

Supply Update

Overview

Supply procures goods, services, fleet, IT, professional services, consulting and construction for City Departments and select City of Calgary partners. It also manages over \$40M of inventory through 19 warehouses and maintain 17 fuel sites. Disposal of some City assets is also within Supply's responsibilities.

Supply is a team of 189 dedicated staff with considerable experience and a high level of professionalism with one third of the team being directly involved in procurement activities. Supply, through the establishment of contracts, enables The City to spend capital and operating budgets.

Supply plays a critical role in supporting Infrastructure Calgary and setting the capital projects and contracts in motion, and has an equally important role to continue to support departments' operating activities. They work in close collaboration with many enabling groups within The City but have a particularly close relationship with the Law Department. The success of Infrastructure Calgary depends on the close collaboration of all parties, including business units and enabling services.

Procurement of goods and services is subject to regional and national trade agreements such as the New West Partnership Trade Agreement (NWPTA), and the Agreement on Internal Trade (AIT). The City's internal supply chain governance and procurement policies describe the principles, authority, roles and responsibilities that govern City procurement. The primary objective is to ensure The City conducts fair, open and transparent procurement processes to obtain best value for money and to prevent practices contrary to procurement law which may put the organization at reputational and financial risk.

Background

Supply has struggled with a reputational challenge of being slow, overly cautious and bureaucratic. With the new Manager of Supply, the Supply leadership team set about understanding the issues and putting plans in place to improve performance, informed by the Six Sigma / Continuous Improvement approach.

Supply has shifted its attention towards a structured approach to performance: measuring, analysing and improving and making data driven decisions. Feedback from internal departments and external Associations also played a role in Supply's new direction. With the initiation of Infrastructure Calgary and the move of Supply from Finance to the Deputy City Manager's Office (DCMO), a Five Point Plan for Supply was established. The Plan accelerated

the initiatives already underway along with the new opportunities the alignment with the DCMO and Infrastructure Calgary has created for Supply.

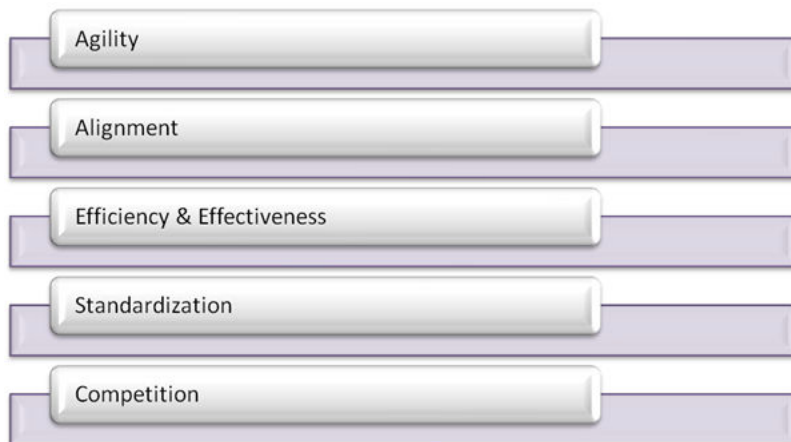
Supply has also leveraged the expertise of the City Auditor’s Office through the Continuous Improvement Audit and continued involvement with the evolution of the Five Point Plan.

Transformation

Procurement improvement activities have been underway since mid 2014, however for this report, the transformation will be presented within the formalized Five Point Plan. The report does not include the initiatives that Supply is focussing on to continue to provide exceptional service within the other areas of our operational activities.

Our tag line is - and our aspiration – is: ***Do more, do faster, do it right!***

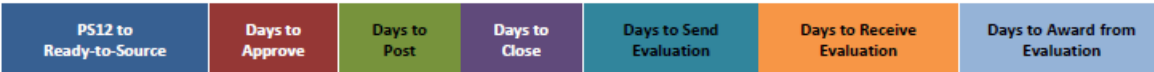
Five Point Plan



1.0 Agility

1.1 Challenges being addressed: Belief that Supply is slow, limited visibility of workload – current and future, minimal information on status of procurements, need to improve sense of urgency and timeliness.

1.2 Speaking with data: The major focus for data collection was the cycle time of procurements. Supply set about answering the following questions: How long are procurements taking? What is holding up awards? Are there certain steps in the procurement process that are consuming the most time? Are there non-value added activities restraining the procurement process? The overall end to end procurement cycle time has been measured for many years, however the challenge was to see the cycle time broken down into smaller sub processes. In preparation for the Action Plan 2015 – 2018, Supply segmented cycle time as follows:



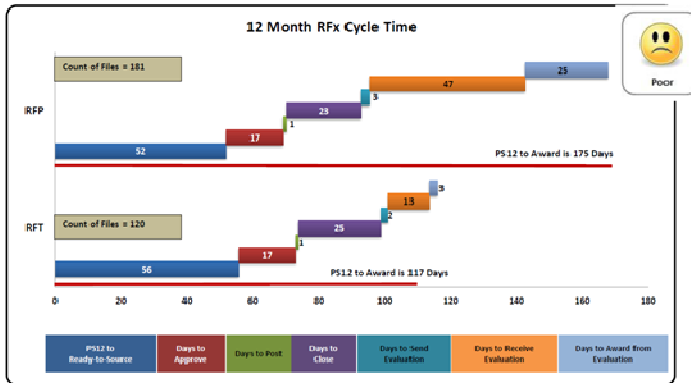
Supply set about developing a tool that would allow Supply to record the durations across the overall cycle time and within each of the sub processes. Filetracker is a database that was developed internally by The City’s IT department. With measurement in mind, the tool was designed to follow each procurement through the sub processes and to capture the duration within each step. In August of 2015, a cycle time report from Filetracker identified two areas that consumed over 50% of the overall procurement cycle time. The areas were ‘PS12 to Ready to Source’ and ‘Days to Receive Evaluation.’ This information along with a Continuous Improvement Audit performed by The City Audit’s Office, suggested that closer collaboration and alignment with our customers would reduce cycle time as both parts of the sub process are predominantly customer driven.

PS12 to Ready to Source: PS12 (Procurement Strategy) is the trigger for the procurement to commence. It is a document that is submitted by a business unit to Supply’s Intake. From the receipt of a PS12, Supply assigns a Buyer and the business unit or Consultant starts the development of the technical specifications, scope, special conditions and evaluation criteria. It ends when the Request for X (RFX) document is ready for final review.

Days to Receive Evaluation: Particularly on a Request for Proposal (RFP) when the highest evaluated proponent is selected, rather than lowest compliant bid for a Request for Tender (RFT), the evaluation sub process plays a significant role in the overall cycle time. Evaluation is performed by project teams and can be complex and time consuming. A rigorous evaluation is crucial in ensuring The City selects the highest evaluated proponent in a Fair, Open and Transparent method.

The graph below contains 12 months of data, with cycle time segmented by the sub processes. The cycle time targets for 2016 are 180 days for Request for Proposal (RFP) and 105 days for Request for Tender (RFT). It is clear that PS12 to Ready to Source and Days to Receive Evaluation contribute most to the overall cycle time. It should be noted that procurements are posted for 3 weeks or 21 days, which is in line with Trade Agreement guidelines.

W.PM09 RFT & RFP Cycle Time Average Days
Jun 2015 – May 2016



Supply is able to segment the data by department, business unit, procurement method and also type of procurement. Through ongoing measurement and analysis, Supply believes that a ‘One size fits all’ target based on procurement method is flawed. Cycle time is impacted by risk and complexity of the procurement and the level of engagement, whether it be within The City, with Council and with citizens. In addition, the availability and priority of resource allocation within Supply and from the business unit perspective also plays a role.

Within the sub processes that Supply is wholly responsible for, Supply has identified significant non value added activities – predominantly moving and waiting time.

1.3 Improvements: Supply’s new agile approach involves a strong sense of ownership for each procurement, which entails good planning, prioritization, communication, collaboration and monitoring. A weekly scrum style meeting has been adopted to review all files that are within the two time heavy areas (PS12 to Ready to Source and Days to Receive Evaluation). A flagging system has been introduced to provide visibility of file progression – Red, Amber and Green. Files in Red and Amber status are highlighted and discussed with the intent to get them back on target or to identify them as being special cause variations when delivery is expected to be above the average (e.g. P3 procurement). This was a recommendation from the Continuous Improvement Audit and has been fully accepted and introduced as a new way of working. In alignment with Infrastructure Calgary and accelerating capital spend, Supply made a quick modification to Filetracker to have the ability to see all capital procurements. This enables Supply to escalate those capital procurements that are not progressing as planned with the business units and through Infrastructure Calgary if needed.

1.4 Key Performance Indicator: Procurement Cycle Time

2.0 Alignment

2.1 Challenges being addressed: Procurement staff predominantly work on an individual basis, work is assigned and completed by a pool of buyers, outside of direct service level agreements, there was no single point of contact for customers, and no alignment between Supply and business unit at Buyer level.

2.2 Speaking with Data: The major focus for data collection was procurement cycle time with the additional attribute of buyer alignment. The question was whether a buyer, who is aligned on a service level agreement or through generally supporting the business unit, has a positive impact on the procurement cycle time. The Continuous Improvement Audit (2015 – AP6) set about answering whether there was a positive correlation between cycle time and alignment. Excerpt from Audit: “We observed the review and approval time for an Request for Tender (RFT) in our sample where non-dedicated resources were utilized took 9 extra days compared to a file where Supply resources were aligned with the business unit. We also conducted an analysis of all 2014 RFTs over \$500,000 in value. We calculated that the cycle time of the RFTs where a Supply resource is aligned to the business unit ranges from 87-149 days, compared to 137-272 days for RFTs with standard Supply support.” Supply has accepted the recommendation of aligning resources to business units as a positive action item to start reducing cycle time. In order to determine the appropriate level of staffing for each department, a work load analysis for 2015 was undertaken. Data indicated that on average a buyer procures 40 new files per year. Using the volume of procurements from 2015, Supply able to develop an estimate of resources needed to support each department. New awards, extensions, renewals and change orders were included – basically every time Supply touches a file.

2.3 Improvements: In June 2015, the Continuous Improvement Audit concluded that alignment of staff reduced the cycle time of procurements. The audit also recommended that early engagement on procurements with business units and quality documentation also reduced cycle time by minimizing the review period and number of addendums.

In December 2015, Supply rolled out revised processes for major projects over \$5M, offering business units the opportunity to elect having pre-procurement kick off meetings and procurement review meetings. Pre-procurement meetings are to establish the procurement strategy and to align the team. Review meetings are to conduct a concurrent review of the draft procurement document, working collaboratively rather than in sequence.

In December 2015, this alignment was established; however, with the drive to accelerate capital and the move to Infrastructure Calgary, Supply needed to focus on fully operationalizing the alignment. Through significant staff engagement a matrix was developed to fully align

teams with departments and secondly as communities of practice: Consulting, Construction, IT, Goods & Services and Contract Management. Staff were asked to focus on each individual's strengths to best provide customer service and deliver on our new objectives: to accelerate capital while continuing to provide exceptional service to our customers.

This matrix illustrates the new Departmental and COP structure:

Departments →	Chief Financial Officer Incl. CMO, Planning & Development	Community Services Incl. Other Partners	Deputy City Manager's Office	Transportation	Utilities & Protective Services
Communities of Practice ↓					
Consulting					
Construction (including Major Maintenance)					
IT					
Fleet, Goods, General Services					
Contract Management					

Feedback from departments and business units has been very positive. They see the team alignment as a positive shift from the previous structure and delivery model.

To promote the alignment and for all parties to understand more clearly their roles and responsibilities within the procurement process, a RACI (Responsible, Accountable, Consulted and Informed) matrix is being refined. We are leveraging a tri-party RACI project that has been underway since mid 2015 between UEP, Fleet and Supply. The RACI is in the Pilot phase and will be the foundation for the overall Corporate RACI chart.

Supply believes the Departmental alignment will substantially increase customer service, improve lines of communication, deliver appropriate cycle times and create a collaborative team environment.

2.4 Key Performance Indicator: Customer Satisfaction Survey, Procurement Cycle Time.

3.0 Efficiency & Effectiveness

3.1 Challenges being addressed: Paper driven, manual processes, no central intake process, limited visibility and prioritization of workload, outdated delegation of authority, non-value add components within procurement process, limited procurement templates available, version control and Supply's reputation for being slow.

3.2 Speaking with Data: For this area Supply focused on what was trending in other Canadian municipalities and private industry. The questions Supply posed were: Can Supply work differently to free up capacity within Supply? Are there technology options available to improve efficiency? Does Supply have the appropriate level of staffing? The need to modernize Supply activities was very apparent.

3.3 Improvements: The most significant shift in modernizing the Supply chain was the introduction of e-bidding at The City. The e-bidding project resulted in paper bid submissions and public openings being phased out in May 2015. The system selected is user fee based, with funding for the project coming from operations, as the workload was fully absorbed by the Supply team. The system provides visibility on who downloads the documents, who bids and the number of bids, in a central location, providing much-needed data that can be analyzed in many ways.

Supply continues to be challenged with several other paper driven processes, the most significant being the hard copy approval of new procurement awards, procurement extensions and renewals. This is further inhibited by the outdated delegation of authority that governs the approval limits within Supply. In 2015, Supply performed data analysis on the volume of approvals at each level within Supply. Supply concluded that an adjustment of the approval levels was needed to empower staff to be individually responsible and accountable at the appropriate level. With input from the City Auditor earlier this year, Supply is pursuing a review of the approval levels for risk, complexity and dollar value. Filetracker 2.0 was initiated in June 2016 to enhance the tool's capability. The immediate scope is the move from paper to an electronic process for new awards extensions and renewals. Upon completion, Supply believes the outcome will be improved visibility, reporting and removing the manual process duplication.

From a technology perspective Supply is considering opportunities for the Prequalification process, Vendor Performance and Workflow.

The involvement in several Zero Based Reviews over the past 18 months has also highlighted efficiency and effectiveness opportunities for Supply and The City as a whole from a procurement perspective. All of these are being considered as ways to improve Supply, with the ultimate goal of freeing up capacity to work on value-add activities, accelerate capital and continue to provide exceptional service to our customers.

3.4 Measure: Procurement value per FTE (OMBI)

4.0 Standardization

4.1 Challenges being addressed: Speed up time to market, bring documents in line with current industry standards and recent legal precedents, expand procurement delivery methods template availability, introduce negotiable request for proposals, version control and visibility of contracts.

4.2 Speaking with data: Given the volume of new bids, which are in excess of 1000 per year, the need to standardize was self evident. Data from 2015 indicates that a new award takes on average 40 hrs per file (Supply resource only).

4.3 Improvements: The most significant improvement activity was initiated in 2014 in collaboration with The City's Law Department. There were numerous advantages to standardizing the procurement documents. After careful consideration, a suite of procurement documents was purchased from Paul Emanuelli's Procurement Office for the procurement of Goods & Services. The suite had consistent language, clauses, look and feel, was up to date with legal precedents and allowed The City to remove at least a year from the development process. Through joint working groups internally within The City, the documents were customized to work with The City's processes. The suite includes negotiable and non-negotiable formats. The Qualification/Quality Based Selection templates are also being developed. The new template is based on the Paul Emanuelli suite, with significant modification to align with the procurement of Non-Price Professional Services. Industry engagement continues with the Consulting Engineers of Alberta and the Consulting Architects of Alberta.

The construction suite of documents is being developed and piloted. Templates will be available for the following procurement delivery methods: Design Bid Build, Design Build and Construction Management. Industry engagement is a critical element to the success and adoption of the new construction suite of documents. The project team is working very closely with the Calgary Construction Association (CCA) and has piloted the new Construction Management documents on five projects to date, including Historic City Hall.

Standardizing procurement documents will alleviate review time, thus reducing overall cycle time. This is fully aligned with the conclusions from the Continuous Improvement Audit (2015 – AP6).

Supply is promoting standardization within business units for specifications, evaluation criteria and special conditions.

Through Infrastructure Calgary, a conversation has started with regards to bundling of similar services across departments, reducing the number of procurements and removing duplication for the vendor community. We are encouraging the use of Request for Standing Offers to

enable the sharing of work between vendors and contractors and also reducing the volume of procurements. This type of procurement is used within pockets of The City, but there is certainly greater opportunity across the organization.

4.4 Key Performance Indicator: Procurement cycle time, Procurement value per FTE (OMBI), NEW – Quantity of ‘Request for Information’ during document postings.

5.0 Competition

5.1 Challenges being addressed: Prequalification process is slow, bid caps leave money on the table, prime contractor – safety or more, risk appetite and the staging of projects to market.

5.2 Speaking with Data: Historical data on new awards: Does prequalification, which means a list of contractors are invited to bid, limit competition? Risk appetite.

5.3 Improvements: In 2015, in collaboration with the CCA, Supply launched a “lean review of the Prequalification for Prime Contractors.” Supply held several workshops, and introduced a number of quick wins. Supply believes they have already saved approximately 10 days from the overall process time. More significant changes are still in the works with regards to the Safety and Environment section and the Technical Categories. For the Safety and Environment component, Supply is working towards more high level, general requirements. In relation to the Technical Categories, data show that we have a number of categories that Supply has never used, wasting the time of contractors who are being prequalified within those categories. This project is targeting a 50% reduction in technical categories in an attempt to remove duplication and wasted efforts. For overall process improvement, expectations on turnaround times have been established for both The City of Calgary and contractors. Finally, Supply is exploring Bid Cap changes. The conversation of changes to Prequalification are now headed to Infrastructure Calgary with the discussion around the circumstances when prequalification makes sense and when it doesn’t. Prequalification may be seen as a barrier to entry, therefore with the drive to stimulate the economy and attract new bidders a strategy shift may be required.

Intentionally staging projects to market is also under review, reducing internal competition for contractor estimating capacity and ultimately for construction capacity. The intention is to have visibility on internal postings overlaid with provincial competitions from Alberta Infrastructure, Alberta Transportation and Alberta Health Services.

5.4 Key Performance Indicator: Number of Bids Received (OMBI).

Conclusion

Over the last two years, Supply has dedicated significant effort to transform itself to better support the outcomes of Council Priorities, the Leadership Strategic Plan, and now Infrastructure Calgary.

Supply's systematic approach to continuous improvement, continued collaboration internally and externally with industry partners, and being at the table of Infrastructure Calgary, is laying the ground work to accelerate the award of capital projects for the 2017 construction season. Alternatively stated, Supply is committed to a transformative process and today is positioned to do more, do faster, and do it right!