



STAFF REPORT ACTION REQUIRED

MySAP ERP Version 6.0 Software Upgrade

Date:	January 3, 2008
To:	Government Management Committee
From:	Chief Information Officer, Director, Purchasing & Materials Management Division
Wards:	All
Reference Number:	P:\2008\Internal Services\I&T\gm08001I&T (AFS #6699)

SUMMARY

The existing SAP 4.6c software version is nearing its end of useful life and will no longer be supported by SAP after December 31, 2009. Staying at the current version would not provide the functionality required for key projects in the I&T Division's Capital Plan in 2008 and 2009.

A software upgrade was required to sustain the SAP environment and as such, the SAP upgrade was a planned 2007 capital project. Upgrading from the existing version of SAP 4.6c to mySAP ERP version 6.0 will result in a positive operating budget impact in 2008 and 2009.

An amendment to the Software End-User Value Licence and Implementation Services Agreement dated December 18, 1998 between the City and SAP Canada Inc. has been executed and governs this acquisition.

Approval is being sought to allow payment of an invoice received from SAP Canada for the upgrade to mySAP ERP version 6.0 from the end-of-life SAP 4.6c version.

RECOMMENDATIONS

The Chief Information Officer and the Director, Purchasing and Materials Management Division recommend that the Government Management Committee:

1. Authorize staff to issue a Purchase Order in the amount of \$810,000 net of GST, to allow payment for an upgrade to mySAP ERP version 6.0.

Implementation Points

Upon Government Management Committee approval, I&T Division staff will work with both Purchasing & Materials Management Division and Accounts Payable staff to issue the Purchase Order and process the invoice in a timely manner.

Financial Impact

The total contract award identified in this report is \$847,500 including all taxes. The cost to the City is \$810,000 net of GST. Funding in the amount of \$810,000 net of GST is available in the 2008 Approved Capital Budget for Information & Technology in account CIT702 – Technology Asset Sustainment.

Since SAP has agreed not to charge the City for the one-time upgrade fee until the City has received Committee approval, GST is applicable at a rate of 5%.

There is a favourable impact on operating budgets due to the avoidance of extended maintenance costs of \$399,948 including all taxes in each of 2008 and 2009. An additional amount of \$151,308 including all taxes was saved in 2007.

The Deputy City Manager/Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

<http://www.toronto.ca/legdocs/agendas/council/cc/cc981216/sp26rpt/cl001.htm>

ISSUE BACKGROUND

The City implemented SAP version 4.0b by 1999. The upgrade to version 4.6c was completed in 2002 to maintain a state of good repair. At the time of this upgrade the Toronto Police Service also implemented financial, procurement and limited sales functionality.

In 2005, the Pensions, Payroll and Benefits Division implemented the new Time Entry System in SAP. In 2006, the Facilities & Real Estate Division implemented the functionality of SAP work order management, real estate, and lease management systems.

The basic functionality of SAP has not changed significantly since the original implementation. It has been a very stable environment which enabled the above implementation and upgrade projects to be completed successfully. The City has not been required to pay SAP Canada any additional upgrade fees beyond the annual maintenance agreement since the original implementation in 1999 even though the City has continued to expand its implementation “footprint” as noted above.

The existing SAP 4.6c software version is nearing the end of its useful life and will no longer be supported by SAP after December 31, 2009. The City planned a 2007 upgrade to mySAP ERP version 6.0 in order to maintain a state-of-good-repair for this mission critical application, as well as to position the City to take advantage of new features available in the upgraded version.

SAP Canada is the only provider of this upgrade.

COMMENTS

In upgrading the City’s SAP installation from the current software version of SAP 4.6c to mySAP ERP Version 6.0, a one-time fee of \$810,000 net of GST is required to be paid to SAP Canada. This charge is below the fair market price of \$1,296,000 net of GST, resulting in an estimated savings of \$486,000 net of GST. The current maintenance fees will remain the same, even though the new version will offer significant new functionality.

MySAP ERP version 6.0 offers more functionality, including Business Intelligence and Business Planning & Simulation – both of which are mandatory to support new critical City projects that are currently or will be soon under development, such as the Financial Planning and Reporting System (FPARS), 3-1-1, Document Management and Capital Asset Accounting (PASB).

As part of the upgrade process, a complete review of the City’s SAP licences was undertaken. This review was done to ensure that the correct number and mix of licences has been allocated to SAP users to best meet the new business requirements as noted above and to fully utilize existing licences. Currently the City has allocated licences with a value of \$8,100,000 out of the \$8,800,000 cost of the total number of SAP licences. The remaining licences are for growth and new requirements. Optimization of existing licences will continue as the new business requirements are implemented.

I&T senior staff were successful in negotiating the retention of the special user licence definitions originally negotiated in 1998. The full value of the City’s original licence

investment has been retained. In addition, future maintenance costs have been kept at their current levels.

For the City to continue using version 4.6c, an extended maintenance fee equivalent to an additional 1.5% over and above the existing yearly maintenance fee would have been required to receive continued support from SAP including regulated patches and software bug fixes. As part of the upgrade and payment of the one-time fee, the City avoided paying this extended maintenance fee for 2007 in the amount of \$151,308 including all taxes. A further \$399,948 including all taxes would have been charged in each of 2008 and 2009. Therefore, total cost avoidance of \$951,204 including all taxes for the period 2007 to 2009 would result from an upgrade to mySAP ERP Version 6.0 at this time.

The upgrading to mySAP ERP Version 6.0 was done by an amendment to the Software End-User Value License and Implementation Services Agreement.

As part of any complex software upgrade such as SAP, a period of post-implementation monitoring is required to ensure deficiencies, if any, are corrected and that the new installation is optimized for operation. SAP has agreed not to charge the City for the one-time upgrade fee until the City is satisfied with the new installation after this post-implementation monitoring period and has received Committee approval.

The I&T Division is now ready to accept the new version, and as such is required to issue a Purchase Order and pay the SAP invoice in the amount of \$810,000 net of GST. Since the amendment to the Software End-User Value License and Implementation Services Agreement is above staff authority of \$500,000, approval is being requested from the Government Management Committee prior to making the payment, as required by the Financial Control By-law, Chapter 71, Municipal Code, Section 71-11.1C.

CONTACTS

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SIGNATURES

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