

**TCHC Procurement Transformation Plan (2024)**

Item 7

July 17, 2024

Building Investment, Finance and Audit Committee

Report: BIFAC:2024-69**To:** Building Investment, Finance and Audit Committee
("BIFAC")**From:** Lily Chen, Chief Financial Officer**Date:** July 10, 2024**PURPOSE:**

This report provides the Building Investment, Finance and Audit Committee ("BIFAC") with TCHC's procurement transformation plan (the "PTP Plan") prepared by external consultants Ernst & Young ("EY"), and to seek BIFAC approval of the recommendations.

RECOMMENDATIONS:

It is recommended that the Building Investment, Finance and Audit Committee:

1. Direct the Chief Financial Officer to review the opportunities detailed in TCHC's procurement transformation plan as strategies that TCHC might adopt and implement, that require the collaboration with internal and external stakeholders, and report back to BIFAC with a prioritization of these opportunities and the sequencing of an implementation roadmap in Q4 of 2024; and
2. Authorize the Chief Financial Officer or her designate to take such steps as are required to implement the above recommendation.

REASONS FOR RECOMMENDATIONS:

Background

As one of the opportunities identified by TCHC's Financial Sustainability Plan (EY 2023), EY Supply Chain & Operations Team was engaged, through a public tendering process, by TCHC to conduct a procurement assessment, as part of a broader procurement transformation initiative to develop a Procurement Transformation Plan.

The scope of work encompasses the following deliverables:

- 1) transformational operational review including current state maturity assessment and gap analysis and future state visioning;
- 2) realignment, streamlining and optimization assessment through market sounding and spend analysis to identify value generation opportunities and high-level fit-for-purpose category strategies, and the associated implementation roadmap.

TCHC's Procurement Transformation Plan Defined

The Procurement Transformation Plan (PTP) includes detailed analysis, assessment, recommendations, and an implementation roadmap to serve as a guiding strategy and to identify next steps for TCHC's procurement transformation journey. The report contains two key types of recommendations:

1. Operating model recommendations based on the maturity assessment spanning end-to-end procurement processes (category management, strategic sourcing, contract management, vendor relationship management, procure-to-pay "P2P") across people, process, governance/policy and technology/systems dimensions.
2. Strategic sourcing value creation opportunities. Opportunities were identified across the short, medium, and long term based on spend analysis, resulting in an estimated **4-8%** in annual recurring benefits (including improved cashflow and cost avoidance), on TCHC's total addressable third party spend base of ~\$455M.

Implications of Current State Practices

The lack of a defined overall procurement strategy and organizational understanding of the function's objectives and value, result in competing agendas, duplication of effort, and a function that is more transactional than

strategic in nature. Key implications from current state practices are as follows:

- **Increased Risk:** Increased financial, operational, reputational, and compliance risk exposure due to limitations in contract management, vendor management, and procure-to-pay processes and systems
- **Reduced Value for Money Opportunities:** Limited ability to drive value for money outcomes through procurement as the current SPU organizational structure and sourcing processes do not support a category-led and strategic approach to procurement
- **Limited Vendor Participation**
- **Delays and Inefficiency**

Table 1: Overview of Current State Assessment and Recommendations

Current State		Recommendation
Overall Recommendation	There is a lack of a defined overall procurement strategy and organizational understanding of the function’s objectives and value, with no formalized metrics in place to measure performance.	R1. Procurement Strategy: Develop a process to continually update the procurement strategy aligned with organizational objectives and supported by a defined procurement performance management approach.
		R2. Vendor Participation: Implement strategies to increase vendor participation in TCHC RFx’s to enhance competition including customizing evaluation approach to ensure fit for purpose and clearly defining SOWs.

Current State		Recommendation
People/ Organizational Structure	Procurement is semi-decentralized across Divisions and SPU, and SPU does not have appropriate capabilities, training and structure in place to effectively manage strategic procurement operations.	R3. Organizational Structure: Establish a center-led procurement operating model; introducing new roles for category management and contract management.
		R4. Training: Develop onboarding and continuous training for SPU and Divisions on the new end-to-end procurement processes, roles and policies.
Process	The end-to-end procurement process is unclear including the documentation of sub-processes, system integration, and hand-off points between functions, leading to inconsistent operations across SPU and Divisions and unbalanced workload.	R5. Processes: Design and implement standardized L1-L5 end-to-end procurement processes covering category management, sourcing, contract management, vendor relationship management and P2P.
		R6. Roles and Responsibilities: Document revised procurement roles and responsibilities across both SPU and Divisions, defining responsibilities across each of the roles in the new organizational structure.

Current State		Recommendation
Governance/ Policy	Existing award approval process (e.g., VAC) is time consuming and labour intensive. Current policies are spread across many documents and are missing key language to enable strategic approaches (e.g., collaborative procurement). There is no category governance structure in place to enable advanced strategic planning.	R7. Award Approval: Streamline the award approval process by reducing the number of approval steps, thresholds and stakeholders involved, ensuring it is fit for purpose to streamline procurement operations.
		R8. Governance Structure: Establish cross-functional category governance committees with executive, process, and execution oversight layers to govern and track category opportunities.
		R9. Procurement Policy: Enhance the existing procurement policy to consolidate all relevant policies into a single document and incorporate additional language including spend channel guidance, revised approval thresholds, social procurement policies, and more.
Technology/ Systems	There are multiple disparate systems in place with limited integration across	R10. System Enabled Source-to-Pay: Enable functionality to support all procurement processes,

	Current State	Recommendation
	systems and key functionality not system-enabled, limiting visibility into procurement spend for planning, monitoring and reporting.	including sourcing, contracting, spend analysis, and workflow management, first exploring integration with existing technology vendors before considering additional system solutions.

IMPLICATIONS AND RISKS:

Critical Success Factors

Procurement transformation is a multi-year journey. Given the current state procurement maturity is scored at average of 1-2 out of the 5-point scale (Foundational/Developing), the following factors are critical to the success of operationalizing the identified opportunities and sustaining benefits and efficiencies realized:

- Change management to support further centralization of core procurement functions and ensure organizational alignment and communication
- Leadership buy-in from BIFAC and the Divisional leadership
- Although the overall transformation will be self-funded, an upfront resourcing investment will be required to engage the resources and capacity needed to design and implement the new operating model. This will include, but not limited to, project management to underscore the procurement transformation, continue to build out/upskill internal procurement capabilities, while engaging the external support to uplift existing capabilities & capacity and bring in leading practices and tools.

Cost & Benefit analysis

- Value creation opportunities identified are expected to deliver annual recurring benefits which can be used to fund the implementation.

- Execution of the implementation plan requires an investment of approximately \$6M in resources and technology over the next 3-5 years; the value creation opportunities are expected to offset this cost resulting in a 4.5X ROI.

SIGNATURE:

"Lily Chen"

Lily Chen
Chief Financial Officer

ATTACHMENTS:

1: TCHC-Procurement Transformation Report Presentation

Confidential Attachment 2: TCHC- Procurement Transformation Report Presentation regarding People/Organization

Reason for Confidential Attachment Matters related to human resources issues and employment matters, including labour relations or employee negotiations.

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Toronto Community Housing Corporation (TCHC)

Procurement Transformation Plan Executive Summary

July 2024

Agenda

01 Project Overview

02 Summary of Findings

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- What We Heard From Market Sounding

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- Implementation Roadmap
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Project Overview

BACKGROUND AND SCOPE

EY was engaged by TCHC to conduct a procurement assessment, as part of a broader procurement transformation initiative to develop a Procurement Transformation Plan (PTP) that enables the function to realize stability, sustainability and growth. The scope primarily covered the following:

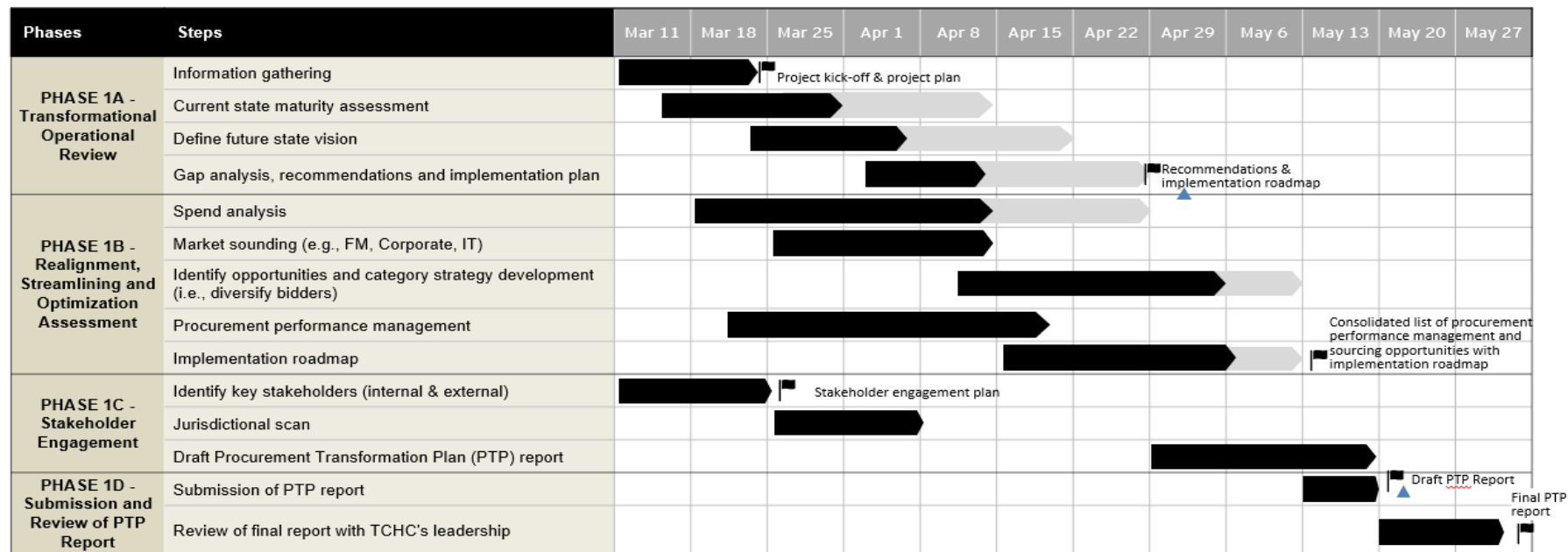
1A: Transformational Operational Review

- Conducted a current state maturity assessment and gap analysis, interviewing 25+ stakeholders and reviewing 100+ documents
- Defined future state vision
- Developed recommendations and an implementation plan

1B: Realignment, Streamlining and Optimization Assessment

- Conducted spend analysis, identified value generation opportunities and implementation roadmap, and developed category strategies
- Conducted market sounding and provided procurement performance management recommendations

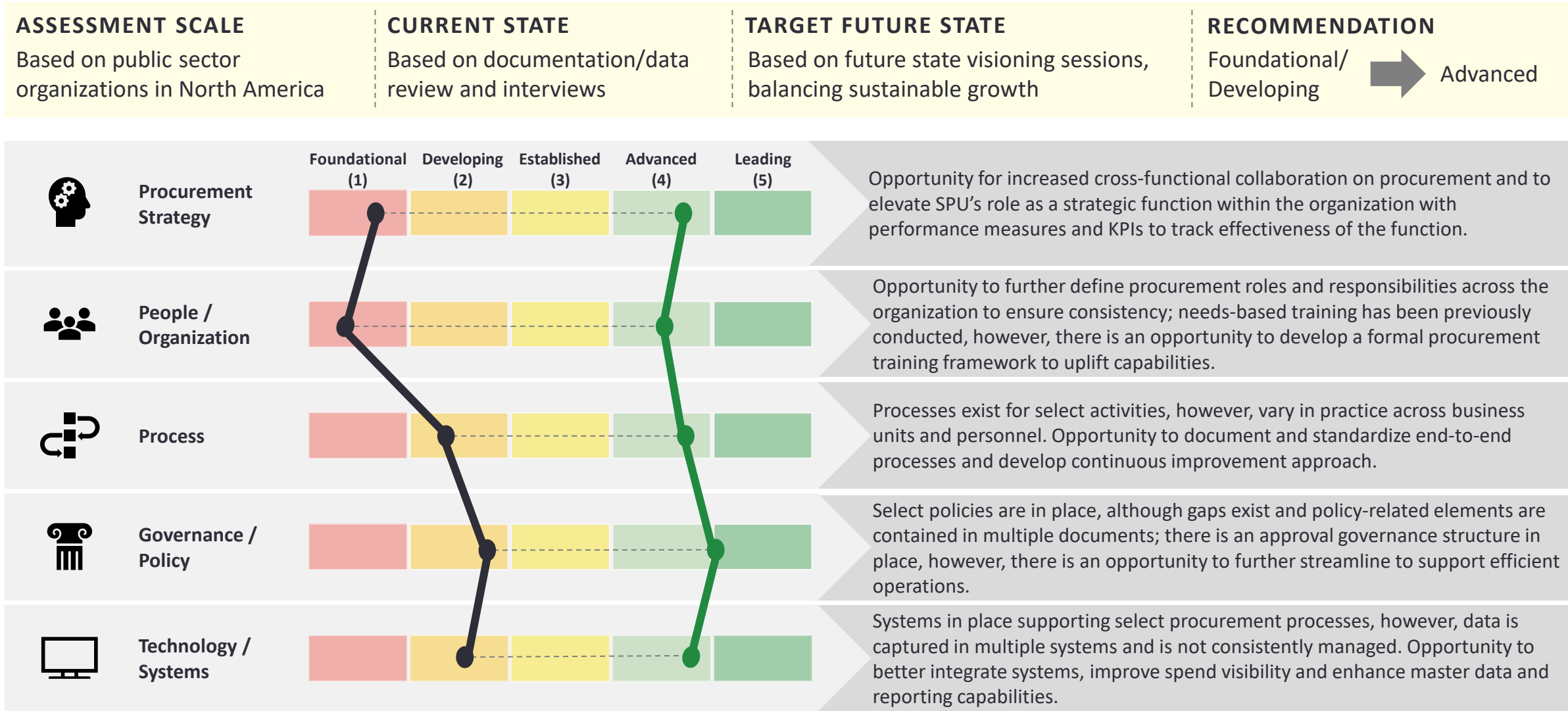
PROJECT TIMELINE AND APPROACH



Strategic Objectives of Initiative

- ✓ Review the current efficiency of the procurement and supply chain model
- ✓ Enhance the procurement value for money outcomes
- ✓ Improve vendor participation (i.e., greater vendor diversity and higher response rate) and performance management model

Summary of Maturity Assessment and Gap Analysis



TCHC Current State TCHC Target Future State

1. See [slide 16](#) for additional current state details and [slide 17](#) for details on what we heard from divisions and executives

Implications of Current State Practices

1 Increased Risk

Increased financial, operational, reputational, and compliance risk exposure due to limitations in contract management, vendor management, and procure-to-pay processes and systems (e.g., tracking Work Orders against POs and contracts, validating invoice against contracts).

2 Reduced Value for Money Opportunities

Limited ability to drive value for money outcomes through procurement as the current SPU organizational structure and sourcing processes do not support a category-led and strategic approach to procurement.

3 Delays and Inefficiency

Delays and inefficiency in the procurement process such as lengthy VAC and Change Order approval and process inconsistencies across the organization, taking valuable staff time away from critical initiatives.

4 Limited Vendor Participation

Limited vendor participation in procurements due to inefficiencies and inconsistencies within the sourcing process and vendor relationship management.

Summary of Opportunity Identification and Prioritization

11 strategic sourcing value creation opportunities were identified across the short, medium, and long term based on spend analysis, resulting in an estimated **4-8%** in annual recurring benefits off TCHC's third-party procurement spend (including improved cashflow and cost avoidance).

APPROACH

1

Conducted spend analysis

- Spend data was cleansed, categorized and analyzed
- ~\$455M/yr addressable spend identified across ~1800 vendors
- Majority of spend within **FM, Operations and Development divisions**

2

Developed opportunities and estimated benefits

Based on:

- Review of top spend categories
- Assignment of applicable sourcing levers
- Industry benchmarks from similar opportunities conducted across market peers



3

Prioritized opportunities and developed roadmap

Based on:

- Ease of implementation and value of benefits to group into short, medium and long-term opportunities for execution across the next 3 years

OPPORTUNITY HIGHLIGHTS

11 strategic sourcing and value creation opportunities identified¹...

- ▶ ...where TCHC can apply industry leading category management practices to drive better value through procurement

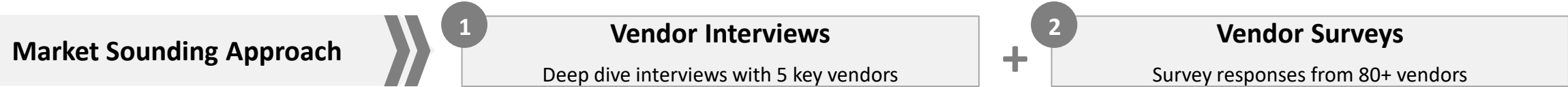
4-8% in potential annual recurring savings and cost avoidance...

- ▶ ...on TCHC's total addressable spend base of \$455M, executed over the next 3-5 years through implementing category management
- ▶ Estimate based on TCHC data and external benchmarks from experience executing similar opportunities

Estimated benefits are based on limited data availability in this phase of the work. Addressable spend baseline, sequencing of implementation, and other aspects of the opportunities should be further validated and refined in collaboration with divisions prior to execution (e.g., considering expiring contracts, procurement plans, etc.).

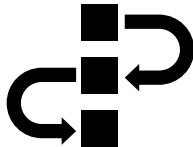
What We Heard from Market Sounding

TCHC stakeholders indicated historic challenges with vendor participation in sourcing events. This was further evidenced through data analysis showing that 20%+ of RFX's between 2021-2024² only had one or two bidders. Market sounding was conducted to investigate the root cause of low vendor participation.



KEY CHALLENGES AND OPPORTUNITIES

RFX Process & Document	<ul style="list-style-type: none">▶ Lack of clarity in SOW and project requirements▶ Lengthy RFX timelines and inconsistent communication▶ Evaluation approach often favours low bids▶ RFX requirements and pricing form are often restrictive and not always fit for purpose
Payment & Invoicing	<ul style="list-style-type: none">▶ Frequent delays in invoicing and payment processing▶ Invoice submission approach varies, and instructions are unclear leading to delays
Contract & Vendor Management	<ul style="list-style-type: none">▶ Contracts and vendors are managed ad-hoc▶ Lack of two-way feedback and collaboration
Change Orders	<ul style="list-style-type: none">▶ Significant operational delays when change orders are required due to approval process
Additional Opportunities	<ul style="list-style-type: none">▶ More consistent and widespread RFX distribution▶ Provide training and education on bidding process▶ Implement feedback mechanisms to gather consistent vendor feedback▶ Promote networking and collaboration opportunities between vendors and TCHC



Challenges and opportunities identified are addressed as part of the **process recommendations** and associated implementation workstream to follow

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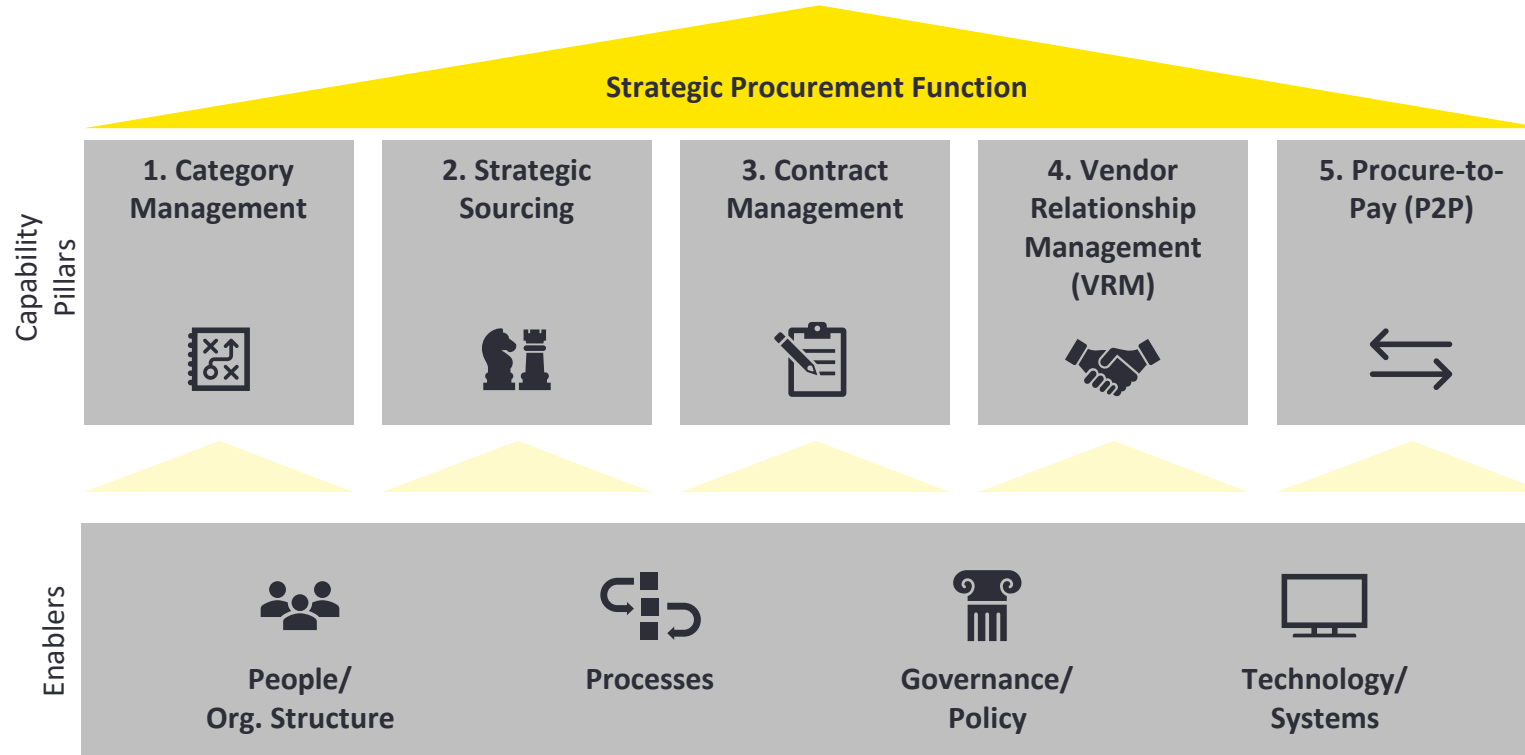
See [slide 18](#) for specific recommendations to increase vendor participation from the PTP report

2.

See PTP report for detailed analysis

What Does The Future Look Like?

Category-led¹ approach to procurement, centralizing ownership of all key procurement capabilities within the SPU function.



- ▶ Center-led procurement model, with SPU centrally managing all procurement processes and divisions supporting select key activities
- ▶ Category management and strategic sourcing capability, CoE

- ▶ Standardized end-to-end procurement processes accompanied by playbooks
- ▶ Standardized roles with defined responsibilities across SPU and divisions
- ▶ Proactive vendor engagement process

- ▶ Streamlined approval process with fewer approval layers and stakeholders involved
- ▶ Single comprehensive procurement policy

- Increased integration and enablement of existing technology based on refined processes (Yardi, ServiceNow)
- Integration of additional technology for S2C to drive further value from current procurement process that are not system enabled²

Summary of Recommendations

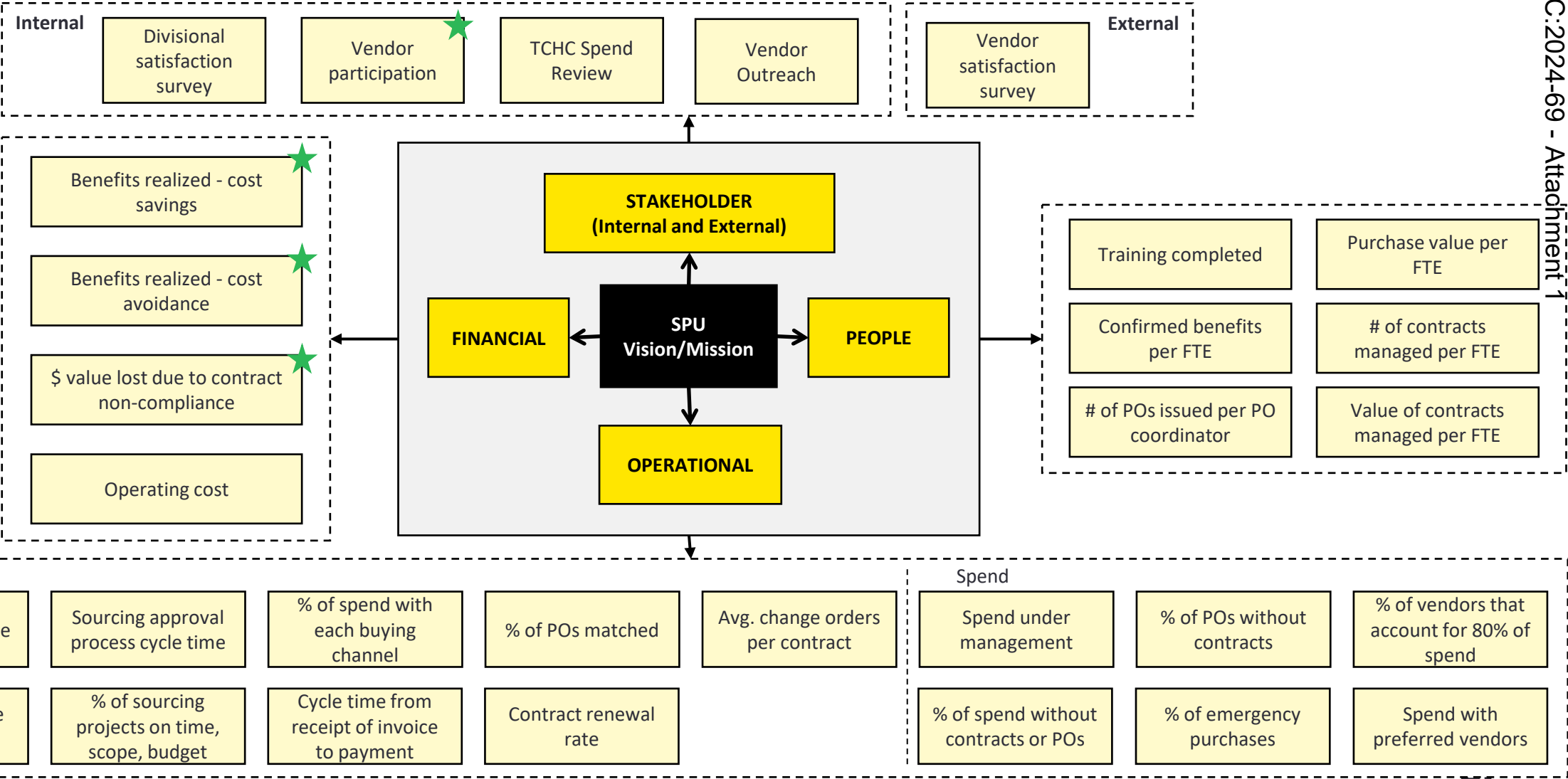
To address current state findings and identified gaps, recommendations have been developed and aligned to five implementation workstreams.

WORKSTREAMS	RECOMMENDATIONS
Strategy and Governance	<ul style="list-style-type: none"> ▶ Communicate and implement procurement strategy (Procurement Transformation Plan) supported by a defined procurement performance management approach. Develop an approach to continually review and maintain procurement strategy ▶ Streamline the award approval process across the organization by reducing the number of approval steps, thresholds and stakeholders involved, while maintaining effectiveness¹ ▶ Establish cross-functional category governance committees² with executive, process, and execution oversight layers to govern new category-led approach and category opportunities ▶ Enhance existing procurement policy to consolidate relevant policies and consider additions such as revised approval thresholds, p-card procedures, spend/buying channel guidance, social procurement considerations
People and Operating Model	<ul style="list-style-type: none"> ▶ Establish a center-led procurement operating model³; invest in additional FTEs to support new operating model and create a Centre of Excellence to support continual maintenance of processes, policies, data and training to ensure continuous improvement ▶ Define and document procurement roles and responsibilities across both SPU and Divisions, segregating responsibilities ▶ Develop onboarding and an ongoing training framework for SPU and Divisions on the new end-to-end procurement processes and roles
Process	<ul style="list-style-type: none"> ▶ Design standard procurement processes and operating procedures aligned to leading practice with accompanying playbooks covering all procurement dimensions (strategic sourcing, category management, vendor relationship management, contract management, P2P) ▶ Implement recommended actions to increase vendor participation based on market sounding results through the development of new procurement processes, increased vendor relationship management to support 2-way communication, and a proactive vendor engagement process
Technology	<ul style="list-style-type: none"> ▶ Based on newly developed processes, enable and configure additional functionality within Yardi to better support procurement processes, manage risk, and increase spend and contract visibility (e.g., PO generation process consistency, mandatory contract # field, etc.) ▶ Enable functionality to support additional procurement processes (sourcing, contract management, workflow management), first exploring integration with existing technology and vendors before considering additional solutions to integrate with exiting technology
Value Creation	<ul style="list-style-type: none"> ▶ Implement 11 identified short-, medium- and long-term value creation opportunities across three corresponding waves

1. See [slide 21](#) for specific recommendations to increase streamline the approval process from the PTP report
2. See [slide 23](#) for specific recommendations to develop category governance committee
3. See [slide 19](#) for specific organizational structure recommendations
4. See [slide 25](#) for specific technology recommendations

Proposed Procurement Performance Management Metrics

Performance metrics have been proposed to allow TCHC to monitor and manage the effectiveness and performance of the procurement function throughout implementation and capture trends over time. Select metrics may be available in current state for immediate tracking, while others may be integrated over time as TCHC's data maturity increases.



Legend: ★ Proposed metrics to be reported to executive stakeholders

Case for Change

By investing in the transformation, TCHC will enhance its ability to minimize risks in its operations while driving procurement efficiencies and value for money outcomes.

1 Mitigate operational, financial and compliance risks

Improved process, governance and controls allowing for mitigation of risks associated with public sector procurement and a more proactive risk management approach.

2 Increase value for money

Execution of the 11 value generation opportunities identified will deliver annual recurring savings and cost avoidance of ~4-8% of TCHC's total addressable spend of \$455M in addition to efficiency-related savings.

3 Drive operational efficiencies through procurement

Reducing procurement cycle time and improving procurement processes and systems will drive significant operational efficiencies and free up staff time for critical initiatives.

4 Increase vendor participation

Better vendor participation that enhances TCHC's value and quality for procured goods and services along with positively impacting the tenant community.

Execution of the implementation plan is estimated to require an investment of \$5.8M¹ in technology and resourcing costs over the next 3-5 years.

As the 11 value creation opportunities are expected to deliver annual recurring benefits of 4-8%² of the addressable spend of \$455M, this will help fund the implementation costs resulting in an ROI of ~4.5x.

1. See the appendix [slide 29](#) for a detailed breakdown and assumptions for implementation cost. This is an estimate and does not include costs such as termination costs at this time..
2. See the appendix [slide 27](#) for a detailed list of value creation opportunities

Critical Success Factors

To ensure a successful transformation and sustainment of the benefits and efficiencies realized, the following critical success factors should be considered:

Leadership Buy-In

It is critical for this transformation to be endorsed by the Executive Leadership Team, Board and BIFAC to support successful implementation.

Training & Upskilling

Training will be necessary to enhance the role of SPU within the organization to drive strategic activities and continuous improvement.

Change Management

It is essential to effectively communicate the impact and objectives of the transformation to ensure buy-in and sustainment.

Upfront Investment

Although the overall transformation will be self-funded, an upfront investment will be required to engage the resources and capacity needed to design and implement the new operating model.

Questions?

