

Capital Budget Re-Allocation Request: Supply Chain Management Transformation Project

Date: July 3, 2018

To: Executive Committee

From: Interim Chief Financial Officer

Wards: All

SUMMARY

The Interim Chief Financial Officer is seeking approval for an in-year adjustment to re-allocate \$2.7 million (debt funding) to the Supply Chain Management Transformation Capital Project (CFS044) from permanent underspend on the PCI Compliance Capital Project (CFS034).

The City is streamlining and modernizing its end-to-end supply chain processes from sourcing and procurement of goods and services through to management of City stores and payment of invoices. Modern supply chain processes are being enabled by the SAP Ariba Cloud Solution suite of products and Warehouse Management module. Once complete, the technology-enabled supply chain process will make procurement and accounts payable processes faster, simpler, and more transparent. As well, the implementation of SAP Ariba is an enabling tool to assist Purchasing and Materials Management complete the business transformation reorganization, which includes implementing category management and strategic sourcing. Together this overall business transformation is expected to drive savings in contracts of \$41 million over 2019 to 2021, with additional ongoing savings to be determined.

The in-year adjustment is required to continue this priority modernization project for completion in 2019. An update to the project scope, timeline and milestones, including possible adjustments to the budget, will be submitted through the 2019 Capital Budget process to complete the project.

RECOMMENDATIONS

The Interim Chief Financial Officer recommends that:

1. City Council approve an in-year reallocation of \$2,700,000 from the PCI Compliance capital project (CFS034-01) to the Supply Chain Management Transformation capital project (CFS044-01) within the Financial Services capital program.

2. City Council approve the addition of 9 temporary capital project positions for the Supply Chain Management Transformation Project (CFS044-01) and that the duration for each temporary position not exceed the life and funding of the Supply Chain Management Transformation Project.

FINANCIAL IMPACT

There is no net financial impact to the Financial Services' 2018-2027 Approved Capital Plan arising from the approval of this report. Permanent underspend of \$2,700,000 is available under the PCI Compliance capital project (CFS034-01) to be reallocated to the Supply Chain Management Transformation Project (CFS044-01).

An update to the project scope, timeline and milestones, including possible adjustments to the Supply Chain Management Transformation project budget will be brought forward as part of the 2019 Capital Budget process.

DECISION HISTORY

As part of the 2016 Operating and Capital Budget on February 16, 2016, City Council adopted EX12.2, 2016 Capital and Operating Budgets, and approved capital funding for the Supply Chain Management Transformation as part of the Financial Services Capital Plan.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX12.2>
<http://www.toronto.ca/legdocs/mmis/2016/ex/bgrd/backgroundfile-89247.pdf>

At its meeting on June 7, 2016, City Council adopted GM12.2 - Provision of SAP Ariba - Proprietary Software as a Service from SAP Canada for Supply Chain Management Transformation which authorized the Treasurer and the Chief Information Officer to negotiate and execute an agreement with SAP Canada for the use of SAP Ariba.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.GM12.2>

At its meeting of November 14, 2016, Government Management Committee adopted item GM16.5, Purchasing and Materials Management Review: Strategy for Category Management and Strategic Sourcing (CMSS), a report outlining Purchasing and Materials Management Division's work to transform its business practices to play a more strategic role in the procurement of goods and services and to include CMSS as part of the 2017 budget request.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.GM16.5>

As part of the 2018 Operating and Capital Budget on Feb 12-13, 2018, City Council adopted EX31.2, 2018 Capital and Operating Budgets, and approved capital funding for the Supply Chain Management Transformation as part of the Financial Services Capital Plan.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX31.2>

<https://www.toronto.ca/legdocs/mmis/2018/ex/bgrd/backgroundfile-111960.pdf>

COMMENTS

The Supply Chain Management Transformation is a priority for the City of Toronto's modernization. Introducing modern supply chain technology and streamlined processes is foundational for improving the effectiveness and efficiency of the City's Procurement, Materials Management, and Accounts Payables processes. The City is enabling this transformation through the introduction of SAP Ariba – a leading, industry standard cloud service provider of supply chain technology – and by configuring SAP Warehouse Management.

Implementing SAP Ariba will modernize the City's procurement processes and lead to efficiencies by:

- introducing automation and elimination of manual tasks such as receiving physical bids, handling bids and entering data into various databases;
- improving the number of compliant bids;
- improving the ability to analyze data in the procurement process; and
- improving the capture of early payment discounts.

This project has introduced a number of "firsts" to the City. SAP Ariba is the first enterprise cloud subscription and staff are learning how to most effectively implement cloud solutions within the City environment. It also requires the City to rethink supply chain processes to reap the benefits that Ariba will enable. Both of these have introduced learning curves that require additional time and resources – internal staff and external experts – than originally budgeted. The combination of these factors have lead the project to be delayed. An aggressive timeline was originally proposed and the initial budget was based on this duration. During the execution of the project, the team has undergone a number of transitions, including change of 2 project managers on the City side and 1 of the supplier side as well as a number of key resources being over-allocated.

During the spring of 2018, the Purchasing and Materials Management and Accounting Services business team and I&T have worked hard to restructure the project and mobilise the required resources to turn the project around. A new plan has been established that the combined team has understood and is supportive of. Furthermore, the scope of the project has increased to take a more active role in ensuring that the roll-out is a success in the divisions. This funding request is to support this new plan.

The re-allocation of \$2,700,000 from the PCI Compliance capital project to the Supply Chain Management Capital project will meet the Supply Chain Management Transformation capital project needs through to March 31, 2019 at which time a request for the 2019 capital budget will be submitted for the completion of the project in 2019.

There are two key elements that will be resolved in 2018 in order to finalize the capital budget requirements for 2019:

1. The Purchase-to-Pay component of the solution will be planned in Q3 2018. The full project requirements will be understood upon completion of the planning work.
2. The City is developing its ongoing funding model for cloud subscription. This could impact the capital requirements for the 2019 SAP Ariba subscription and operating costs.

The implementation of SAP Ariba is a key enabling tool for Purchasing and Materials Management Division's business transformation that will introduce category management and strategic sourcing to the City's procurement process.

Category management and strategic sourcing is the process of managing key spend categories (goods and services grouped into categories, for example fuel, software, HVAC services etc.) strategically across the organization to lower total cost of ownership through the following approaches:

- aggregating demand;
- managing specifications;
- understanding the suppliers in the marketplace;
- understanding key cost drivers of the good or service;
- timing the strategic sourcing events to take advantage of market conditions;
- negotiating;
- managing contract spend; and
- managing supplier relationships and performance.

The successful implementation of Supply Chain Management Transformation and SAP Ariba provides the tools and reporting required to properly execute the strategies to obtain better pricing in contracts. Together this overall business transformation is expected to drive savings in contracts of \$41 million over 2019 to 2021, with additional ongoing savings to be determined.

The City initiated efforts to become Payment Card Industry (PCI) compliant in 2009. After a scoping and fit gap exercise, a capital project was approved in 2016 with the objective of remediating both payment processes and technology to ensure payment card data security and achieving certification from a Quality Security Assessor (QSA) by the end of September, 2018. Funds were requested in the capital program which would allow technology remediation based on assumptions made about the City's technology landscape. During the course of the project, as tasks were executed, it was determined that many of the remediation efforts required to meet PCI standards could be applied to

payment processes rather than technology solutions. After the completion of these remediation efforts, and as the project prepared for the QSA's audit which began in April, 2018, it was determined that funds were no longer required. All funds needed to complete gaps identified during the audit and documentation required by the QSA to sustain PCI compliance have been factored into project costs to the end of 2018. For this reason, excess funds are available for reallocation.

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SIGNATURE

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