TORONTO

REPORT FOR ACTION

Non-Competitive Contracts with SAP Canada Inc. for Proprietary System Software, Services and Licenses

Date: June 17, 2022
To: General Government and Licensing Committee
From: Chief Technology Officer, Controller and Acting Chief Procurement Officer
Wards: All

SUMMARY

The City has been using SAP since 1998 for the City's financial and human resources business system needs and as an enterprise-wide system to meet other business requirements. SAP is a software system used to create a centralized system that allows Divisions to share data and manage business processes.

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 Enterprise Resource Planning (ERP) management systems as supported by the Auditor General in 2003. It provided the strategic direction for the City to establish an SAP governance model and an SAP Competency Centre to manage and support the City's investment and expansion on SAP solutions and technologies.

SAP Solutions provide foundational system support for critical Corporate Financial Management, Human Capital Management and Business Intelligence solutions across the City. Current corporate initiatives that require additional SAP services and solutions include the Financial Systems Transformation Program (FSTP), extension of Employee Self Service (ESS) functionality to support the retirement of mailed pay notices, Payroll and Benefits and People and Equity Transformation programs, Enterprise Business Intelligence and Workforce Business Intelligence initiatives and growth in license demand for existing solutions including ECC (SAP ERP Central Component), SuccessFactors, Ariba and SAP Analytics Cloud.

The City currently has a Master Services agreement with SAP Canada Inc. which provides authority for the use and procurement of various SAP solutions and services in the City.

The purpose of this report is to seek authority to negotiate for and procure next generation SAP solutions and licenses, as well as authority to renew and increase

existing contracts due to growth, and where beneficial to the City, with SAP Canada Inc., by:

(1) executing an agreement to procure proprietary SAP software licenses and subscriptions, and professional services required for the upgrade to the S4/HANA RISE and Analytics Cloud solutions, for a five (5)-year period commencing from the date of award for the total amount of up to $19,125,000 net of all taxes and charges ($19,461,600 net of Harmonized Sales Tax recoveries);

(2) executing an agreement to procure proprietary SuccessFactors software subscriptions. The City currently has authority under GL16.5 (Renewal of Proprietary Technology Maintenance Contracts Supporting the City Services from 2021-2025) for current SuccessFactors software subscriptions up till 2025. Through this report, City is requesting an additional spend authority of $4,930,016 net of all taxes and charges ($5,016,784 net of Harmonized Sales Tax recoveries) to procure SuccessFactors software subscriptions for an additional period of two (2) years up till 2027;

(3) amending the existing Purchase Order Number 6053111 to procure proprietary Ariba software subscriptions and services and increase the value of the Purchase Order by $225,000 net of all taxes and charges ($228,960 net of Harmonized Sales Tax recoveries) from $1,406,483 net of all taxes and charges ($1,431,238 net of Harmonized Sales Tax recoveries) to $1,631,483 net of all taxes and charges ($1,660,198 net of Harmonized Sales Tax recoveries);

(4) amending the existing Purchase Order Number 6052129 to procure proprietary ECC (SAP ERP Central Component), software licenses, and increase the value of the Purchase Order by $422,500 net of all taxes and charges ($429,936 net of Harmonized Sales Tax recoveries) from $7,707,034 net of all taxes and charges ($7,842,678 net of Harmonized Sales Tax recoveries) to $8,129,534 net of all taxes and charges ($8,272,614 net of Harmonized Sales Tax recoveries).

City Council approval is required in accordance with Municipal Code Chapter 195-Purchasing, where the current request exceeds the Chief Procurement Officer's authority of the cumulative five year commitment limit for each supplier under Article 7, Section 195-7.3D of the Purchasing By-Law or exceeds the threshold of $500,000 net of Harmonized Sales Tax allowed under staff authority as per the Toronto Municipal Code, Chapter 71-Financial Control, Section 71-11A.

RECOMMENDATIONS

The Chief Technology Officer, the Controller and the Acting Chief Procurement Officer recommend that:

1. City Council authorize the Chief Technology Officer to negotiate and enter into non-competitive contracts with SAP Canada Inc., on the terms and conditions satisfactory to the Chief Technology Officer, and in a form satisfactory to the City Solicitor:

a. to procure SAP software licenses and subscriptions, and professional services required for the upgrade to the S4/HANA RISE and Analytics Cloud solutions, for a five (5)-year period commencing from the date of award for the total amount of up to $19,125,000 net of all taxes and charges ($19,461,600 net of Harmonized Sales Tax recoveries);

b. to secure additional SuccessFactors software subscriptions for a five (5)-year period from 2022 to 2027 with additional spend authority of $4,930,016 net of all taxes and charges ($5,016,784 net of Harmonized Sales Tax recoveries);

c. to procure Ariba software subscriptions and services and increase the value of the Purchase Order Number 6053111 by $225,000 net of all taxes and charges ($228,960 net of Harmonized Sales Tax recoveries) from $1,406,483 net of all taxes and charges ($1,431,238 net of Harmonized Sales Tax recoveries) to $1,631,483 net of all taxes and charges ($1,660,198 net of Harmonized Sales Tax recoveries);

d. to procure ECC (SAP ERP Central Component), software licenses, and increase the value of the Purchase Order Number 6052129 by $422,500 net of all taxes and charges ($429,936 net of Harmonized Sales Tax recoveries) from $7,707,034 net of all taxes and charges ($7,842,678 net of Harmonized Sales Tax recoveries) to $8,129,534 net of all taxes and charges ($8,272,614 net of Harmonized Sales Tax recoveries).

FINANCIAL IMPACT

The total value identified in this report is $24,702,516 net of all taxes and charges. The total potential cost to the City is $25,137,280 net of Harmonized Sales Tax recoveries.

The value identified in this report is provided through a combination of the operating budget and the ten (10)-year capital plan.

Funding in the amount of $1,661,232 net of Harmonized Sales Tax recoveries is available in the 2022 Approved Capital Budget for the Office of the Controller. Funding in the amount of $4,848,864 net of Harmonized Sales Tax recoveries will be included in the 2023-2024 Capital Budget submissions for the Office of the Controller. Details are shown in Table 1.

Table 1 - Capital Funding (Net of Harmonized Sales Tax recoveries)

Program/ Budget	WBS Element	2022	2023	2024	Total
Financial Systems Transformation Program	CFS050	$1,661,232	$3,442,032	$1,406,832	$6,510,096

(FSTP)/Office of the Controller						

Funding in the amount of $221,328 net of Harmonized Sales Tax recoveries is available in the 2022 Approved Operating Budgets for Programs and funding in the amount of $18,405,856 will be included in the 2023-2026 Operating Budget submissions for affected Programs as shown in Table 2.

Table 2 - Operating Funding (Net of Harmonized Sales Tax recoveries)

Program/ Budget	Cost Centre	2022	2023	2024	2025	2026	Total
Technology Services	IT2017	$195,888	$478,781	$4,594,464	$6,831,666	$6,450,066	$18,550,864
People and Equity/Office of the City Manager	CM0302	$17,808	$17,808	$17,808			$53,424
Pension, Payroll and Employee Benefits/Office of the Controller	FS0140	$7,632	$7,632	$7,632			$22,896
Total		$221,328	$504,221	$4,619,904	$6,831,666	$6,450,066	$18,627,184

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

DECISION HISTORY

The City of Toronto has a long history with implementing SAP Solutions and Services. At its meeting of July 29, 1998, City Council approved Clause Number 1 of Report Number 9 of the Corporate Services Committee "Project Proposal, Financial and Human Resources/Payroll Systems" for the original SAP Implementation.
https://www.toronto.ca/legdocs/1998/agendas/council/cc/cc980729/cs10rpt/cl001.htm
https://www.toronto.ca/legdocs/minutes/council/cc980729.htm

At its meeting of May 21, 2003, City Council approved Clause Number 9 of Report Number 1 of the Audit Committee "SAP Financial and Human Resources/Payroll Information Systems - Post Implementation Review" which was performed by the Auditor General and included a recommendation for the Chief Administrative Officer to develop an SAP First Policy.
https://www.toronto.ca/legdocs/2003/agendas/council/cc030521/cofa.pdf
https://www.toronto.ca/legdocs/2003/agendas/council/cc030414/au1rpt/cl009.pdf

At its meeting of May 18, 19 and 20, 2004, City Council adopted Clause Number 12b of Report Number 2 of the Administration Committee "Moving Forward with SAP" related to staff's SAP First Policy.
https://www.toronto.ca/legdocs/2004/agendas/council/cc040518/admcl012b.pdf
http://www.toronto.ca/legdocs/2004/agendas/council/cc040518/cofa.pdf

At its meeting of May 25, 26 and 27, 2009, City Council adopted item GM23.13 "Sole Source SAP Licence Framework" which adopted a Strategic Investment Framework for SAP software licenses. The license framework was based on an envelope approach which proposed a flexible acquisition model that allows software to be staged in when needed for critical projects over the next 3 years. As part of this acquisition, the City purchased SAP Procurement for Public Sector Licences (SAP-PPS).
https://www.toronto.ca/legdocs/mmis/2009/cc/decisions/2009-05-25-cc36-dd.htm
https://www.toronto.ca/legdocs/mmis/2009/gm/bgrd/backgroundfile-21085.pdf

At its meeting of June 11, 2013, City Council adopted item EX32.3 "Results of the Shared Services Study - City Agencies" which, in part, directed City Staff to work on rationalizing "information technology applications" which is consistent with the SAP First Policy to leverage existing technology to the extent possible before adding new software applications.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX32.3

At its meeting of June 7, 2016, City Council adopted item GM12.2 "Provision of SAP Ariba - Proprietary Software as a Service from SAP Canada for Supply Chain Management Transformation", which directed City Staff to negotiate and execute a five-year contract with SAP Canada for the use of SAP Ariba for Supply Chain Management Transformation.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.GM12.2

At its meeting of July 4, 2017, City Council adopted item GM21.11 "Provision of SAP SuccessFactors - Proprietary Software Product from SAP Canada for the City's Enterprise Wide Transformation Program", which directed City Staff to negotiate and execute a five-year contract with SAP Canada for the use of SAP SuccessFactors for Organizational Management, eRecruitment and Onboarding Management Transformation.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.GM21.11

At its meeting of December 16, 2020, City Council adopted item MM27.14 "Online Timesheets - by Councillor Paul Ainslie, seconded by Councillor Gary Crawford", which directed the Director, Pension, Payroll and Employee Benefits (PPEB) to cease mailing paystubs and to commence digitizing all pay stubs that are presently being mailed.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.MM27.14

At its meeting of March 29, 2021, General Government and Licensing Committee adopted item GL21.24 "Award of Negotiated Request for Proposal Number 3405-20-0131 to Deloitte, Incorporated for the Provision of System Integrator Services for the Financial Systems Transformation Program".
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.GL21.24

COMMENTS

SAP is a proprietary Enterprise Resource Planning (ERP) software platform developed by SAP Canada Inc. ERP solutions are used to manage key business areas such as finance, supply chain, procurement, manufacturing, human resources, payroll and enterprise reporting and analytics.

The City has used SAP solutions since 1998. SAP solutions are used extensively in several municipal governments and other large government agencies such as the Canadian Federal Government, Ontario Provincial Government, Province of Nova Scotia, Canada Post, City of Mississauga, City of Edmonton, Toronto Police Services, Toronto Transit Commission and Toronto Parking Authority.

SAP Canada Inc. is a market leader in Enterprise Resource Planning software. In 2003, the Auditor General released a report on the progress of the SAP Implementation and to consider an "SAP First" policy for the City's software future needs. The idea behind the "SAP first" direction is that software needs should be evaluated against the capability of the City's SAP software that the City has already invested in 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 Enterprise Resource Planning (ERP) management systems.

The City currently has multiple Corporate and Divisional initiatives and corresponding user growth that require continued investment in SAP solutions and support services, as well as SAP's next generation Enterprise Resource Planning (S4/HANA RISE) and Analytics Cloud solutions, to replace the end-of-life products. These initiatives include:

- Financial Systems Transformation Program
- Expansion of ECC's Employee Self Service to all staff to eliminate the mailing out of paper pay stubs
- Enterprise Business Intelligence and Enterprise Workforce Business Intelligence Initiatives expanding the use of SAP Analytics Cloud
- Growth in licence and subscription requirements for existing SAP Solutions including, Ariba, SuccessFactors, ECC (SAP ERP Central Component), Employee Self Service and other existing SAP modules or solutions

Financial Systems Transformation Program:

SAP's S4/HANA Cloud Solution is the next generation version of the City's current Corporate Finance and Human Capital management solution (ECC) which supports critical Finance, Payroll and Benefits, Human Resources, Plant Maintenance, Materials Management as well as other business service support.

As part of the 2020 Budget, the Financial Sustainability Corporate Strategic Priority was presented to Council. This is the overarching framework that will enable the City to make informed financial decisions and effectively manage resources in the future. The

roadmap noted five key pillars for financial sustainability, including Financial Systems Transformation. The Financial Systems Transformation Program (FSTP) is a response to the City's need to undergo a financial transformation, enabled by modern technologies that will meet current and future business needs. This includes standardizing finance processes, modernizing the finance service operating model, and streamlining the underlying financial platform to ensure consistent access to timely financial information in an efficient and effective system.

FSTP will require SAP's S4/HANA Cloud solution as the foundational technology. This will allow the City to migrate from the current on premise ECC solution to the new SAP S4/HANA Cloud solution in order to support the City's Financial Transformation. This also supports the City's Strategic Technology direction of Cloud first where possible.

By improving the City's financial processes and enterprise-wide financial platform, it is anticipated that the FSTP can deliver:

- Operational benefits – there are significant expected benefits of releasing staff capacity from currently manual, transactional processes. Automating and standardizing these processes will allow staff to focus on analytical and management reporting. Leveraging S4/HANA to its full capacity, and bringing in financial processes, are expected to result in cost savings and avoidance.
- Qualitative benefits – simplified processes are expected to improve staff engagement, result in higher quality management and statutory reporting and enable future transitions to service-based, multi-year budgeting as part of the Budget Modernization work as well as other key Financial Sustainability initiatives.
- Efficiencies in financial management - improving the quality and availability of information allows the City to more efficiently plan for revenue and allocate expenditures annually. This includes managing operating and capital budget allocations more effectively, with less uncertainty and contingency built into the process. With faster access to real time information, the City will be also be able to readjust resources during the year to respond to service level demands.

Overall, FSTP will enhance trust and confidence within the City and is dependent on the procurement of the required SAP services and solutions to support this critical corporate transformation initiative.

Expansion of Employee Self Service (ESS) Licenses to all staff:

SAP solution procurements will also support the additional Employee Self Service (ESS) Licenses required to support the implementation of ESS capabilities to staff that currently still receive Pay Paystubs through the mail. This is directly related to Notice of Motion MM27.14, adopted by City Council December 16, 2020, which recommends that:

1. City Council request the City Clerk and the Director, Pension, Payroll and Employee Benefits to report to the General Government and Licensing Committee in the first quarter of 2021 on the implementation of online timesheets for City Council staff;

2. City Council direct the Director, Pension, Payroll and Employee Benefits to cease mailing paystubs and to commence digitizing all pay stubs that are presently being mailed.

This initiative will expand ESS to staff that do not currently have access and will provide the ability for those employees to access their Pay Stubs, T4's and other payroll related information through the ESS system, eliminating the need for paper documents to be mailed out on a regular basis.

Other initiatives:

SAP solutions also support Payroll Processing, Plant Maintenance and Materials Management in ECC, Employee Management & Recruitment, Onboarding/Offboarding and Employee Access to their Employment data in SuccessFactors, Procurement Management in Ariba and Enterprise Business Intelligence solutions supporting critical Management Reporting and Analytics. Natural growth in the use of these solutions as well as expanded use requires the procurement of additional licenses and subscriptions to ensure State of Good Repair and license/subscription compliance on current supported versions of the software.

Conclusion:

SAP solutions are a key element in achieving the City's Finance Transformation and Human Capital Management strategies. The upgrade to the next generation SAP S4/HANA solution will support the critical FSTP initiative, expand Employee Self Service capabilities to all staff and ensure continued state of good repair. This also supports the City's Cloud strategy, our goal of a well-run city, support modern workplaces, and enable continued digital government transformation. These solutions are scalable and sustainable and will improve the City's business resiliency by gradually moving to a cloud environment.

With Council approval, the City will receive the authority to negotiate and procure licencing, subscriptions and professional services for the move to S4/HANA and provide authority to renew and procure licensing and subscriptions to meet user growth on existing SuccessFactors, Ariba, Analytics Cloud and ECC applications. This supports critical corporate initiatives and user growth ensuring that the City's ability to transform while maintaining compliance with the licensing and subscriptions requirements for our SAP solutions.

The Fair Wage Office has reported that SAP Canada Inc. has reviewed and understands the Fair Wage Policy and Labour Trades requirements. They have also agreed to fully comply.

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