Digital Print Centre Review – Response to Council's Motion

Introduction

The City of Edmonton uses in-house and external services to meet its printing needs. These range from desktop printing, photocopying, using the City's Digital Print Centre (DPC) and obtaining printing services from external sources. The General Manager of Corporate Services requested that the Office of the City Auditor (OCA) review the City's printing services and provide recommendations on opportunities for consolidation and improvement. The OCA initiated a review of the DPC as the first phase, with an objective to determine whether the DPC is providing printing services in an efficient, effective and economic manner, and whether its public/private partnership is achieving intended objectives. The DPC currently provides three types of printing services:

- Application printing services such as reports from corporate systems and Council agendas (approximately 5 million impressions) for which there is no direct charging to departments.

- Ad hoc printing services (70% of the total internal volume) which are special print requests from City departments, subsidiary corporations and entities external to the corporation, and which result in revenues to the City.

- Contracts with two external print shops are also in place for undertaking jobs that can be done cheaper (approximately $161,000), with costs for these jobs charged back to DPC customers.

On April 12, 2002, the Office of the City Auditor (OCA) forwarded a report on its review of the DPC to all members of City Council, a summary of which was included in the OCA's May 2002 quarterly report. At its meeting of May 21, 2002, Executive Committee (when dealing with audit matters) reviewed the Quarterly Report and forwarded a recommendation, pertaining to DPC, to City Council. This recommendation was passed at City Council's meeting of May 28, 2002 and required the OCA to provide a report for the Executive Committee answering five questions related to the DPC Review. The following are responses to these questions:

Question 2(a)

What factors led to the actual production volumes in 2002 being approximately 70% lower than the original projected production volumes (i.e. what type of production was the Administration expecting that did not materialize)?

Answer

The following factors led to the actual production volumes being lower than the original projected volumes:

- Optimistic volume projections by City staff as well as the P3 partner, that were not realized after the partnership was implemented.

- Although the P3 partner proposed more realistic volume projections in Steering Committee meetings and the DPC Business Plan of April 2001, the P3 contract was not formally revised to reflect these projections.

- New technologies such as on-line time entry, and more efficient processes such as "print on demand" that allows forms to be printed as they are needed rather than printing a large supply of forms and then storing for use.

The Administration was expecting that in 2000, a strong marketing strategy by the P3 partner would redirect 6-9 million impressions from City departments to the DPC. It was also projected that in 2001 and 2002, the P3 partner would bring an additional 15 million and 10 million impressions respectively from external organizations for printing in DPC. The re-negotiating of the then existing equipment lease, which was expected to be complete by April 2001, did not take place until October 2001. The internal marketing strategy, which may have increased DPC's customer base within the City, was delayed until 2002 in view of the delayed equipment replacement. The focus of the P3 partner therefore changed to bringing external customers to the DPC. In addition, some of the major contracts the City has with external organizations involve printing press technology, not digital print, so that volume could not be redirected to the DPC. The projected growth in internal City business was therefore not realized.

All these factors combined led to DPC's actual production volumes being significantly lower than the original projections.

Question 2(b)

The audit report indicates that the new cost per impression in 2001 was approximately $0.09 compared to a projected cost of $0.045. Has the Digital Print Centre been profitable operating at this higher unit cost and lower production volume?

Answer

Using the draw on tax levy as a measure of profitability, the DPC has not demonstrated profitability operating at the higher unit cost and lower production volume.

Appendix 1 of this attachment provides the recorded expenses and realized revenues in the City's corporate financial system (SAP) for 1998 and 1999 (the years before the partnership) and 2000 and 2001 (the years after partnership). The following table summarizes the impact on tax levy and the resulting production volumes:

DPC – Impact on Tax Levy and resulting Production Volumes

Description	1998	1999	2000	2001	2002 Jan. – June
Tax Levy	$153,000	$507,000	$810,000	$634,000	$150,000
Production Volumes	33,919,755	24,195,761	14,225,597	18,419,815	8,645,251

Based on the above, there was a higher drain on the tax levy in 2000 and 2001 compared to 1998 and 1999. One of the factors resulting in the increase in tax levy draws was the loss of major contracts with TELUS and EPCOR in late 1999.

It should be noted that if the DPC were not in existence, departments would still draw on the tax levy by obtaining these printing services externally at the cost charged by the external print shops.

Question 2(c)

Has there been an opportunity cost to the City in running its own Digital Print Centre compared to purchasing the services externally?

Answer

As indicated in the OCA's report of April 8, 2002, most of the expected outcomes of the partnership have not been achieved to date. Based on the analysis of the draw on tax levy (Appendix 1), there has been an opportunity cost to the City in running its own Digital Print Centre under the P3 contract. However, qualitative factors such as use of City resources, flexibility, speed and confidentiality would have to be considered in determining the overall opportunity cost.

In 1995, a study was conducted by an external consulting group to assess opportunities for outsourcing and partnering/sharing of the services provided by the then Computing Resources Department (including print services). Their recommendation was that if ED TEL (now TELUS) discontinues acquiring print services from the City, approximately 30 percent of the City's base print service business would be lost and this would open up the opportunity to consider strategic outsourcing as a long term print service strategy.

When the City lost the print contracts with TELUS and EPCOR in 1999, the above recommendation was implemented with modification by pursuing the Public/Private Partnership with an external organization as a pilot project. The main objective of the partnership was to enhance the operation and future viability of DPC by bringing in external expertise but at the same time retaining DPC's staff and internal expertise.

While the P3 pilot has not achieved the projected results, the City is well positioned to take a different direction. The City's DPC management is currently in the process of assessing alternative service delivery options for printing. This is scheduled for completion by the end of June 2003, with implementation expected by January 1, 2004. The OCA has been invited to participate in the evaluation and selection process.

Question 2(d)

What production volumes are needed for this operation to be profitable? What production volumes are needed for this operation to be cost competitive with private sector alternatives? Is it possible for the Digital Print Centre to achieve these targets and if so, by when?

Answer

The P3 partnership has not achieved the profitability levels originally projected, nor is it projected to achieve this level of profitability in the future. DPC's management and the P3 partner are looking into ways to maximize benefits and minimize costs. One initiative the DPC has taken to reduce its cost is to undertake a technology refresh. DPC is now leasing digital print technology and paying a per impression charge. This allows the DPC to pay for the number of impressions used rather than a high fixed cost.

Question 2(e)

What was the Digital Print Centre staff complement for the years 2000, 2001 and 2002?

Answer

1999 was the base year since the City lost the TELUS and EPCOR contracts in the last quarter.

	1999	2000	2001	2002
DPC staff complement	15*	11	10	10

* The staff complement was 15 for the first nine months of 1999 and then reduced to 12.

Closing Comments

The OCA has responded to Council's questions based on the information available to date. It is anticipated that the implementation of the proposed strategy for printing currently being undertaken by DPC will result in a more efficient, effective and economic delivery of printing services.

Digital Print Centre Financial Performance
1998 - YTD June 2002
(thousands of dollars)

	1998		1999		2000		2001		2002 January - June	
	Budget	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
Expenditures										
Personnel	$ 758	$ 622	$ 618	$ 664	$ 460	$ 587	$ 396	$ 429	$ 248	$ 222
Equipment & other	897	993	885	818	1,038	783	861	1,057	308	377
Total Expenditures	1,655	1,615	1,503	1,482	1,498	1,370	1,257	1,486	556	599
Revenues										
Internal Recovery	742	646	742	584	761	480	668	629	274	341
Non-tax Revenue	218	398	-	52	-	12	-	7	-	10
Taxable Revenue	395	418	640	339	656	68	405	216	87	98
Total Revenue	1,355	1,462	1,382	975	1,417	560	1,073	852	361	449
Tax Levy/	**$ 300**			**$ 507**						
Net Expenditures		**$ 153**	**$ 121**		**$ 81**	**$ 810**	**$ 184**	**$ 634**	**$ 195**	**$ 150**

Notes

1. Internal recovery represents ad hoc revenues from City Departments.
2. Non-taxable revenue represents ad hoc revenues from non-taxable entities (subsidiary corporations).
3. Taxable revenue represents ad hoc revenues from external customers.
4. The 2002 budgeted tax levy for DPC is $396,000. The budget and actual performance for the first six months is reflected above.

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