

TO: Mayor Savage and Members of Halifax Regional Council

SUBMITTED BY: Original Signed by 
Jacques Dubé, Chief Administrative Officer

DATE: January 22, 2020

SUBJECT: **Item #1: Award – RFP 19-059 SAP Implementation Program**
Item #2: Sole Sourcing to the Province of Nova Scotia

ORIGIN

Halifax Regional Municipality (HRM) is undertaking a major business transformation initiative for both Human Resources and Finance. This business transformation is supported by technology through a re-platforming of HRM's corporate Enterprise Resource Planning (ERP) system, comprised of SAP Canada Inc. products and services provisioned to the Municipality by the Province of Nova Scotia. Over the past decade, there have been Auditor General Reports, business cases, opportunity assessments, roadmaps, gap analyses, requirements, and business processes documented to support the overall need to transform HRM's business practices including improving and upgrading this foundational system. Given the mutually beneficial synergies of these transformational changes, it was recommended all projects related to the overall transformation initiative be amalgamated under one single program for consistency, efficiency, transparency and budgeting purposes.

LEGISLATIVE AUTHORITY

Item # 1 – RFP award for Finance & HR Transformation Program

The Municipality may spend money for municipal purposes in accordance with section 79A of the *HRM Charter*. The recommended contract award complies with all the pre-requisites for awarding contracts as set out in section 34 of Administrative Order 2016-005-ADM, the *Procurement Administrative Order*. Section 36 of the *Procurement Administrative Order* provides that Halifax Regional Council may approve contract awards of any amount.

Item # 2 – Sole Sourcing to the Province of Nova Scotia

Section 25(3)(m) of the *Procurement Administrative Order* provides that the Municipality may make a sole source purchase of services from a public body.

Article 504(11)(i)(iii) of the *Canada Free Trade Agreement* exempts from its application the procurement of services between one government body and another government body.

RECOMMENDATION

It is recommended that Halifax Regional Council:

1. Award a fixed fee contract for the Program Management Services detailed in RFP 19-059, SAP Implementation Program to Deloitte Inc. with a value of \$3,128,580 (net HST included) plus approved expenses as outlined in the Financial Implications section of this report, subject to the negotiation of a Master Services Agreement that is agreeable to and is executed by the Municipality's Chief Administrative Officer.
2. Approve the Standing Offer for Technical Project Resources for the provision of implementation and future solution management services on an as required, as requested basis as detailed in RFP 19-059, SAP Implementation Program Team, including the option to extend the standing offer for the life of the Master Services Agreement with an initial maximum total purchase limit of \$17,400,000 with funding from the remaining balance in the Project Account identified in the Financial Implications section of this report as well as any additional multi-year budget proposed to the Budget Committee January 7, 2020.
3. Direct the Municipality's Chief Administrative Officer to enter into an MOU and ancillary contracts with Province of Nova Scotia, its contractors and/or affiliates as required to purchase access to and use of SAP S4/HANA and SAP SuccessFactors licenses and services at an initial estimated value of \$2,400,000 that includes (i) the option to add additional modules offered by SAP Canada Inc. and its affiliates over time and the option to extend the term(s) of the MOU and ancillary contracts, and (ii) key terms identified by staff which meet with the satisfaction of the CAO
4. Subject to the allocation and availability of budgeted funds specified for this purpose, delegate to the CAO the authority to exercise options found in the MOU and ancillary contracts referenced in recommendation (c), to a maximum of \$1,250,000.

BACKGROUND

The administrative functions of Human Resources, Finance and Procurement are seen as expenses that do not have a direct impact on service delivery. Frequently, financial resources are focussed on transforming the external facing business and solutions rather than on back office or administrative systems. Often you need to connect the administrative services to the external facing systems in order to complete the business transformation. Thus, the administrative services have impacts on service delivery such as:

- Ensuring the organization has skilled resources through hiring and training,
- The ability to calculate, collect and account for such revenue as property taxes, parking, permits and licensing, and recreation,
- The ability for the organization to work with business units and the vendor community to procure the necessary goods and services required to operate service delivery for citizens.

These services require appropriate planning and funding support to drive HRM's vision to "...enhance our quality of life by fostering the growth of healthy and vibrant communities, a strong and diverse economy, and sustainable environment."

Past Implementations

Over the last 20 years, there have been two large projects to advance core administrative services for HR and Finance within HRM post amalgamation in 1996 through the implementation of SAP's ERP Central Component (ECC) system.

The first project for Finance primarily intended to address problems with legacy systems inherited at the time of amalgamation, including not being Y2K compliant. This project was launched shortly after amalgamation in 1998 and completed in 1999. While this project had over \$9 million in funding, it did not have the required change management, business best practice and process redesign, nor did it maintain SAP standard or vanilla configuration to allow the solution to easily grow to meet future demands and reporting requirements.

The second project from 2001 to 2003 intended to address the payroll and HR needs of the organization. Given the municipality had previously trained staff and spent a substantial amount on the finance implementation, there was significantly less funding (\$747,000 in capital funds) and resources to implement the payroll and HR solution. The solution was substantially customized and lacked best business practice due to insufficient focus on one way to do business post amalgamation. This project consisted of two phases: phase 1 was to replace the old payroll solution and phase 2, which has yet to be implemented, intended to cover the HR aspects for Compensation, Performance Management, Training & Events, Recruitment, Employee & Manager Self-Service, Personnel Cost Planning, and Career & Succession Planning.

Hindsight shows both projects required a stronger organizational focus for implementing best business practices. It has been over 20 years since the original projects kicked off and minimal improvements for business process and technology advancement have occurred since implementation. Staff's analysis of the current situation and past projects has led to the determination that to succeed at business transformation significant planning, decision-making, and change management are required through strong governance and the support of technology advancement to implement standardized business process across all business units, support staff, vendors and citizens through the change. The lessons learned for how to succeed at business transformation have been strongly considered with the development of the HR and Finance Business Transformation Program.

Impacts of the Finance and HR Business Transformation Program

The Program will affect every employee at some level and will have a multitude of changes and impacts such as:

- Direct impacts to the daily work processed for all staff within HR, and Finance including payroll and procurement.
- All employees within HRM will be impacted by the end of the Program as the delivery of service for HR and Finance will be different.
- The Program will affect the business process within and across the organization for HR and Finance through the development of online tools for self-service and workflow management.
- The Program is charged with developing processes that follow best practices and maintain standard solutions.
- The solution will be built to meet required legislation and collective agreements.
- The Program will allow easier adherence e.g. fewer manual processes to collective agreements. For example, improved abilities for time reporting and payroll.
- The Program will improve the business process for interacting with vendors and citizens through procurement, recruitment, taxes and integrations with other solutions such as Recreation, Permitting and Licensing, and Parking.

To ensure there is operational capacity post go live the Program is comprised of both internal and external staffing with a strong focus on best business practice and challenging staff and leaders to question how things can be done more efficiently. The Program stresses the importance of achieving business transformation first and working with standard solution design to optimize administrative services and their connections with service delivery to citizens.

Reports and Reviews Supporting the HR and Finance Transformation Program

The urgency to establish and fund the Program is best understood through the extensive reviews that have been done over the last ten years.

Several Auditor General Reports recommending changes to both business and system processes for Human Resources, Payroll, Procurement and Finance have been completed:

- 2019 Payroll Management Audit
- 2019 Property Tax Management Audit
- 2018 Procurement review
- 2016 Performance Review of Flexible Work Arrangement Programs at HRM
- 2014 Performance Review of the Administration of Training Expenditures
- 2013 HRM Payroll System – A Performance (Process) Review
- 2011 District Activity and District Capital Funds Compliance Review
- 2011 Compliance Review Recreation Area Rates
- 2011 Review of Benefits Budgeting and Overtime Drivers in HRM

Staff have conducted reviews of the life expectancy of the existing solutions and the associated contracts and have determined that:

- The current revenue solution is unsupported and cannot be upgraded.
- The current finance and procurement solutions are highly integrated with the revenue solution and have an expected decommissioning date from the vendor of 2025. Support contracts through the Province of Nova Scotia expire in 2023 with renewal options as follows: a three-year option to renew and a one year option to support a transition. These are merely options and there may be no extension beyond 2023.
- The current recruitment solution expires October 2020 and the core SAP HR solution has a decommissioning date of 2025.
- Both Finance and HR are highly integrated with the payroll solution, which is not expected to be decommissioned until at least 2030.
- Given the 2025 date for both HR and Finance there will be a large draw for experienced resources in an already competitive environment for business transformation, change management and technical expertise.

The requirement to establish the Program is supported by HRM's analysis of the state of the existing solutions, its interest maintaining alignment with the capabilities of the Province of Nova Scotia (which is also engaged in a transformation program), SAP Canada Inc.'s end of guaranteed support for certain ECC products in 2025, and the various reviews completed and the growing demands of the organization for:

- Performance Excellence,
- Evidence based decision making
- Digital user-friendly services
- Tight solution-to-solution integrations and
- Security to meet the growing concerns for cyber threats to the confidentiality, integrity, and accessibility of HRM's systems and data.

Demands for Improvement as One of Canada's top 20 Largest Municipalities

There is also a growing demand from citizens for digital services comparative to those within the private sector. This coupled with a job market that is becoming more competitive as Boomers approach retirement, and millennials and Gen Z expect organizations to have technology and agility they have grown up utilizing, further pushes the envelope to replace a 20-year-old solution. These organizational and citizen expectations are further heightened as HRM is in the top 20 of Canada's largest municipalities and is also the largest urban centre within Atlantic Canada which further pushes the need to have firmly established administrative services to provide seamless integration and support with service delivery to citizens.

As one of the top 20 largest municipalities in Canada HRM's 2019 budget was comprised of:

- Compensation represents 50% of municipal expenditures
- Revenue of ~\$956 Million
- HRM Procures ~ \$351,000,000 annually
- Municipal expenditure of ~\$794 Million
- Mandatory Provincial Costs \$162 Million

The expense of the overall HR and Finance Business Transformation Program compared to the above annual budget consideration are noted below. Note: The full project is 18-24 months and the above percentages have been calculated using the annual cost. The cost of the Program over a 2-year period is less than the above percentages.

- HR Project is 2.78% of compensation (cost of the HR program/compensation)
- Finance Project is 1.67% of Revenue
- Procurement project is 2.01% of the amount procured
- Overall Program is 4.31% of all annual municipal expenditures
- Overall Program is 3.58% of the total municipal budget

In conclusion, the importance for establishing the HR and Finance Business Transformation Program is supported through the compounding data and reviews from:

- Auditor General reports
- Opportunity Assessments
- Existing solution review of platforms, contracts and service support
- Growing demands as a top 20 largest municipality in Canada
- Citizens demand for improved business services
- Business units experiencing the burden of inefficient business processes, antiquated technology and insufficient data for improved evidence based decision making and
- HRM's drive toward performance excellence

DISCUSSION

SAP is HRM's current system of record for financial and human resource information. SAP also provides additional functionality HRM can leverage to support future service expansions to keep pace with strategic direction, expectations and needs of clients and citizens.

With antiquated technology and manual paper-based processes, HRM is not as efficient as it could be in providing services to business units, vendors, partners, and citizens. Our current systems do not support digital city integration or citizen-facing solutions. With innovation, HRM can achieve high-value results for citizens and staff rather than support and maintain our current outdated systems.

By adopting standard best practice business process and modern technology, HRM can align to procure services more easily and provide the service delivery citizens expect. Fostering the efficiency of HRM and meeting talent expectations, employees require a level of digital services that HRM currently cannot offer. With modern technology, we will be able to offer services online that are today manual and paper-based.

HRM would like to move forward with standing up a new SAP S/4 HANA Greenfield environment including:

- SAP S/4HANA Cloud for enterprise management
- SAP S/4HANA Cloud, disaster recovery
- SAP S/4HANA Finance Cloud for treasury and risk management
- SAP S/4HANA Finance Cloud for cash management
- SAP Tax, Benefits, and Payment Processing for Public Sector for S/4HANA
- SAP Tax, Benefits, and Payment Processing for Public Sector for CRM (Supporting Tax and Revenue)
- SAP HANA, Runtime edition for Applications & SAP BW - New/Subsequent

Within the new SAP Cloud solution, HRM plans to implement new and improved Accounting, Revenue, Financial Reporting and Procurement business processes, based on SAP Model Company and industry best practices, replacing those related functions currently managed within its SAP's ECC system.

In addition, HRM would like to modernize its current SAP ECC HR system with the implementation of SAP's Human Resource Management Cloud Solution SuccessFactors including:

- Employee Central
- Recruiting Management and Marketing
- Onboarding
- Learning Management

Additional required functionality may be procured to support future service enhancements as deemed appropriate, including but not limited to, Compensation, Succession Planning, Benefits, Concur, and Ariba.

Gartner acknowledges there is a push for existing SAP clients to transition to S/4HANA before the end of SAP's guaranteed support for ECC in 2025. The longer we wait to transform our business the less skilled resources will be available making it more costly to secure skilled labour in a competitive market. Gartner estimates that, by 2021, cloud ERP enterprise application implementation labor rates will increase by 60% due to high demand and lack of skilled resources.

RFP 19-059, SAP Implementation Program Team was publicly advertised on the Nova Scotia Tenders website on June 14, 2019 and closed on August 2, 2019. Proposals were received as follows:

- Accenture
- Rizing Solutions Canada
- Deloitte Inc
- Pricewaterhouse Coopers
- Variyas Global Solutions
- IBM
- CGI

Proposals were reviewed by a team comprised of staff from ICT, Finance and Human Resources and facilitated by Procurement.

After the evaluation, a short-list of three (3) qualified proponents: Accenture, Deloitte and IBM were invited to attend a confidential conference with the committee and submit a best and final technical and financial offer. The evaluation of the best and final offers was performed by the evaluation committee and Deloitte's proposal was scored highest. The entire evaluation process was facilitated by Procurement and observed

and audited by a third-party professional Fairness Monitor, who will provide a report to senior management after award.

Regarding Item # 1 – RFP award for HR & Finance Transformation Program, negotiation of the contract terms has been completed by ICT and Legal Services staff and facilitated by Procurement, subject to the review of key terms by the CAO. The proposed standing offer with Deloitte is intended to last for the life of the SAP solution and therefore, it is expected that the standing offer agreement may require adjustment over time. Amendments to the standing offer agreement with Deloitte including but not limited to the end date and maximum total purchase value will be approved by the Manager of Procurement per the Procurement Policy.

Regarding Item # 2 – Sole Sourcing to the Province of Nova Scotia, negotiation of contract terms with the Province of Nova Scotia is being done by ICT and Legal Services and facilitated by Procurement.

FINANCIAL IMPLICATIONS

Based on the highest scoring proponent cost of \$3,000,000 plus net HST of \$128,580 for a net total price of \$3,128,580, for the Program Office funding is available from Project Account No. CI990009, Revenue Management Solution, CI190001, SAP Procurement and CI990032, Corp Time Entry/Payroll Optimization. The budget availability has been confirmed by Finance.

Budget Summary:	<u>Project Account No. CI990009</u>	
	Cumulative Unspent Budget	\$7,730,866
	Less: RFP# 19-059	<u>\$1,877,148*</u>
	Balance	\$5,853,718
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	<u>Project Account No. CI190001</u>	
	Cumulative Unspent Budget	\$2,973,136
	Less: RFP# 19-059	<u>\$ 625,716*</u>
	Balance	\$2,347,420
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	<u>Project Account No. CI990032</u>	
	Cumulative Unspent Budget	\$2,288,673
	Less: RFP# 19-059	<u>\$ 625,716*</u>
	Balance	\$1,662,957

* This portion of the project was estimated in the Approved Project Budget at \$5,000,000.

The balance of funds, in the Project Accounts and additional multi-year budget proposed to the Budget Committee January 7, 2020, will be used for Project Team Resources, which will be engaged from the approved Standing Offer agreement as required and approved/allowable expenses. Technical Resource costs and expenses will be paid from the appropriate Project as listed above when they are incurred

Funding for SAP licenses and services referenced in recommendation (c) will be approved as part of Regional Council's Budget approval process.

RISK CONSIDERATION

Staff have identified several risks associated with the recommendations in this report. The risks considered rate: **MODERATE**. To reach this conclusion, consideration was given to the risks associated with the recommendation and alternative:

Recommendation: Approve Award for new SAP Program Implementation Team					
Risk Area	Details	Likelihood	Impact	Risk Level	Mitigation
Implementation Schedule	Due to the large and complex nature of the technology being implemented, timelines may be impacted as we advance with deployment	Possible	Moderate	Medium	Clearly plan for and execute critical path activities. Provide an effective governance and Program management plan that includes Project Schedule, Risk/Issue Management Plan, Change Management Plan and Change/Decision Request Form and Register.
Work Assignments	The transition to new technology may affect the work that people currently do as we move from manual paper-based processes to more efficient digital workflow.	Possible	Minor	Low	Detailed communication plan to communicate changes as the project progresses. Support staff through training.
Service Delivery	Transition from legacy technology to modern technology may result in some minor service impacts	Possible	Minor	Low	Detailed communication plan to communicate changes as the project progresses. Support staff through training.
Change Management	The ability of the organization to absorb the change given the volume of technology and other projects in flight.	Likely	High	Medium	Engagement of Stakeholders and a detailed change management plan to help manage, support and control the schedule, scope, communication and resources to minimize the impact change will have on the business employees and other stakeholders.
Change Management /Cost /Scope	Acceptance of standardization. Standardization improves operational management from a long-term perspective and will be key. However, in the short term, it can also potentially mean a change in the existing process. Deviation from standardization also relates to a risk of increased costs and scope creep do accommodate customized software both one-time and ongoing.	Possible	High	Medium	Engagement of Stakeholders early to develop new processes and establish guiding principles with respect to standardization. All requests for deviation will require approval by the Program Steering Committee.

Recommendation: Approve Award for new SAP Program Implementation Team					
Risk Area	Details	Likelihood	Impact	Risk Level	Mitigation
Contract Risk	Services contracts contain certain inherent risks related to performance and payment	Possible	Minor	Low	The MSA for RFP 19-059 has been negotiated by ICT and HRM Legal Services and facilitated by Procurement; it includes a holdback procedure as a form of performance surety. This contract with Deloitte is conditional on the parties achieving an acceptable statement of work (SOW) and HRM and the Province executing a MOU.
Technology Risk	SAP's planned decommissioning of parts of its ECC system in 2025, including integrations with other key systems, will leave HRM with unsupported technology	Likely	High	High	Acquire and implement S4HANA and SuccessFactors solutions.

ENVIRONMENTAL IMPLICATIONS

Not Applicable

ALTERNATIVES

Council could choose not to award this RFP and elect one of the below alternatives. Staff are not recommending any of the alternatives.

1. *Remain on our current SAP environment with no change to current technology* - This alternative would push the project out to a later date and continue to use existing technology and manual business process workarounds. This option is not recommended by staff as it presents the following risks:
 - We would have to continue to maintain Hansen, HRM's current Tax & Revenue Management system that manages HRM's property tax revenue. This system is currently unsupported and carries a risk of failure if not replaced. Without replacement, HRM runs the risk of not being able to produce tax bills for citizens or collect tax revenue.
 - HRM lacks a Talent Management system making it difficult to develop talent internally and compete in the external employment market. Without streamlining manual processes with supporting technology, HRM is not as effective as it could be in retaining and attracting top talent.
 - The contract for HRM's current recruitment system BrassRing is set to expire in October 2020. This will leave HRM without a recruitment and onboarding tool.
 - It may cost more long-term for support, maintenance and system interfaces for current technologies.
 - HRM would still be following inefficient, customized business process that are not in alignment with standard best practice.

- A limit to future service expansions that keep pace with expectations and needs of citizens and the organization.
- Lost opportunity for enhanced reporting and analytical capability.
- Retention of manual processes increasing the risk of inaccurate data and errors.
- Lost opportunity for enhanced integration between HR, Finance and Payroll modules, as well as integration with mobile devices.
- An unsupported SAP environment by 2025 which may result in HRM not being able to properly manage its finance, HR and procurement functions as SAP is HRM's current system of record for financial and human resource information,
- The longer we wait to transform our business the less skilled resources will be available making it more costly to secure skilled labour in a competitive market, as there will be a large draw for experienced resources for business transformation, change management and technical expertise.

This option is delaying the inevitable. The systems and technology are aging and, in many cases, no longer supported or at end of life and require significant manual effort by the Municipality to maintain.

2. *Cancel RFP 19-059 and issue a new RFP for Professional Services to implement Tax & Revenue Management in our current SAP environment* – While this alternative would eliminate the risk of not having a replacement Tax & Revenue Management system for Hansen, it is not recommended by staff as it would mean:
 - Delay the implementation timeline to replace the existing unsupported revenue system.
 - Would only implement Tax & Revenue replacement solution and would not include enhanced Finance & HR capabilities.
 - The other risks outlined above in alternative 1 would remain.
3. *Cancel RFP 19-059 and issue a new RFP for Professional Services to implement SAP SuccessFactors with Employee Central for Human Resources along with Tax & Revenue Management* – This alternative would replace Hansen, HRM's current unsupported Tax & Revenue solution, and BrassRing, HRM's expiring recruitment solution. This alternative:
 - Eliminates the risk of not having a replacement for Tax & Revenue Management and BrassRing.
 - It does not eliminate the other risks outlined above in alternative 1.

Not replacing the existing business process and technology means accepting a significant business and technology risk that includes the inability to collect revenue for services that citizens rely on.

ATTACHMENTS

None.

A copy of this report can be obtained online at or by contacting the Office of the Municipal Clerk at 902.490.4210.

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