STAFF REPORT
ACTION REQUIRED
with Confidential Attachment

Sole Source SAP License Framework

Date:	May 6, 2009
To:	Government Management Committee
From:	Chief Information Officer, Information & Technology Acting Director, Purchasing & Materials Management Division
Wards:	All
Reason for Confidential Information:	This report involves the security of property belonging to the City or one of its Agencies, Boards, and Commissions.
Reference Number:	P:/2009/Internal Services/pmmd/gm09013pmmd (AFS 9941)

SUMMARY

This report recommends to Council that a Strategic Investment Framework for SAP software licenses be established. The license framework is based on an envelope approach which proposes a flexible acquisition model that allows software to be staged in when needed for critical projects over the next 3 years. This direction is consistent with the SAP governance processes that were implemented in 2008 and the Integrated Project Plan which was approved by the SAP Steering Committee.

RECOMMENDATIONS

The Chief Information Officer and the Acting Director, Purchasing & Materials Management Division recommend that:

1.   The Information and Technology's 2009 Approved Capital Budget be increased by $7,015,089, funded from the Information and Technology Equipment Reserve.

2.   The Chief Information Officer report to Budget Committee prior to the 2010 capital budget process to identify under-spending in his 2009 Approved Capital Budget in order to replenish the Information and Technology Equipment Reserve, where possible and/or identify changes to the Five Year Capital Plan.

3.   Council approve the sole source purchase of $7,015,089 net of GST in SAP licenses and 2009 maintenance fees to SAP Canada Inc.

4.   Council accommodate SAP Canada Inc.'s request to protect its competitive interests by not releasing the details identified in Confidential Attachment 1.

Financial Impact

In order to take advantage of this opportunity, capital funding in the amount of $7,015,089 is required in 2009. It is recommended that funds in the amount of $7,015,089 be provided from the Information and Technology Equipment Reserve for this purpose, for a net $0 impact. It is further recommended that the Chief Information Officer report to Budget Committee prior to the 2010 capital budget process to identify potential under-spending of other capital projects in order to reinstate the Reserve and/or adjust the 2010-2013 capital plan to ensure the Reserve is adequate to meet the plan requirements.

Annual maintenance fees will be $1,425,600 million annually starting in 2010 based on 22% of the license net of GST. The Chief Information Officer will accommodate the $1,425,600 million operating impact on the 2010 operating budget within budget guidelines.

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

DECISION HISTORY

Original SAP Implementation 1998:
http://www.toronto.ca/legdocs/1998/agendas/council/cc/cc980729/cs10rpt/cl001.htm
http://www.toronto.ca/legdocs/minutes/council/cc980729.htm

Auditor General Report 2003: SAP Financial and Human Resources/Payroll Information Systems – Post Implementation Review:
http://www.toronto.ca/audit/2003/sap_final_apr4_2003.pdf

Moving Forward with SAP:
http://www.toronto.ca/legdocs/2004/agendas/council/cc040518/admcl012b.pdf
http://www.toronto.ca/legdocs/2004/agendas/council/cc040518/cofa.pdf

2006 Progress Report – SAP Competency Centre:
http://www.toronto.ca/legdocs/2006/agendas/council/cc060425/cofa.pdf

2008 Progress Report on the City's SAP Implementation
http://www.toronto.ca/legdocs/mmis/2008/au/agendas/2008-07-10-au08-ar.pdf

ISSUE BACKGROUND

The City purchased SAP licenses in 1998 for the City's financial and human resources systems needs. At the time of purchase it was acknowledged that SAP was as an enterprise-wide system capable of extensive use across the City's divisions and ABCs beyond the original financials and human resources implementation.

In 2003, the Auditor General released a report on the progress of the SAP Implementation and urged better management of the product and licenses and to consider an "SAP First" policy for the City's software future needs.

The idea behind the "SAP first" philosophy is that software needs should be evaluated against the capability of the City's SAP software that it already owns before other software solutions are sought.

In 2004, Council adopted a report called "Moving Forward with SAP". This report reinforced SAP as the City's platform of choice by following the "SAP first" approach to management systems. It provided the strategic direction for the City to establish an SAP governance model and an SAP Competency Centre.

The SAP Steering Committee and SAP Competency Centre were subsequently established to put the "SAP First" strategy into practice at the City. The Audit Committee report from June 2008 called "Progress Report on the City's SAP Implementation" outlined how more SAP functionality was implemented and how existing SAP functionality was extended to more users since 2004. By the end of 2008, the City's SAP license usage was at 98%.

Currently there are approximately 3000 SAP users across the City and the Toronto Police Service for the following purposes:
- Accounting
- Budgeting
- Payroll

- Human Resources
- Work Order Management
- Purchasing
- Inventory Management

COMMENTS

The SAP Steering Committee has established an integrated plan of SAP projects for the next three to five years. The following table is a sample of projects currently being assessed using the "SAP First" approach and would require additional licenses. Between the sample projects listed below and the continuing inflow of requests for SAP projects in the City, the Chief Information Officer is confident the licenses in this Strategic Investment Framework will be used in the 3-year timeframe.

Program	Initiatives	License Impact
Financial Services	- eProcurement - Additional Procurement Card roll-out	- Estimated 500 new users
Revenue Services	- Property Tax Billing - Water Billing	- New SAP functionality - Significant license investment (based on number of properties and water meters)
Shelter, Support & Housing Administration	- Social Housing Administration System (SHAS)	- Estimated 20 users
Financial Planning	- Financial Planning Analysis and Reporting System (FPARS) - CAPTOR Migration	- New SAP functionality - Estimated 200+ new users - Significant license investment
Accounting Services	- Asset Accounting (PSAB 3150)	- Estimated 100 users
Toronto Public Health	- Dental Strategy and Implementation	- Estimated 20 new users
Human Resources	- eLearning - Qualifications Catalogue roll-out	- New SAP functionality - Estimated 500+ new users
Information & Technology	- Enterprise Document Management (integration with SAP) - SAP / Project Tracking Portal Integration - SAP Workflow Design and Implementation - SAP / Geospatial Integration Strategy - Enterprise SAP Training Strategy	- New SAP integration requiring additional licensing based on data transfer - Estimated 500+ users for Workflow - New SAP functionality for 3000+ users
Facilities and Real Estate	- SAP Data Warehouse (Work Orders, Leasing) - Mobile Asset Management	- New SAP functionality requiring licensing based on data transfer

Program	Initiatives	License Impact
	▪ SAP / Geospatial Integration (Work Orders, Leasing)	
Parks, Forestry & Recreation	▪ Forestry SAP Implementation ▪ Mobile Asset Management ▪ Environment, Health and Safety (asbestos tracking, hazardous materials handling)	▪ New SAP functionality requiring licensing based on data transfer ▪ Estimated 100+ new users
Revenue Services	▪ SAP / Point-of-Sale Integration	▪ New SAP functionality requiring licensing based on data transfer
All	▪ Annual growth (approx 5%)	▪ Estimated 100+ new users per year

SAP Canada Inc. is the only supplier of SAP licenses. This purchase is in accordance with Section 3 in the Procurement Processes Policy:
- ▪ 3.0(1)(iii) and (iv) - existence of exclusive rights and need for compatibility with goods and services previously required where there is no reasonable alternative.

SAP License Framework Drivers

As part of the development of the City's 5-year SAP development plan, SAP Canada Inc. was consulted on the status of their current product offerings and enhancements that can be expected from them over the planning horizon. There are three product areas in the City's 5-year SAP development plan that SAP Canada Inc. would be very interested in seeing the City be a "flagship" client:

- ▪ Property Tax Billing
- ▪ Water Billing
- ▪ Financial Planning (budgets)

As a result, SAP Canada Inc. has provided the City the pricing proposal as outlined in Confidential Attachment 1.

SAP License Purchasing Options

The City has two options for purchasing SAP licenses to meet the demands of the next three to five years: ad hoc purchasing of licenses at the existing discount rate as they are required or pre-paying for licenses at more than double the discount rate.

The second option includes the flexibility to add more users and acquire new SAP functionality that the City doesn't currently own. This isn't available in the first option. The second option also provides the City with two financial benefits:
1. The City and its ABCs can purchase more licenses with fewer dollars
2. The annual maintenance is based on a lower net price and therefore will result in a reduced annual operating cost in all future years

This proposal was not included in the Information and Technology's 2009-2013 Capital Plan. In order to take advantage of this proposal, funds can be provided from the Information and Technology Equipment Reserve.

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SIGNATURE

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ATTACHMENTS

Confidential Attachment 1 – Sole Source SAP License Framework