Enterprise Resource Planning Project (Fusion) – Budget Approval

ISSUE

The Administration is in the final stages of completing an extensive procurement process for an enterprise resource planning (ERP) system. The Request for Proposals (RFP) evaluation process is nearing completion, and the Administration has determined that the entire scope of work can be achieved for slightly less than Deloitte's original estimate. Deloitte's estimate in 2016 was $29.1 million, and the revised estimate based on the current project plan is $27.9 million. To date, $15.625 million has been approved in previous budgets for this project. The purpose of this report is to update the Standing Policy Committee on Finance and City Council on the project and seek approval of the final budget allocation.

RECOMMENDATION

1.   That the Standing Policy Committee on Finance recommend to City Council that an additional $12.275 million in funding be allocated to Capital Project 1829 for ERP implementation and that this funding be allocated from the sources identified in the report of the Chief Financial Officer dated June 11, 2019;

2.   That the City of Saskatoon enter into an agreement with PricewaterhouseCoopers LLP and SAP for the implementation of an enterprise resource planning system upon the conclusion of negotiations; and

3.   That the City Solicitor be requested to prepare the appropriate agreements and that His Worship the Mayor and the City Clerk be authorized to execute the agreements under the Corporate Seal.

BACKGROUND

During 2017 budget deliberations, City Council received a report from the General Manager of Corporate Performance entitled, "Service Saskatoon – Technology Update." This report provided City Council with Deloitte's ERP business case, which supported the City of Saskatoon's (City) transition to an ERP and identified the following costs and savings:

- Five-year estimated cost of $29.1 million including capital and operating:
  - Capital cost was estimated at $17.5 million;
  - Additional operating costs of $11.6 million over five years due to running parallel systems and processes during implementation;

- Over $40.0 million in anticipated savings and efficiencies in the first six years following implementation; and

- Ongoing savings and efficiencies of $9.7 million per year in 2027 over today's environment.

During that meeting, City Council resolved:

> "That Capital Project 1829, Service Saskatoon – Systems, be approved and the funding strategy be adopted in principle."

This project was established with an initial $15.625 million in capital funding to provide seed money for the project, including the development of an RFP and initiating the remainder of the project requirements based on the information identified in the business case. At that meeting, the Administration committed to bringing forward a final capital budget after the proposals from the RFP had been evaluated.

In 2017, the City recruited an ERP project manager and began the process of preparing the RFP. With the assistance of an external process advisor, MNP, the City undertook the significant preparatory work required to create an RFP strategy and capture the City's business requirements for the following processes:

The collection of requirements took several months, and meetings with internal staff resulted in a documented list of over 1,400 functional requirements to include in the RFP. The City issued the ERP Software Selection RFP on May 31, 2018.

In fall 2018, the City's ERP Steering Committee, evaluation team, and subject matter experts reviewed detailed proposals from five respondents, with the oversite of a procurement fairness monitor, to shortlist the top four proposals. The shortlisted respondents were invited to submit additional details and present evaluated demo scenarios. In January 2019, the assessment of the proposed solutions by the

evaluation team and subject matter experts from across the City's divisions and boards selected SAP and PricewaterhouseCoopers (PwC), who partnered together, as the preferred vendor.

In March 2019, as part of the non-binding RFP process, the ERP project team entered into negotiations with PwC and SAP to define the necessary project scope, schedule and costs to best address the City's current non-integrated and manually intensive systems. Discussions with PwC and SAP also focused on providing the requirements for Service Saskatoon that will deliver a citizen service Customer Relationship Management system (CRM) that is consistent and integrated into a single backend system and provides a modern platform for growing digital citizen services. The Administration is in the final stages of negotiations on the terms and conditions of the agreements.

DISCUSSION/ANALYSIS
The Deloitte ERP business case defined the original scope to include the foundational core systems within a typical modern ERP implementation. The areas include:

- Financial Systems: General Ledger, Accounts Receivable, Accounts Payable, Payroll, and Budgeting;

- Human Resources Systems: Time & Attendance, Learning Management, Onboarding & Recruiting, Performance Management, Goals & Succession Planning, and Employee Health & Safety;

- Supply Chain Management Systems: Procurement and Inventory Management; and

- Operational Systems: Asset Management, Project & Activity Management, and Work Order Management.

Implementing this full scope would best position the City to meet citizens' needs through Service Saskatoon's CRM and 311 systems.

The City's external process advisor recommended a strategy of going to market with a non-binding RFP requesting proposals for an expanded scope, including requirements for the Customer Information System (CIS – used for property tax and utility billing) and the CRM modules. This would determine if any of the expanded scope could fit within an affordable option based on the desire of ERP vendors for new business. Should these functions prove unaffordable to add to the project scope at this time, including them in the RFP consideration would provide invaluable insights into how the core systems could integrate with CIS and CRM modules in the future.

The ERP Steering Committee completed assessments of the possible ERP scope options through the City's external process advisor, RFP respondents, and other organizations and municipalities that have completed similar ERP implementations. The assessments considered project risks and costs and determined through the RFP

evaluations and negotiations with the preferred vendor that the original scope, as included in the proponent's proposal, met the business requirements and estimated cost as identified by Deloitte's business case.

The total estimated cost to implement this original scope is $27.9 million which is within the identified cost from the business case of $29.1 million. Based on the final estimates this would require an additional $12.275 million allocation to capital project.

An overview of the required project budget is presented below:

Item	Budget ($M)
Capital costs for implementation partner and software licenses (PwC & SAP)	$15.7
Internal staff and backfill cost for implementation	$ 5.3
RFP development, preparation assessments, and contract negotiations	$ 0.9
Process transformation & risk mitigation – includes project and change management resources, staff training, communications, data governance & migration, integration services, project advisory and project audit	$ 4.2
Contingency	$ 1.8
CAPITAL PROJECT TOTAL	**$27.9**

Based on responses to the RFP, PwC and SAP provided a price of $15.7 million for their component of the implementation which includes software licenses required for the first three years and all consultant expenses, for an estimated 36-month implementation period.

Through consultations with the external process advisor, vendor, and other municipalities which have previously implemented an ERP, a better understanding was obtained of the City's responsibilities within the project and the required resourcing. Using dedicated internal staff of approximately 28 subject matter experts will ensure a transfer of knowledge from the consultants and provide skills for the long-term sustainment of the ERP system. These staff will also help lead and champion the change of current processes towards standardized best practices.

To achieve the timelines and mitigate the risk associated with the transformation that ERP and new business processes will bring, a formal approach to change management, risk management and training is being resourced. ERP projects are known to be high risk with a potential for cost and schedule overruns and/or negative impacts to operational services. To mitigate these risks and ensure a successful outcome for the ERP project, this budget includes an ERP project auditor who will provide ongoing oversight and act as an independent advisor to ensure efficiencies will be achieved, the City receives long-term ERP value, and reduce project risks. Another key area that this budget includes is project resources for data governance, migration and integration work for the remaining specialized business systems.

Upon approval of the funding and signing of the agreements, the project is expected to formally begin in September 2019 and will consist of two phases. The full ERP is expected to be place within a three-year timeline.

The funding plan proposed for the capital project is as follows:

Funding Source	Approved Budget ($M)	Additional Allocation ($M)
Reallocation of New Building Canada Fund	$15.000	$ 3.485
Reserve for Capital Expenditures	$ 0.500	
Corporate Financial Services Reserve	$ 0.125	
Police Payroll Project Reallocation		$ 0.290
Reallocation of Reserve Contributions (over two-year period)		$ 8.500
Total	**$15.625**	**$12.275**

To fund the additional $12.275 million, an additional $3.485 million in funding is being proposed from the reallocation of the New Building Canada Fund (NBCF). There is $6.0 million in discretionary funding available in the reallocation pool of this funding, leaving about $2.5 million in this pool for future funding of other capital priorities.

A reallocation of $290,000 in funding from Capital Project 2480 Police – Payroll System Replacement was earmarked to address the Saskatoon Police Service's stand-alone payroll system. As the ERP will address these requirements, the Saskatoon Police Service has agreed to reallocate this to the ERP project.

Other civic boards are potentially contributing funds which would reduce the amount required from other resources. Should this funding become available, a future report will be presented.

The Administration is confident that the identified savings by implementing the ERP project will be realized and as such, are recommending a reallocation of capital reserve contributions over a two-year period equalling $8.5 million as a funding source.

The ERP system is anticipated to have a wide range of benefits across the Corporation, which include:

- enhanced procurement data and analytics, allowing the City to better understand current spending patterns and implement improved procurement approaches to maximize the value obtained by the City;

- increased workforce data and analytics, allowing for more proactive time management and improved scheduling and productivity targets; and

- improved day-to-day processes for accounts payable and payroll, minimizing the amount of time required to complete these tasks.

As these benefits will be achieved across the Corporation, the Administration believes it is an appropriate funding solution. Implementation of the system will have wide-reaching impacts and allow the City to be more efficient in the use of its resources. Although there will be some short-term impacts which could include deferring projects or reducing projects' scopes, the future purchasing power of these reserves will be enhanced as the ERP is implemented and benefits are gained in terms of capacity, efficiency and decision-making.

Project Opportunities and Risks:
A summary of the project opportunities and risks associated with the original scope is listed below.

Opportunities/Advantages	Risks/Disadvantages
• Provides functionality that will allow future links to customer or citizen interaction with back-end systems. • Enables the ability to obtain the estimated savings as identified in the business case. • Creates the ERP foundation for Service Saskatoon to be able to move forward on the CRM and provide a Citizen 311 system. • Provides Finance & Accounting, HR, Payroll, Supply Chain Management, and Asset Management functionality as requested in the RFP. • Core business data and process improvements to provide a long-term business and technical platform.	• Short-term continuation of manual processes to provide citizen services. • Future capital funds will be required for CRM and CIS.

The ERP Steering Committee recognizes that an ERP project is not without significant risks and has been working with the advisors and other municipalities to identify key project risks and develop mitigation strategies, which are shown on the following page.

Risks	Mitigation Strategy
Cost and schedule overruns	A number of areas during an ERP implementation can negatively impact the project costs and schedule. Some mitigations that have been included are: • An independent ERP project auditor that brings verification and validation of the implementation, processes and project controls, and will be accountable to monitor the project for potential problems from either internal or external resources to ensure the focus is on long-term value and transformation. • Allocated funding for dedicated project staffing assignments to ensure resources are focused on the project. • Data governance and management is frequently an area of delays in ERP projects – the Administration is reducing the risk by allocating budget and time to this critical area before the project starts to reduce potential for delays once the consultants are waiting. • For unexpected cost overruns, a project contingency budget to ensure additional funding will not be required.
Project does not realize benefits	• Successful implementation and benefit realization relies on people changing the way they do their work. To ensure successful achievement of these benefits, investments have been budgeted for formal organizational change management, project management and training. • Portfolio leads from each of the key areas (Information Technology, Finance, Human Resources, Supply Chain Management, and Operations) will be developing and responsible for project key performance indicators (KPIs) to measure the desired ERP benefits.
Project impacts operations affecting citizen services and/or staff	• Project implementation and go-live timing is designed to allow implementation to be developed, tested and moved into production without removing the legacy systems. • The project budget includes funds to maintain existing legacy systems for a transitional period, running in parallel to ensure critical services are not impacted.

Consideration of Scope Options

While the original scope has been the Administration's focus and is being recommended for approval, the Administration did consider a variety of options to add or reduce project scope. The following are viable options, and should City Council wish to pursue any of these options, the Administration will report back more fully at a future meeting.

Increase Scope to Include CRM and/or CIS

Under this option, the original scope would be implemented and expanded to include the CRM (citizen services portal) module and/or the CIS (property tax and utility billing) system. The cost to add the CRM would be about $4 million, while the CIS system would be approximately $20 million.

These modules were considered as part of this procurement process as optional items. The Administration's analysis of the modules proposed by the preferred proponent concluded that the CRM in particular is not the best available technology. And while the CIS system will require replacement in the future, the Administration requires considerable lead-up time to prepare and plan such a massive undertaking. As such, the Administration does not see value in adding these systems to the project scope at this time.

The CIS and CRM modules will be implemented in future years, regardless of whether or not they are included in the scope of this project. Core functionality of the ERP needs to be implemented before these systems can be integrated into the ERP. Focusing on the core ERP functionality and going to market for the CIS and CRM modules in future years will position the City to have the best suite of systems available.

Should City Council select this option, the Administration recommends that City Council provide approval to implement the ERP original scope with the preferred vendor, and that the Administration be directed to report back on the estimated costs, scope and funding plan for the CRM and/or CIS modules prior to preparing a RFP.

Reduced Scope

Under this option, the original scope would be reduced or the project could be cancelled.

While the reduced scope could reduce the capital project costs, there may be longer term additional costs required to build and maintain interfaces with existing systems that would not be replaced with the ERP as result of the reduced scope. This would also prevent the achievement of the identified cost and efficiency savings identified in the business case as manual processes and system interfaces would need to remain in place. In addition, the ongoing maintenance costs for legacy applications would remain. This initiative is one of the City's key workplace transformational projects.

If this option is selected, the provisions within the non-binding RFP would be used to negotiate a reduced scope with the vendor. However, if the vendor cannot adequately reduce the scope it may trigger the need for a new RFP.

Should City Council be interested in pursuing this option, the Administration recommends that it be directed to develop a comprehensive strategy and report back to the Standing Policy Committee on Finance and City Council.

NEXT STEPS
With direction from City Council, Administration will continue with the ERP implementation by concluding the negotiation of the formal contracts with the vendors, getting key employees in place for the project team, and begin the implementation in the fall of 2019.

Report Approval
Written by: ERP Steering Committee
Reviewed by: Cindy Yelland, Interim City Solicitor
                   Kerry Tarasoff, Chief Financial Officer
Approved by: Jeff Jorgenson, City Manager

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