically through CMSS. This has led to an increasingly positive relationship between PMMD and Divisions, which will contribute to future positive outcomes and increased benefits associated with strategic sourcing through CMSS.

In addition, CMSS has completed key deliverables to operationalize category management, including improvement of governance and design of a contract management and supplier relationship management process. These deliverables will help the City to establish a standard approach to managing suppliers and contracts.

The CMSS team has continued to build the expertise and skill set within the team and is now able to successfully operate independently of EY. The team continues to grow with recruitment efforts underway, and has developed the required knowledge, skills and processes to sustain the CMSS unit independently and further external support will not be required.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

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

FINANCIAL IMPACT

The efforts of the CMSS sourcing projects with the assistance of EY has achieved \$81.53M in confirmed benefits by the end of Phase 2 (May 31, 2022). Additional benefits of \$1.47M are expected from in-flight projects that are set to close by June 30, 2022. Benefits achieved from the strategic sourcing events were in the form of either operating or capital budget cost reduction or cost avoidance. For each strategic sourcing event, CMSS and the Division involved work with Financial Planning to confirm how benefits were to be treated in the Division's budget, depending on whether the benefits impact the Operating Budget or the Capital Budget, and whether the Budget is Tax-based or Rate-based. Since the estimated benefits are lower than the original aspirational target of \$110M, the success fees payable to EY have been calculated and reduced proportionately.

In addition to those benefits realized to date, the City has identified an additional pipeline of strategic procurement opportunities which are in the discovery phase, and could have the potential to yield \$46.59M in additional financial benefits for the City, bringing the total benefit to \$129.59M. The CMSS team will continue to work through the balance of 2022 and into early 2023 to validate these potential opportunities as this requires further collaboration and partnership between PMMD and the Divisions responsible for the delivery of their programs. With gained expertise and skill sets developed within the CMSS team, the City is well positioned to continue realizing financial benefits associated with strategic sourcing initiatives on an ongoing basis. Any cost reduction or cost avoidance as a result of Category Management and Strategic Sourcing events have been considered as part of the annual budget process, and will continue to be during future years.

DECISION HISTORY

At its meeting of December 16, 17, and 18, 2020, City Council adopted, as amended, GL19.2 entitled "Authority to Enter into a Non-competitive Contract with Ernst and Young to Support Category Management and Strategic Sourcing", which authorized the Controller to enter a contract with Ernst and Young to assist the Purchasing and Materials Management Division on implementing Phase 2 of CMSS with a goal of achieving \$110M in benefits. Council directed that staff report on the progress of the contract in Q2 and Q4 2021 and at the close out of the contract in 2022. A copy of the decision document can be found at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.GL19.2>

At its meeting on June 29, 2021, General Government and Licensing Committee received for information the first Category Management and Strategic Sourcing Update Report. A copy of the decision document can be found at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.GL24.16>

At its meeting on November 15, 2021, General Government and Licensing Committee received for information the second Category Management and Strategic Sourcing Update Report. A copy of the decision document can be found at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.GL27.24>

COMMENTS

This report is the third and final update report being issued at the close out of the contract in 2022.

Phase 2 of implementing Category Management and Strategic Sourcing met all the contract obligations and put the City in a position to be able to continue with Category Management without the support of a consultant after the end of the contract (end of May 2022). The work performed by the EY team as well as the traction and progress made on the fixed deliverables and the strategic sourcing initiatives have met the expectations of the City. With the support of EY, to date the City has achieved \$81.53M of confirmed benefits through thirteen strategic sourcing projects. Three opportunities leading to additional estimated benefits of \$1.47M are in progress and are expected to be completed by June 30, 2022.

The CMSS team is now operating without the support of EY, and has identified two additional opportunities, expected to lead to benefits of \$8.0M, which will be started in Q3 2022 and sixteen opportunities with estimated benefits of \$38.59M that need to be explored further. To further enhance the benefits pipeline, the CMSS group is working with various City Divisions to validate other opportunities with benefits to be determined. These opportunities are being worked on solely by the CMSS team and City Divisions. The opportunity pipeline is an ongoing activity that is managed within CMSS with the Divisions in the categories to constantly look at all procurement needs and identify which ones would be best suited to carry out a strategic procurement for.

As mentioned in the Summary section of this report, concerted level of participation from divisional stakeholders will continue to be required to achieve expected benefits from all opportunities, especially those that are yet to be validated. The CMSS team and the Divisions continue to closely work on identifying additional strategic sourcing initiatives and to ensure that a potential strategic sourcing initiative fits both within the goals of the Divisions and the timing of getting a new contract in place. The benefits pipelines can still change depending on resource constraints and Divisional agreement to move forward on the opportunity or additional opportunities to be identified. The benefits pipeline and the target benefits will be an ongoing activity established on an annual basis by the CMSS and Divisional stakeholders for the respective categories. The procurement plans prepared by Divisions within the categories will be reviewed with

the CMSS team on a regular basis to determine the best approach to procure the goods or services required.

This report provides a progress update in three sections - Strategic Sourcing, Operationalization of Category Management and other Deliverables, and Training and Recruitment to provide the General Government and Licencing Committee with a detailed update on all the aspects of the CMSS program.

Strategic Sourcing

CMSS has been working with City Divisions to identify and execute savings opportunities in five spend categories:

- Construction and Maintenance,
- Facilities,
- Fleet,
- Refuse Management,
- Technology.

During this phase, Technology services, Transportation Services, Toronto Water, Engineering and Construction Services, Parks, Forestry and Recreation, Fleet Services and Facilities Management have worked collaboratively with CMSS to identify and execute financial benefit opportunities that have either already resulted in or are expected to lead to these benefits for the City in the near future. While CMSS has made considerable progress in developing collaborative relationships, further alignment is needed with other Divisions to ensure a proportional contribution of these Divisions to the benefits pipeline.

The tables below show the distribution and expected benefits from these opportunities.

Table 1: Summary of the total number of confirmed opportunities 2019 - 2022 YTD

Category	Participating Divisions	2019	2020	2021	2022 YTD
		# Opportunities	# Opportunities	# Opportunities	# Opportunities
Construction and Maintenance	Engineering and Construction Services	1	2	1	2
	Toronto Water	0	0	1	3
	Transportation Services	0	0	1	1
Facilities	Corporate Real Estate Management	0	1	1	1
	Parks, Forestry & Recreation	0	1	1	1
Fleet	Fleet Services	0	1	0	0
Technology	Technology Services	2	3	0	1
	City Clerk's Office	0	0	1	0
Total		3	8	6	9

Since the introduction of strategic sourcing in 2019, the above table illustrates the number of opportunities strategically sourced in each year as the Divisions begin to see financial benefits as well as the procurement expertise and approach to market through the CMSS team. As is displayed, the City has increasingly embraced strategic sourcing initiatives, increasing from three opportunities identified in 2019 to nine to date in 2022, across a larger number of City Divisions. There are additional opportunities in 2022 that the CMSS unit together with the Divisions are exploring to add to the sourcing pipeline.

Table 2a: Summary of total confirmed operating and capital benefit opportunities ¹

Category	Participating Divisions	No. of Opp.	Benefits - Savings/Cost Avoidance (\$M/Yr.) ¹		
			Confirmed	In-progress ²	Total
Construction and Maintenance	Engineering and Construction Services	3	11.60	0.95	12.55
	Toronto Water	4	5.40	0.42	5.82
	Transportation Services	2	57.34	0.00	57.34
Facilities	Corporate Real Estate Management,	2	2.67	0.00	2.67
	Parks, Forestry & Recreation	2	2.10	0.00	2.10
Fleet	Fleet Services	0	0.00	0.00	0.00
Refuse Management ⁵	Solid Waste Management	0	0.00	0.00	0.00
Technology	Technology Services	1	0.88	0.00	0.88
	City Clerks	1	1.54	0.00	1.54
City-wide	All divisions	1	0.00	0.10	0.10
Total		16	81.53	1.47	83.0 ⁶

Table 2b: Summary of total estimated operating and capital benefit opportunities after May 31, 2022¹

Category	Participating Divisions	No. of Opp.	Benefits - Savings/Cost Avoidance (\$M/Yr.) ¹		
			To be started	To be explored ³	Total
Construction and Maintenance	Engineering and Construction Services	7	13.00	9.05	22.05
	Toronto Water	2	5.06	2.85	7.91

Category	Participating Divisions	No. of Opp.	Benefits - Savings/Cost Avoidance (\$M/Yr.) ¹		
			To be started	To be explored ³	Total
	Transportation Services	2	1.00	0.00	1.00
Facilities	Corporate Real Estate Management,	2	7.20	0.00	7.20
	Parks, Forestry & Recreation	1	0.00	0.00	TBD
Fleet	Fleet Services	1	0.00	1.50	1.50
Refuse Management ⁴	Solid Waste Management	1	2.00	0.00	2.00
Technology	Technology Services	0	0.00	0.00	0.00
	City Clerks	1	0.00	0.00	TBD
City-wide	All Divisions	1	0.80	0.00	0.80
Total		18	29.06	17.53	46.59 ⁵

¹ The annual savings/cost avoidance reflects the potential annual average savings/cost avoidance based on the contract terms and contract length, which may result in a partial benefit to a particular budget year. For a detail breakdown of cost avoidance and cost reduction on confirmed opportunities, please see Table 3 below. For "To be started" and "To be explored" opportunities, estimates of cost avoidance and reduction may be provided once execution starts.

² Currently, 3 initiatives with a total of \$1.47M estimated benefits are expected to close by June 30, 2022

³ 'To be explored' reflect opportunities that the CMSS team has identified to possibly conduct a strategic sourcing procurement for. However, these have not been explored, validated, or approved with the respective Divisions at the time of this report. Therefore, the estimated benefits included are an estimate based on limited market intelligence and internal data. Should these opportunities move from "To be explored" to In-progress, the benefits will be updated to reflect an actual estimated amount of benefits.

⁴ While no opportunities for the Refuse Management Category was identified for the work with EY, there are opportunities in the longer term that will be explored.

⁵ For any capital-based programs, how benefits will be treated will be determined with Financial Planning as part of the quarterly variance review and could include reallocation to other capital programs to offset any added capital needs.

The table below lists all the opportunities for which we have confirmed benefits and the sourcing has been completed so far.

Table 3: Confirmed benefits from completed opportunities:

Category	Division	Opportunity name	Cost Reduction (\$M/Yr.) ¹	Cost Avoidance (\$M/Yr.) ¹	Confirmed benefits (\$M/Yr.) ¹
Construction and Maintenance	Toronto Water	Multi-year contracts for Watermain re-lining program - Pilot	1.30 ²	0.00	1.30 ²
Construction and Maintenance	Transportation Services	Sourcing of operational maintenance and capital construction services for traffic signals and electrical equipment	1.30	3.70	5.00
Facilities, Fleet and Refuse Management	Parks, Forestry & Recreation	Provision of arboricultural services at various City of Toronto locations	0.00	1.66	1.66
Construction and Maintenance	Toronto Water	Construction service for basement flooding program	0.00	6.70	6.70
Facilities, Fleet and Refuse Management	Corporate Real Estate Management	Operational and capital replacement services for HVAC across multiple divisions	0.09	1.21	1.30

Category	Division	Opportunity name	Cost Reduction (\$M/Yr.)¹	Cost Avoidance (\$M/Yr.)¹	Confirmed benefits (\$M/Yr.)¹
Technology and Cyber Security	City Clerk's office	Procurement of product supply and services for electronic voting machines	0.00	1.54	1.54
Construction and Maintenance	Transportation Services	Snow clearing and winter maintenance outcome-based contracts	0.00	52.34	52.34
Construction and Maintenance	Corporate Real Estate Management	Project Management services procurement of Etobicoke Civic Centre	0.00	1.37	1.37
Construction and Maintenance	Parks, Forestry & Recreation	Don Mills community recreation centre (design)	0.00	0.44	0.44
Technology and Cyber Security	Technology	Supporting negotiation of Ariba Renewal	0.71	0.17	0.88
Construction and Maintenance	ECS	Establishment of long-term prequalified roster engineering services: long term MSA (Pilot)	1.00	3.90	4.90
Construction and Maintenance	Toronto Water	Procurement of construction service for watermain replacement	0.00	4.10	4.10

Category	Division	Opportunity name	Cost Reduction (\$M/Yr.) ¹	Cost Avoidance (\$M/Yr.) ¹	Confirmed benefits (\$M/Yr.) ¹
Construction and Maintenance	Toronto Water	Procurement of construction service for Toronto Water sewer rehabilitation program	0.00	0.00	0.00
Total			4.4	77.13	81.53

¹ The annual savings/cost avoidance reflects the potential annual average savings based on the contract terms and contract length, which may result in a partial benefit to a particular budget year.

² As this relates to a rate-based capital program, these benefits may need to be reallocated to offset any added rate-based capital needs as determined with Financial Planning.

In the case of the completed strategic sourcing events noted in Table 3 above, the completed sourcing events involving Parks, Forestry and Recreation with respect to arboricultural services and Toronto Water with respect to basement flooding program had benefits in the form of cost avoidance, thus avoiding any further impact on the 2021 or 2022 budgets.

Regarding the completed sourcing events for Transportation Services with respect to traffic signal and Corporate Real Estate Management with respect to replacement of HVAC across multiple divisions, the benefits are in the form of both cost avoidance and reduction.

With respect to the completed sourcing event for Toronto Water involving watermain relining, the benefits are in the form of cost reduction. However, given that the contract is part of Toronto Water's capital program and is rate-based, the realization of the cost reduction identified will be retained by Toronto Water as rate-based funding for use on other Toronto Water funding requirements.

The realization of the benefits confirmed by the execution of the contracts from strategic sourcing events also depends on how the contracts are ultimately managed.

Operationalization of Category Management and other Deliverables

This section describes the deliverables CMSS has completed linked to operationalization of category management.

CMSS has worked on improving the reporting of the benefits achieved, rolling out the category management governance, and designing a contract management and supplier Final Update on Category Management & Strategic Sourcing

relationship management process that assists Divisions in managing their contracts and drive further savings through contract management. Designing a contract management and supplier relationship management process assists the City in addressing various Auditor General Reports with respect to contract management. This includes the Auditor General’s Report entitled "Previous Audit Reports – Common Themes and Issues" adopted by Council in June 2020, which noted that one common theme is the City's need to strengthen the oversight and accountability for contracts. These deliverables have helped the City establish a standard approach to managing suppliers and contracts. The table below shows the progress made against operationalization of category management at the City.

Table 4: Progress against the Operationalization of Category Management

Workstream	Deliverable	Status	Target Completion date	Description of tools and templates developed (for completed deliverables)
Governance	D1 - Refined governance process	Completed	Apr' 21	1. Meeting agenda 2. Meeting template 3. Templates for checkpoints 1, 2 and 3
	First series of CMLT sessions	Completed	Apr' 21	
Reporting	D2 - Performance dashboard	Completed	May' 21	1. Two reporting dashboards 2. Metric database for 12 metrics
Supplier relationship management	D3 - SRM playbook	Completed	Q1, 2022	1. One SRM playbook 2. Supplier segmentation scorecard
	D4 - SRM training material	Completed	May, 2022	One SRM training document
Contract management	D5 - CM playbook	Completed	Q1, 2022	1. One CM playbook 2. Opportunity assessment tool
	D6 - CM training material	Completed	Q1, 2022	One CM training document

Workstream	Deliverable	Status	Target Completion date	Description of tools and templates developed (for completed deliverables)
Contract compliance analysis	D7 - Contract compliance reports	Completed	Q2, 2022	-
Category strategy development	Facilities, Fleet and Refuse Management category strategy	Completed	May, 2022	-
	Technology category strategy	Completed	May, 2022	-
	Construction and Maintenance category strategy	Completed	May, 2022	-

Recruitment and Training

Recruitment

As the Category Management Team continued to mature and hired roles into 2021, dependency on EY has been reduced as we moved through Phase 2 of the engagement. The main team consists of 15 FTEs, of which 13 are filled (11 permanently filled, 2 temporarily filled, and 2 vacancies).

The recruitment of 1 Category Lead and 2 permanent Sourcing Specialists is estimated to be completed in Q3, 2022. The current staff has all received the ongoing training, support and guidance to be able to carry out the activities required to perform the CMSS projects. PMMD and CMSS will reassess the staffing requirements for 2023 to meet the increasing demand of strategic sourcing projects to better support the City's divisions. The current roles being filled were identified to meet the staff requirements during EY phase two agreement.

Training

The training and development of the Category Management team by EY has been completed. The key activities performed for each of the strategic sourcing projects are led by the Category Management team within the Purchasing and Materials Management Division and EY's support has been adjusted as the project completion date was approached. The goal of having the team fully trained on all the functions that EY was fulfilling during the Phase 2 period has been achieved. This included training

and development of category management strategies, processes, governance, and data analytics.

On-the-job coaching and training were provided to the teams throughout the development and delivery of category management activities. This training provided the necessary hands-on knowledge sharing specific to each opportunity thereby providing the ability to perform the task more independently in the future. This training is in addition to formal training sessions that were appropriately developed, planned, and delivered during the first half of 2022.

The following Table 5 outlines on-the-job training delivered with EY's support.

Table 5: On-the-job training provided by EY to the CMSS team

#	Topic	Attendees	What was provided:
1	Conducting Category Management Leadership Team Sessions (CMLTs)	Category Management team - Category Managers, Category Leads and Sourcing Specialists	<ul style="list-style-type: none"> - Provided a walkthrough of the developed governance process and supported document development for the first Category Management Leadership Team Sessions (CMLTs). - Coached the team to develop documents and conduct the second round of CMLTs with minimal external support.
2	Calculating baseline and estimating benefits	Category Management team (as stated above) + applicable divisional stakeholders	<ul style="list-style-type: none"> - Coached the team for ten projects, during development of project charters to develop the baseline and estimate the forecasted benefits using market intelligence, historical spends and trends as well as economic market impacts.

#	Topic	Attendees	What was provided:
3	Developing negotiation strategy and conducting negotiations	Category Management team (as stated above), applicable divisional stakeholders and Purchasing and Materials Management Division Buyers	- Coached the team for six projects, prior to conducting supplier negotiations (Watermain relining, Electrical Maintenance Contracts, Winter Maintenance, SAP Ariba, Electronic Voting Machine, Basement flooding). The conducting negotiations training has also been provided to Divisions who may require an nRFP without the involvement of CMSS (ex. Office of the CISO).
4	Spend analysis	Category Managers, eProcurement team	- Trained the Ariba team on how to categorize spend from the system to support the development and sustainment of the Category Strategies going forward.
5	Using market indexes	Category Management team (as stated above)	- Trained the team on what market indexes have been used in the development of baselines, sourcing strategies and close-out reports.

CMSS also monitored the level of external support received by the Category Management team to track the City's ability to sustain the procurement transformation independently post May 2022. Resource capability is being tracked across six dimensions for each strategic sourcing project, as shown in Table 6 below.

This table is intended to track the level of support provided by the EY team to the CMSS staff through the various phases of each strategic sourcing project. This table includes the 3 roles within CMSS; Category Managers, Category Leads and Sourcing Specialists. Each of the CMSS staff members have active development plans to continuously build their skill sets across all areas of the CMSS functions. As there have been new members added to the CMSS team during the early part of 2022 they are still in the learning phase of their development and the Managers continue to work with each team member to continue to develop their skills. With the focus throughout 2021 and 2022 on the employee development the team has trended above 8.0 on the capability matrix, understanding that some employees are newer to the team and require additional ramp up time.

Table 6: CMSS Resource Capability

#	Name	Ability to perform tasks independently (scored on a scale of 10) ¹
1	Opportunity identification and kick-off	7.0
2	Overall strategy development	8.0
3	Negotiations	8.0
4	Benefits confirmation	8.5
5	Stakeholder management	8.5
6	Project management	8

¹ Average score for all CMSS personnel

Currently, CMSS staff is able to conduct stakeholder, project management, sourcing strategy development, negotiation strategy development, benefits calculations and confirmation, and identification of new strategic opportunities, without the support of EY. . On-the-job training and in planned areas formal training is being provided to continue skill development. The CMSS leadership and trained staff will continue to work with those individuals who needs additional training without EY's further support and develop their skills in the necessary areas.

Each CMSS resource is rated by their managers on a scale of 1 to 10, 1 being lowest and 10 being the highest, across the six dimensions mentioned above. The scores provided in the table above are an average of all the scores received for that dimension. The progress of all staff will continue as part of their development plans.

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SIGNATURE

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