

3. 2017 – PROCUREMENT YEAR IN REVIEW

2017 – L'ANNÉE DE L'APPROVISIONNEMENT EN RÉVISION

COMMITTEE RECOMMENDATION

That Council receive this report for information.

RECOMMANDATION DU COMITÉ

Que le Conseil municipal prenne connaissance du présent rapport.

DOCUMENTATION/DOCUMENTATION

1. Chief Procurement Officer's report, Supply Services, Corporate Services Department, dated 24 April 2018 (ACS2018-CSD-PRO-0001).

Rapport du Chef de l'approvisionnement, Service approvisionnement, Direction générale des services organisationnels, daté le 24 avril 2018 (ACS2018-CSD-PRO-0001).

**Report to
Rapport au:**

**Finance and Economic Development Committee
Comité des finances et du développement économique
1 May 2018 / 1er mai 2018**

**and Council
et au Conseil
9 May 2018 / 9 mai 2018**

**Submitted on April 24, 2018
Soumis le 24 avril 2018**

**Submitted by
Soumis par:**

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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2018-CSD-PRO-0001

SUBJECT: 2017 – PROCUREMENT YEAR IN REVIEW

OBJET: 2017 – L'ANNÉE DE L'APPROVISIONNEMENT EN RÉVISION

REPORT RECOMMENDATIONS

That the Finance and Economic Development Committee and Council receive this report for information.

RECOMMANDATIONS DU RAPPORT

Que le Comité des finances et du développement économique et le Conseil municipal prennent connaissance du présent rapport.

EXECUTIVE SUMMARY

In 2017, Supply Services awarded \$1.1 billion in contracts, this includes all purchases made under delegation of authority (\geq \$15,000) as well as purchases approved by Council, the Library Board and the Police Board. The guiding principle of the Procurement By-law is that purchases be made using a competitive process that is open, transparent and fair to all suppliers. Of the total \$1.1 billion in contracts awarded in 2017, the value of contracts awarded under delegation of authority represents \$844 million.

Of the \$844 million awarded under delegation of authority, after adjusting for contracts where the City had no option but to award to a specific supplier (for example, contracts pertaining to utilities, patents and copyrights, and where for technical reasons no alternative supplier exists), 93 per cent was awarded competitively. This figure is consistent with procurement activity in past years.

Supply Services continued its focus to align procurement strategies with corporate business strategies leading to better operational and financial outcomes. A number of these initiatives are highlighted in this report and include updates on the vendor performance management program and electronic bidding project.

The City continued to be a strong consumer of local products in 2017, spending approximately 88 per cent of its annual purchasing dollars on goods and services from the local community. This figure remains consistent with previous years and shows the City's strong commitment to supporting the local supplier community.

As part of the solicitation process, bidders are encouraged to offer the City a discount for prompt payment of invoices. In 2017, the City obtained \$1,280,659 in prompt payment discounts, a 94 per cent increase over 2016.

This report also includes information on sustainable purchasing, Purchasing Card and Electronic Funds Transfer, a review of purchases made by way of Payment Without Reference, Public-Private Partnerships (P3) project updates, diesel fuel hedging and a consolidated summary of all purchasing activity \geq \$25,000 by vendor awarded under delegation of authority.

RÉSUMÉ

En 2017, les contrats accordés par les Services de l'approvisionnement ont totalisé 1,1 milliard de dollars. Cette somme comprend les achats effectués conformément à la délégation de pouvoirs (15 000 \$ ou plus) et les achats approuvés par le Conseil, le Conseil d'administration de la Bibliothèque publique d'Ottawa et la Commission de services policiers d'Ottawa. L'esprit du Règlement sur l'approvisionnement veut que tous les achats soient faits au moyen d'un processus concurrentiel ouvert, transparent et équitable pour tous les fournisseurs. Sur la somme de 1,1 milliard que représentent les contrats de 2017, les contrats octroyés conformément à la délégation de pouvoirs avaient une valeur de 844 millions de dollars.

Si l'on tient compte des cas où la Ville n'avait pas le choix du fournisseur (par exemple, lorsque le contrat touche aux services publics, aux brevets et aux droits d'auteur ou lorsque, pour des raisons techniques, aucun autre fournisseur n'est disponible), 93 p. cent des contrats d'une valeur de 844 millions de dollars décernés en vertu de la délégation de pouvoirs ont été octroyés à la suite d'un processus d'appel d'offres concurrentiel. Ce chiffre cadre avec les données sur l'approvisionnement des dernières années.

Les Services de l'approvisionnement continuent de travailler pour harmoniser les stratégies d'approvisionnement aux stratégies opérationnelles de la Ville, en vue d'améliorer les résultats opérationnels et financiers. Le présent rapport décrit certaines des initiatives adoptées à cet effet, comme le programme de gestion du rendement des fournisseurs et le projet de présentation des soumissions par voie électronique.

La Ville s'est encore montrée une grande consommatrice de produits locaux en 2017, ayant réalisé environ 88 p. cent de ses achats de biens et services dans la collectivité. Ce chiffre est constant depuis quelques années et témoigne de l'engagement de la Ville à soutenir les fournisseurs de la communauté locale.

Dans le cadre des appels d'offres, les soumissionnaires sont invités à offrir à la Ville un escompte pour paiement rapide des factures. En 2017, la Ville a reçu des escomptes pour paiement rapide totalisant 1 280 659 \$, une augmentation de 94 p. cent par rapport à 2016.

Le présent rapport comprend aussi des renseignements sur l'approvisionnement responsable, un examen des achats effectués par le biais de paiements sans renvoi, de cartes d'achat et de transfert électronique de fonds, des mises à jour sur les projets de PPP, de l'information sur la stratégie de couverture contre les fluctuations des prix du carburant, ainsi qu'un résumé des achats de 15 000 \$ ou plus par fournisseur effectués conformément à la délégation de pouvoirs.

BACKGROUND

This report summarizes the procurement activity for the 2017 year and provides updates on the objectives and future procurement goals for the City. This report analyzes purchases made by the City on a strategic, as well as a statistical basis, in order to provide a clear picture of the operations of the City for the year 2017. It is a useful tool used by both management and client groups within the City to identify purchasing trends and share information on strategic initiatives conducted during the year.

The majority of the information contained in this report is drawn from semi-annual reports prepared for Committee and Council throughout the year. These reports are a requirement of the Procurement By-law and require all contracts \geq \$25,000, which are awarded under delegated authority, to be reported.

For 2017, two semi-annual reports are provided to Council:

1. January 1 to June 30, 2017 (ACS2017-CSD-CPO-0004), and
2. July 1 to December 31, 2017 (Document 5 of this report).

Document 1 of this report provides a consolidated summary of the information provided in the above referenced reports showing the total value purchased from each individual vendor for 2017 awarded under delegation of authority \geq \$25,000.

In addition to this report to the Finance and Economic Development Committee, Supply Services also prepares procurement reports for the Transit Commission, the Ottawa

Board of Health, the Ottawa Police Services Board and the Ottawa Public Library Board.

DISCUSSION

Section 1: 2017 Procurement Summary

In 2017, Supply Services awarded \$1.1 billion in contracts, this includes all purchases made under delegation of authority (\geq \$15,000) as well as purchases approved by Council, the Library Board and the Police Board. Of the total \$1.1 billion in contracts awarded, the value of contracts awarded under delegation of authority in 2017 represents \$844 million.

In 2017, contracts awarded under delegation of authority valued at greater than or equal to \$100,000 represented 92 per cent of the total expenditure. Although the majority of purchasing value was derived from purchases valued at greater than \$100,000, a significant number of contracts (62 per cent) were issued in the \$15,000 to \$100,000 dollar range.

Section 2: Procurement Trends, Market Information and Case Law

Throughout 2017, Supply Services continued its evolution into a more strategic and consultative function versus the traditional transactional role it has played in the past. Supply Services continued to leverage its 'Source-to-Pay' model as a centralized function within the City.

Supply Services continues to monitor any changes to trade agreements and update procurement policies and practices as necessary. From a global perspective, the economic uncertainty borne out of the American presidential election and the United Kingdom's separation from the European Union continued throughout 2017. The United States' withdrawal from the *Trans-Pacific Partnership* (TPP) and increasingly contentious renegotiations of the *North America Free Trade Agreement* (NAFTA) have led to a trade environment in flux as partners reimagine international trade. The long-term impact, of the TPP without the United States and the *Comprehensive Economic and Trade Agreement* potentially without the United Kingdom remain to be seen.

In the 2017 Procurement Law Update Year in Review published by the Procurement Law Office, Canada maintained its position as the highest risk jurisdiction in which to conduct public procurement due to Canada's highly interventionist court system and the

court's willingness to award lost profit claims to successful vendor litigants. While Canada's risk rating has improved from 2016, the application of both commercial and administrative law remedies means that Canada remains a jurisdiction that imposes a high standard on purchasing entities. This demonstrates the importance of ensuring that appropriate terms, conditions and risk mitigation strategies are included in City contracts and that the mandate of conducting open, fair and transparent contracting is adhered to.

Two new trade agreements affecting the City came into effect in 2017: the *Canadian Free Trade Agreement (CFTA)* and the *Canada-European Union Comprehensive Economic and Trade Agreement (CETA)*. Replacing the *Agreement on Internal Trade (AIT)*, which had been in place since 1995, the CFTA is an inter-provincial trade agreement that effectively mirrors CETA and ensures inter-provincial applicability of CETA procurement obligations. Supply Services' existing procurement practices align closely with CFTA and CETA provisions, and changes have been implemented as necessary. Supply Services continues to monitor further developments and judicial interpretations of the applicable provisions to ensure continued compliance.

Section 3: Strategic Procurement Initiatives in 2017

In 2017, Supply Services continued its focus to align procurement strategies with corporate business strategies leading to better operational and financial outcomes. Below is a sampling of initiatives undertaken in 2017, which demonstrate elements of innovative thinking, strategic sourcing methodologies, best value, improved contract administration, total cost of ownership purchasing strategies and enhancements in the delivery of the procurement function to client departments and residents of the City.

Vendor Performance Management System

Vendor Performance Management (VPM) is an online solution for recording the evaluation of the performance of vendors who contract with the City. The program, which was developed through extensive consultations with the supplier community in 2014, became operational in January 2015. Formal performance evaluations are conducted for construction projects valued over \$100,000 and professional engineering services contracts valued at over \$15,000. The key objectives of the program are to improve communication between the City and the vendor, provide feedback with the goal of performance excellence and build a history of performance over time.

At the end of Q4 2017:

- An average vendor score of 80%, with 922 final evaluations completed,
- An average of 4.75 projects evaluated per vendor, and
- 100% of applicable projects (1,621 projects) were opened for evaluation.

The difference in the number of projects opened for evaluation and the number of completed projects with final evaluations is due to the fact that many projects opened for evaluation span multiple years. Moreover, the final evaluation is only completed after an internal review process to ensure accuracy and consistency in evaluations and a vendor appeal period.

Supply continued to consult with the various industry associations in 2017 regarding the implementation of VPM scores in the consideration of contract awards. Feedback provided by both internal staff and the vendor community has been positive and as a result, Supply has begun to phase in the usage of VPM scores in its procurement decisions.

For example, in the Professional Engineering Services Request for Standing Offer issued in Q3 2017, vendors with a positive vendor score in a particular standing offer category were deemed pre-qualified and were not required to submit a technical submission. This resulted in a streamlined procurement process, a reduction of staff time required to evaluate submissions, and improved submission compliance.

e-Procurement – Pilot Project

The e-Procurement Pilot Project involves the implementation of a more efficient electronic bid solicitation process for simpler Request for Quotation (RFQ) procurements valued up to \$100,000. This more efficient process includes; software, which makes it easier for vendors to prepare and submit compliant bids, automated real-time notifications of new bid opportunities or addendums and the streamlining of certain administrative tasks such as the automatic publishing of unofficial bid results.

The pilot project continues to be successful with 124 electronic bid opportunities posted in 2017 and a total of 533 bids received. Staff and industry feedback on the new process and system continues to be positive and the project has been successful in regards to the goals of automating previously manual tasks and receiving electronic bid submissions.

Following the successful implementation with RFQs, Supply has begun using e-Procurement for Request for Standing Offer (RFSO) solicitations. In 2018, Supply will continue to expand and optimize its eProcurement processes with a goal of eliminating administrative tasks, reducing evaluation time, reducing the environmental impact through the reduction of paper waste and by promoting electronic filing.

The benefits of e-Procurement expansion are realized in conjunction with Supply's goal of transitioning away from physical file storage. To date, this has resulted in 662 projects having been moved exclusively to electronic file storage. Supply will continue to align its electronic record management strategy with e-Procurement while also reviewing additional areas where physical files exist in order to continue its transition to fully electronic file storage.

Purchasing Card (Pcard) Expansion

As a result of a positive audit of the City's credit card program in 2012, and the approval of a new Payments to Vendors Policy in 2014, Supply Services began a targeted Pcard expansion initiative for vendors and contracts that traditionally involve high volumes of invoices and low average dollar amounts per transaction. The Pcard expansion seeks to increase both the total spent using Pcards as well as the number of transactions that use the Pcard program. In 2017, the City continued to build upon the successes of its Pcard expansion efforts by adding a further \$26.8 million spent using Pcards as a result of this initiative. This represents a 143 per cent increase over the previous year, largely due to the implementation of a new ePayables solution which allows for the payment of invoices by virtual credit card. This new functionality provides an additional tool to assist Supply Services in its expansion efforts throughout the City and continue to grow the overall amount spent using the Pcard program.

In addition to the increased amount spent, 17,000 transactions were eliminated from invoice processing through the use of the Pcard and consolidated billing opportunities in 2017. In total, the expansion initiative has increased Pcard expenditures by \$51.3 million and eliminated 54,000 transactions since inception. In 2018, the City expects to add a total of \$36.8 million to the program through these expansion initiatives.

Electronic Funds Transfer (EFT) Update

At the end of 2017, the City completed its initiative to fully eliminate cheque payments to recurring trade payable vendors. Existing trade payable vendors on cheque were

transferred to EFT with a total of 2,239 vendors transferred in 2017 in addition to all new vendors automatically being enrolled for EFT payments. As a result of these efforts, 94 per cent of the value of all payments made by the City in 2017 were processed through EFT.

Prompt Payment Discounts

As part of the bid solicitation process bidders are encouraged to offer the City a discount for prompt payment of invoices. This prompt payment discount is taken into consideration in the submission evaluation and contract award, provided that the minimum period for payment is 15 days.

An initiative was launched at the end of Q4 2016 to increase prompt payment discount achievement on contracts administered through Supply Services. Weekly discount reviews are conducted in order to proactively identify opportunities and to recover lost discounts caused by vendor invoice submission errors. As a result of all efforts undertaken by Supply Services, the City achieved a total \$1,280,659 in prompt payment discounts in 2017, which represents a 94 per cent increase over 2016 and a 165 per cent increase from 2015. In terms of the corporate discount achievement rate, the City obtained 80 per cent of the discount opportunities offered in 2017 as compared to 66 per cent in 2016.

Financial Services Unit (FSU) Departmental Purchase Order (DPO) Review

In 2015, Supply Services conducted a review of procurement practices for decentralized contracts awarded less than \$15,000. This review led to the initiation of a formal project to create a standard procedure for FSU staff on how to initiate and award contracts valued at less than \$15,000 on behalf of their respective departments. Supply Services led this project to ensure that the best practices in contracting methodologies for these low dollar value procurements were consistent with processes within the Procurement Branch, while maintaining compliance with the Procurement By-law. The project was completed in Q3 2017 and the procedures are now available to all FSU staff and will result in increased rigor and process compliance for all contracts awarded less than \$15,000.

Payment without Reference

A payment without reference to a contract is a legitimate payment method permitted within corporate procedures and is recognized in the Procurement By-law. These types of payments provide a cost effective process for low dollar value goods where a traditional purchase order does not exist and where purchasing card is not an acceptable method of payment. As payments without reference are not processed through Supply Services, an assessment of their compliance with the Procurement By-law can only be made after the fact.

The Procurement By-Law requires Supply Services to report on all supplier based activity, with cumulative purchases greater than \$25,000, paid without reference to a contract (Document 2). In 2017, purchases paid without reference to a contract totaled \$98 million. Of the \$98 million, \$55 million was paid to utility companies that have a monopoly on the provision of a good or service.

In 2017, 14 payments without reference transactions with eight vendors were identified as having been contracted in a manner not in compliance with the Procurement By-law. The total value of these transactions was \$345,762, or 0.35% of the total value paid without reference to a contract in 2017.

In each case, Supply Services reviewed the payments with the client departments and has established appropriate procurement methods going forward.

Section 4: Professional and Consulting Services

In 2017, professional service contracts totalled \$150 million and a further \$0.5 million of consulting service contracts were awarded under delegation of authority.

The total value of professional services contracts decreased by 11 per cent from 2016. This decrease is partly attributable to a large number of high-dollar value professional services contracts that were awarded in 2016 related to Stage 2 of the Light Rail Transit Project. The overall value of consulting service contracts awarded in 2017 has increased in comparison to 2016 due to consulting services required to assist with the City's Beyond 2036 planning study.

The procurement of professional engineering services is a required mandate approved by Council as part of the business outsourcing model strategy used by the City. By

value, professional engineering services represent 68 per cent of all professional services procured by the City last year.

Section 5: Procurement Strategies – Competitive vs. Non-Competitive Purchases

As per the Procurement By-law, purchases are to be made using a competitive process that is open, transparent and fair to all suppliers. Of the \$844 million in contracts awarded under delegation of authority, \$739 million (88 per cent) were awarded as a result of a competitive solicitation process.

Additionally, when this figure is adjusted to take into account contracts where there was no option but to award to a specific supplier (for example, contracts pertaining to utilities, patents and copyrights, and where for technical reasons no alternative supplier exists), the percentage of competitive purchases increases to 93 per cent. This figure is consistent with previous years.

All non-competitive contracts awarded by the City under delegation of authority were awarded in accordance with the rationales identified in section 22(1) of the Procurement By-law.

Section 6: Local Purchasing

The City of Ottawa continued to be a strong consumer of local products and services in 2017, spending approximately 88 per cent of the annual purchasing dollar in Ottawa, for goods and services, which are available in the local community. This figure has been calculated after adjusting overall purchasing to remove those goods and services consumed annually by the City, which are not available locally (e.g. transit buses are not manufactured in Ottawa, nor is winter rock salt mined locally).

Section 7: Sustainable Procurement

Sustainable procurement continues to be at the forefront in both the private and municipal sectors with increasing reliance placed on long-term sustainable procurement strategies. The City strives to look for innovative methods to incorporate sustainable purchasing criteria in its procurements and has identified long-term sustainability planning and practices as a corporate priority.

In 2017, 98 per cent of the value of all procurements awarded under delegation of authority included sustainability criteria representing a 4.6 per cent increase from the same period in 2016.

The City also continues to actively participate in the Municipal Collaboration for Sustainable Purchasing (MCSP). The MCSP is made up of 19 municipalities and universities from across Canada and provides leadership and leverages collective experience, knowledge and resources to advance sustainable procurement initiatives.

Section 8: Assessing Supplier Performance

The City's Procurement By-law provides discretion to the General Manager, Corporate Services and City Treasurer, in consultation with the City Clerk and Solicitor, to prohibit an unsatisfactory supplier from bidding on future contracts. There were no companies barred from doing business with the City in 2017.

Section 9: Comprehensive Complaints Process

In 2017, there were six formal complaints received under the Comprehensive Complaints process of the Procurement By-law. In all but one case, the Chief Procurement Officer determined that the complaints did not disclose credible information to indicate that a breach of the terms of the procurement process or City policies had occurred. In the remaining case, the Chief Procurement Officer took action as outlined in Article 46(3)(b) of the Procurement By-law to bring the solicitation back into compliance.

Section 10: Public-Private Partnership (P3) Reporting

Annual P3 reports, providing status updates on P3 projects undertaken by the City of Ottawa, are attached as Document 4 to this report and include the following projects:

- Superdome East – Indoor Artificial Turf Playing Field,
- Ben Franklin Park Superdome,
- Bell Sensplex (West),
- Richcraft Sensplex (East),
- West Carleton Community Complex,

- Shenkman Arts Centre,
- Ottawa Paramedic Service Headquarters, and
- Garry J. Armstrong Long Term Care Centre and Allen House Seniors Residence.

Note that the Ottawa Light Rail Project P3 and Lansdowne Park Redevelopment P3 reports will be provided under separate reports to Council.

Section 11: Diesel Fuel Hedging Strategy and Financial Agreements

To lock in price and secure the budget target, the City entered into 'Float to Fixed Bank Swap Agreements' with the Royal Bank of Canada, Canadian Imperial Bank of Commerce, Scotiabank and National Bank of Canada to fix 55% of the anticipated 2018 diesel fuel consumption. The details of the transactions are attached in Document 3.

Financial Agreements

Document 3 also provides a detailed report on all subsisting Financial Agreements from operating departments engaged in commodity purchase agreements. Currently, the City enters into these agreements with respect to diesel fuel only. The report contains the following information and documents:

- A statement about the status of the agreements during the period of the report, including a comparison of the expected and actual results of using the agreements in comparison to the budget.
- A statement indicating whether all of the agreements entered into during the period of the report are consistent with the City's statement of policies and goals relating to the use of Financial Agreements to address commodity pricing and costs.
- A statement of transactions with financial institutions.

RURAL IMPLICATIONS

There are no rural implications associated with this report.

CONSULTATION

There is no public consultation required with this report.

COMMENTS BY THE WARD COUNCILLOR(S)

There are no comments by ward councillors required with this report.

ADVISORY COMMITTEE(S) COMMENTS

There are no comments or recommendations required by an Advisory Committee for this report.

LEGAL IMPLICATIONS

There are no legal impediments to the receipt of the report for information.

RISK MANAGEMENT IMPLICATIONS

There are no risk management implications.

ASSET MANAGEMENT IMPLICATIONS

There are no asset management implications associated with this information report.

FINANCIAL IMPLICATIONS

Prior to a contract approval, Supply Services staff confirms that the appropriate funds are available in the budget, based on receipt of a funded requisition in SAP. The availability of funds is a condition of approval under the Procurement By-law.

ACCESSIBILITY IMPACTS

There are no accessibility implications associated with this information report.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications associated with this information report.

TECHNOLOGY IMPLICATIONS

There are no technology implications associated with this report.

TERM OF COUNCIL PRIORITIES

There are no term of council priorities associated with this report.

SUPPORTING DOCUMENTATION (*Held on file with the City Clerk*)

Document 1 - 2017 Consolidated Delegation of Authority Report Summary (≥\$25,000)

Document 2 - 2017 Payments without Reference Report (Vendor Purchasing Activity
≥\$25,000)

Document 3 - 2017 Annual Commodity Price Hedging Report as per By-law No. 2008 –
426

Document 4 - 2017 P3 Report Update

Document 5 - Contracts awarded ≥\$25,000 under delegation of authority for the period
July 1, 2017 to December 31, 2017

DISPOSITION

Report forwarded for information pursuant to the Procurement By-law.