

Non-competitive Contracts with SAP Canada Incorporated for Proprietary System Software Licenses, Cloud Subscriptions, and Related Services

Date: March 25, 2025

To: General Government Committee

From: Chief Technology Officer and Chief Procurement Officer

Wards: All

REASON FOR CONFIDENTIAL INFORMATION

The attachments to this report are about criteria to be applied to negotiations carried on or to be carried on by or on behalf of the City of Toronto and contain technical and commercial information supplied in confidence to the City of Toronto, which, if disclosed, could reasonably be expected to prejudice the competitive position significantly or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization.

SUMMARY

The purpose of this report is to request City Council authority to enter into non-competitive contracts with SAP Canada Incorporated, a Canadian Business Subsidiary of SAP SE (Non-American Supplier), for proprietary software licenses, cloud subscriptions, and related system services and support.

SAP is a software system developed by SAP SE, which is based in Germany, and is used to create a centralized system that allows City Divisions to share data and manage business processes. SAP solutions form the backbone of the City's critical systems, supporting accounting, budgeting, payroll, human resources, work order management, purchasing and inventory management.

By 2027, SAP will discontinue support for several legacy systems and replace them with next-generation cloud-based solutions. In 2022, City Council adopted GL32.12 and granted authority for the City to procure next generation SAP solutions and licences and laid the groundwork to standardize and keep the City's systems up to date.

This report continues to address business continuity and state of good repair, as well as enhancements, for six City systems affected by these changes, ensuring they remain functional, secure, and supported. The programs outlined in this report support both the migration efforts to new systems and lays the foundation for core solutions that offer better integration and improved standardization. In two instances, migration is complete, but the programs focus on implementing new and enhanced capabilities to improve service delivery and ensure compliance with Toronto Auditor General recommendations and included in Attachment 2 - Decision History). New and enhanced capabilities are also subject to business case approvals future budget year submissions.

The existing contracts and spend authority for these systems are set to expire within the next year. This report consolidates subscriptions, licences, professional services, and support packages from SAP under a new 5-year term to unify timelines, terms and pricing and strengthen overall contract management. The City also plans to include these contracts under a new Master Services Cloud Agreement (MSCA), that it is in the process of negotiating, with the intent to enhance pricing and terms standardization.

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 and the Chief Procurement Officer recommend that:

1. City Council grant authority to the Chief Technology Officer, in accordance with Sections 195-6.6 and 195-8.5 of the Toronto Municipal Chapter 195 (Procurement), to enter into, and execute non-competitive contracts with SAP Canada Inc. commencing from the date of award for a five (5) year period, for up to the total amounts set out in Confidential Attachment 1, subject to terms and conditions acceptable to the Chief Technology Officer and generally in accordance with the terms of the existing agreement.
2. City Council adopt the confidential instructions to staff in Confidential Attachment 1.
3. City Council direct that Confidential Attachment 1 remain confidential at this time as it pertains to criteria to be applied to negotiations carried on or to be carried on by or on behalf of the City of Toronto and be made public at the discretion of the Chief Procurement Officer following the execution of the contract authorized by recommendation 1.

FINANCIAL IMPACT

Financial Impact is included in Confidential Attachment 1.

The financial costs enclosed in Confidential Attachment 1 assume the Master Service Cloud Agreement (MSCA) is finalized. The financial impact outlined in Confidential Attachment 1 is estimated based on current pricing, as negotiations are still ongoing at the time of writing this report. Financial allocations based on this estimate will vary based on divisional operational requirements. Should there be delays with the MSCA, the City will limit its spending to essential operational expenses until the agreement is in place.

DECISION HISTORY

A decision history is attached to this report as Attachment 2.

COMMENTS

SAP solutions form the backbone of the City's critical systems, supporting corporate financial and contract management, human resources, and business intelligence. In 2022, City Council adopted GL32.12 and granted authority for the City to procure next generation SAP solutions and licences and laid the groundwork to standardize and keep the City's systems up to date.

This report continues to address business continuity, state of good repair and enhancements for six SAP systems, supporting the City's migration from legacy on-premise solutions to SAP's next generation cloud technologies. This transition is necessary as the supplier plans to discontinue and end support for the aging systems in 2027. The programs outlined in this report support both the migration efforts to new systems and the foundation this sets for core solutions that offer better integration and improved standardization. In some instances, migration has completed, and the programs focus on implementing new and enhanced capabilities to improve service delivery, grow use of the platform, and ensure compliance with Toronto Auditor General recommendations noted in Attachment 2 - Decision History.

Existing contracts and spend authority for these systems will expire within the next year. This report consolidates subscriptions, licences, professional services, and support packages from SAP under a new 5-year term to unify timelines, terms, and pricing. The City also plans to include these contracts under a new Master Services Cloud Agreement (MSCA), that it is in the process of negotiating, to further enhance pricing and terms standardization.

Adoption of this report will support critical business continuity and state-of-good-repair activities over the next five years. It will also accommodate natural user growth and the implementation of new and enhanced modules to maintain compliance with Council and AG recommendations and facilitate expected or expanded use across City divisions, as

approved by future year budget and business case submissions.

Table 1: Programs Requiring Cloud Migration from On-premise Solutions

Program and Description	Current Product	New Product/ Modules
<p>Payroll Modernization:</p> <p>Upgrade to the City's employee data management system for pay statements, time reporting, and payroll approval.</p>	<p>Manager/ Employee Self-Service (legacy system ending 2027)</p>	<p>SAP Human Capital Management (HCM) Private Cloud Edition</p>
<p>Financial Systems Transformation Program (FSTP):</p> <p>Two-stage migration and upgrade of the City's enterprise resource planning system.</p>	<p>SAP ERP Central Component (legacy system ending 2027)</p>	<p>S/4 HANA</p> <p>Financial Accounting, General Ledger, Controlling, Accounts Payable, Accounts Receivable, Asset Accounting, Funds Management, Treasury and Sales Project Systems</p>
<p>Material Management and Warehouse Management Transformation:</p> <p>Centralized warehouse management system with automation and real-time tracking for inventory, order fulfillment, and logistics.</p>	<p>Warehouse Management (legacy system ending 2027)</p>	<p>S/4 HANA Extended Warehouse Management</p>

Program and Description	Current Product	New Product/ Modules
<p>Business Intelligence Modernization</p> <p>Migration from a legacy business intelligence platform to ensure continuity, compliance and improved integration of SAP and non-SAP data. This shift supports reliable reporting, workforce analytics, and informed decision-making while aligning with evolving technology standards.</p>	<p>Business Warehouse (legacy system ending 2027)</p>	<p>SAP Analytics Cloud and DataSphere</p>

Table 2: New and Enhanced Cloud Platform Capabilities

Program and Description	Current Product	New Modules or Enhancements
<p>Human Capital Management Program:</p> <p>Enhancements to the City's Human Capital Management (HCM) system with a focus on high-volume recruitment, onboarding, and platform-wide reporting capabilities.</p>	<p>SuccessFactors (cloud)</p>	<p>Module Enhancements: Recruiting, Employee Central</p> <p>Upgraded Modules: Onboarding 2.0 and Story Reports</p>
<p>SAP Ariba Procurement:</p> <p>Enhancements to the City's enterprise procurement platform that includes SAP Ariba Sourcing, Contracts, Buying & Invoicing, Supplier Lifecycle Performance and Spend Analysis with a focus on procurement optimization, and policy compliance.</p>	<p>Ariba (cloud)</p>	<p>New Modules:</p> <p>Ariba Guided Sourcing, Buying & Invoicing, Guided Buying, Spend Control Tower</p>

Program and Description	Current Product	New Modules or Enhancements
<p>Payroll Modernization (Phase 2) (subject to future budget and business case approval:</p> <p>Involves redesigning and automating payroll processes to leverage advanced capabilities of SAP solutions in the public cloud, ensuring compliance and operational efficiency.</p>	<p>SAP Human Capital Management, Private Cloud Edition (Payroll S/4HANA)</p>	<p>Module Enhancements:</p> <p>SAP Human Capital Management, Private Cloud Edition (Payroll S/4HANA)</p>

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

DIGITAL INFRASTRUCTURE IMPACT STATEMENT

The Digital Infrastructure Strategic Framework (DISF) guides decision-making related to digital infrastructure at the City of Toronto, through establishing principles, strategic priorities, and objectives. This report aligns with several DISF principles and strategic priorities, while revealing opportunities for further alignment as well:

1. Digital Transformation (Principle: A Well-run City)

Migrating from legacy systems to new systems and technologies will significantly enhance enterprise resource planning at the City, increase adoption, and support business modernization efforts.

2. Collaboration (Principle: A Well-run City)

Taking the opportunity to consolidate contracts and negotiate a new Master Services Cloud Agreement represents positive collaboration and sharing solutions between City divisions, while standardizing and enhancing pricing and terms.

3. Society (Principle: Society, Economy and the Environment)

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

4. Maintenance and Repair (Principle: Digital Autonomy)

The report and its recommendations directly speak to proactive maintenance and ensuring a state of good repair for SAP systems. Continuing to work with SAP also provides the opportunity to build on existing in-house expertise and capacity.

5. Democratic Control - Consideration for further alignment (Principle: Digital Autonomy)

There is an opportunity to consider the implications of the City's SAP-first policy and how reliance on a single vendor may impact the public interest.

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SIGNATURE

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ATTACHMENTS

Confidential Attachment 1
Attachment 2 - Decision History