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DATE 2 October 1996

TO/DEST. Chair and Members of Regional Council

FROM/EXP. Chief Administrative Officer  
Finance Commissioner

SUBJECT/OBJET **SUPPLY MANAGEMENT - PROGRESS UPDATE**

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The purpose of this memorandum is to provide the Chair and Members of Council with a progress update on the Supply Management function.

#### BACKGROUND

Notice was provided to the City of Ottawa in February 1995 of the Region's intentions to terminate the agreement for provision of purchasing services and since that time the Region has been operating on a month to month basis by agreement with the City of Ottawa.

Subsequently, in October 1995 Council authorized the Chief Administrative Officer to:

1. negotiate the termination of the existing agreement with the City of Ottawa for the provision of purchasing services; and
2. establish a Corporate Materials Management function.

On 22 April 1996, Council received a memorandum from the Chief Administrative Officer stating that Management Committee will be pursuing the establishment of a Corporate Materials/Supply Management function.

Given the magnitude of purchasing and inventory expenditures by the Corporation, as well as the highly decentralized approach, there existed a need for strong corporate direction and coordination. The Corporation spends well over 30% of its total budget purchasing goods, materials and services with an estimated 100 to 125 full-time equivalent positions currently devoted to purchasing and inventory activities.

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TO BE LISTED ON CORPORATE  
SERVICES AND ECONOMIC DEVELOPMENT  
COMMITTEE AGENDA - 15 OCT 96

Purchasing and inventory functions are interrelated, interdependent functions and strategic decisions on purchasing can significantly reflect inventory operations. Purchasing decisions can significantly affect inventory operations and costs, whereas warehousing capacity and carrying costs can impact the savings associated with effective purchasing. In the absence of effective coordination between the two functions additional costs to the Corporation are inevitable.

## DISCUSSION

Subsequent to the appointment of the Director of Supply Management and to facilitate the implementation of Council's direction, a Corporate Supply Management Committee was formed with representatives from all operating departments as well as Police Services and O.C. Transpo.

The major effort of the committee to date has been placed on identifying corporate resources dedicated primarily to purchasing and inventory management. This has been completed and realignment of these resources is now underway to build a unified Corporate Supply Management Division.

This committee has also identified the need for specialized purchasing professionals within this Division. Recruitment will commence internally but will in all likelihood necessitate recruitment from outside the Corporation given the skills and experience required. In the event outside recruitment occurs, consideration will be given to the City of Ottawa purchasing staff as many of these employees have been purchasing on behalf of the Regional Corporation for many years and understand most of the Region's requirements.

Inventory management practices are also being revised. Currently, corporate inventory management responsibilities are decentralized with each inventory operation working independently, serving only specific departmental clients. There is a need to determine the opportunities which exist to streamline inventory practices and reduce costs in this area. This will be accomplished by determining what items should be in inventory, whether existing quantities are appropriate, whether existing space is properly utilized, whether existing locations can be consolidated and whether there are innovative methods to better manage the stores facilities and inventory levels.

Upon completion of these initiatives, the supply management function will assume full responsibility for all purchasing and inventory activities within the Corporation and final notice will be provided to the City of Ottawa terminating the current purchasing services agreement. Should City of Ottawa employees not be successful or not apply for such a competition, the City of Ottawa Supply Division will have sufficient notice to effectively deal with the phasing out of Regional purchasing that the City of Ottawa performs. The 1996 budget provided for six months funding for the City of Ottawa purchasing service, however there is still a requirement to operate on a month-to-month basis.

During the 1996 budget deliberations, Council directed staff to pursue joint purchasing in an effort to reduce costs. Currently, the Region is a member of a cooperative purchasing program which now includes over fifty organizations covering over twenty-eight commodities with an estimated total value of approximately thirty-nine million dollars. Membership includes municipalities, school boards, hospitals, community centres, hydros and universities. Annex A lists the membership and the commodities included in the cooperative program. Since January of this year the Region has participated in nineteen cooperative tenders and quotations for a variety of products including electrical supplies, automotive equipment, batteries and asphalt mixes. In addition, the Region benefits from the Province of Ontario's collective purchasing standing agreements for various commodities. The purchasing industry estimates that prices can improve by up to ten percent through cooperative purchasing by increasing volume requirements.

The cooperative purchasing program allows different members to take the lead role, from time to time, depending on the type and amount of commodity required. Given the level and diversity of expenditures by the Region it is expected that we will be assuming a greater role in these initiatives in the future.

The Supply Management Division will provide corporate direction and opportunities for further savings by developing corporate purchasing and inventory strategies. These savings will be achieved through greater volume discounts, specialized purchasing initiatives such as one common access point for suppliers, improved inventory practices and reduced carrying costs. Emphasis will also be placed on ensuring, wherever possible, that goods and services promote environmental friendliness.

A detailed review of inventory management, on a corporate basis, will determine the requirement to maintain inventory, at the appropriate level, in the appropriate locations. Minimizing these requirements will result in a reduction of carrying costs, potential losses and obsolescence.

Overall administration and overhead savings will be achieved through implementation of the above practices and by allowing operating staff to concentrate more on delivery of client services and less on purchasing and inventory activities.

### PUBLIC CONSULTATION

Consultation has occurred with each operating department, the City of Ottawa, O.C. Transpo and Police Services. Suppliers, contractors and consultants will be notified of procedural changes as the changes are phased in.

FINANCIAL IMPLICATIONS

The 1997 draft estimates will provide for a comprehensive Supply Management function to coordinate and lead all purchasing and inventory activities. This function will be established from within existing resources at less cost and will enable management of Regional operations to pursue further savings in the future. The City of Ottawa Supply Branch has been providing service to the Region since 1969 on a cost-recovery basis. Since 1985, the Region has been charged annually an average of 30% of Ottawa's Supply Branch operating budget. In 1995, this was \$291,000 and is estimated to be \$298,000 in 1996. Based on current invoices this amount would increase in 1997. The 1997 budget will, through reorganization and redeployment of resources, provide funding for the specialized supply management professionals, with no additional full-time equivalents and a decrease in expenditures of \$107,000. The 1997 draft estimates will outline these savings.

*Approved by*  
*C.M. Beckstead*

*Approved by*  
*J.C. LeBelle*

Attach

GF:km

**COOPERATIVE PURCHASING PROGRAM**Membership:

- Regional Municipality of Ottawa-Carleton
- Ottawa-Carleton Police Services
- O.C. Transpo
- City of Nepean
- City of Vanier
- Township of West Carleton
- Township of Rideau
- Township of Cumberland
- Vanier Community Service Centre
- Lowertown Resource Centre
- Somerset West Community Health Centre
- Southeast Community Health Centre
- Societe De Transport De L'Outaouais
- Nepean Public Library
- Ottawa Hydro
- Nepean Hydro
- Ottawa Board of Education
- Ottawa R.C. Separate School Board
- Ottawa R.C. Secondary School
- Lanark Board of Education
- University of Ottawa
- Carleton University
- Riverside Hospital
- Grace Hospital
- Queensway-Carleton Hospital
- Elizabeth Bruyere Health Centre
- Saint-Vincent Hospital
- Good Companions Seniors Centre
- Care Canada
- Ottawa District Association For Mentally Retarded
- City of Ottawa
- City of Gloucester
- City of Kanata
- Township of Goulbourn
- Township of Osgoode
- Village of Rockcliffe Park
- Ottawa Arts Centre Foundation
- Gloucester Community Resource Centre
- Sandy Hill Community Health Centre
- Mississippi Valley Conservation Authority
- Ottawa Public Library
- Gloucester Hydro
- Kanata Hydro
- Carleton Board of Education
- Carleton R.C. Separate Board
- Le Conseil Scolaire De Langue Francaise
- Algonquin College
- Saint Paul University
- Ottawa Civic Hospital
- Royal Ottawa Health Care Group
- Monfort Hospital
- Children's Hospital East. Ont.
- Perley Hospital
- Ottawa Reg. Hospital Linen Services
- Red Cross Society of Canada
- Ottawa YMCA-YWCA
- Les Missonnaires Oblats De Marie Immaculee
- Salvation Army - Family Services and Correctional Services
- Ottawa Carleton Immigrant Services Organization

**COOPERATIVE PURCHASING PROGRAM**Commodities:

Lamps	Fuel Oil
Fine Paper	Gasoline
Diesel Fuel	Rock Salt
Poly Garbage Bags	Rough Paper Products
Electrical Supplies	Photo Supplies
Plumbing Supplies	EDP Paper
Lubricants	Microcomputers
PC Printers	Welding Gases
Calcium & Sodium Hypochlorite	Hardware
Furniture - Chairs, etc.	Natural Gas
Furniture - Desks, etc.	Industrial Towels
Stationary System Contract	Safety Footwear
Swimming Pool Chemicals	Disposal Auction Equipment
Labware & Chemicals	Nursery Stock Trees