HALIFAX

P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 6
Halifax Regional Council
December 7, 2021

TO: Mayor Savage and Members of Halifax Regional Council

SUBMITTED BY: Original Signed by

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Jacques Dubé, Chief Administrative Officer

DATE: December 2, 2021

SUBJECT: SAP Project Update

INFORMATION REPORT

ORIGIN

Council was last updated on February 11, 2020 regarding the implementation of the SAP program. The SAP Business Foundations Program has completed its Plan and Design phase. This Information Report seeks to update Council on the outcomes of the Plan and Design phase.

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter, subsection 34(1), as follows:
Council and Chief Administrative Officer Relationship
34 (1)   The Chief Administrative Officer is the head of the administrative branch of the government of the Municipality and is responsible to the Council for the proper administration of the affairs of the Municipality in accordance with the by-laws of the Municipality and the policies adopted by the Council.

Halifax Regional Municipality Charter, subsection 79A(1)(a), as follows:
Municipal expenditures
79A(1) Subject to subsections (2) to (4), the Municipality may only spend money for municipal purposes if
        (a) the expenditure is included in the Municipality's operating budget or capital budget or is otherwise authorized by the Municipality;

BACKGROUND

The SAP Business Foundations Program is a multi-year organization-wide initiative designed to improve how we deliver services to our employees, citizens, and community partners. This Program is an investment in HRM's future and is focused on replacing core services in HRM's current SAP solution through the implementation of new technology-enabled business processes using SAP's SuccessFactors and S/4 HANA. The SAP Business Foundations Program is a large, complex program which will leverage industry best practices to realign current HRM business processes and solution design.

The 2021/2022 Capital Budget included an amount of $34.3 million based on the award for program resources (Deloitte) and technology costs (SAP). The budget was based on a high-level estimate, with a +/- 35% confidence factor, developed during the yearly 2019/2020 capital planning process.

Once approved the SAP Business Foundations Program initiated the Plan and Design Phase.

DISCUSSION

The purpose of the Plan and Design phase of a project is to further refine previously documented business requirements and identify new requirements not originally identified during preliminary Program planning.

The SAP Business Foundations Program Team included SAP's S/4 HANA Finance solution for Accounting, Revenue, and Procurement and SAP's SuccessFactors Human Resource Management solution for Core HR services (Employee Central), Recruiting, Onboarding and Learning Management. During planning, Budget Planning and Consolidation (BPC) and SAP Ariba e-Procurement were added.

However, with the completion of the Plan and Design phase, the Program Team now has a greater level of understanding of business needs and processes. The original scope was too large to implement successfully and within the timeframe proposed. As a result, the SAP Business Foundations Program has separated the implementation of the new SAP solutions into three distinct Projects: Finance (Accounting and Procurement), Tax and Revenue, and Human Resources.

The scope for each of the individual projects was baselined and the initial Program estimate was reforecast. The program budget was reforecast to exceed $55 million dollars.

Understanding the impact to the municipality of this significant increase over the original budget, the Program revaluated its overall approach from the perspective of budget, resources and delivering value to the municipality the focus of this reset was on core financial and human resource services that are critical to establishing a solid foundation for the business while still meeting program objectives. This foundational work must be completed to allow for systems to be sustainable and to allow for future upgrades.

Based on the evaluation findings, the Program's scope of work was adjusted to no longer include Recruiting, Onboarding and Learning Management, Budget Planning and Consolidation (BPC) and SAP Ariba e-Procurement; the Program will explore implementing this functionality in future years. In addition, the Program will issue a Request for Proposal (RFP) for the Build and Deployment of the Finance (Accounting and Procurement) solution in S/4 HANA. The Finance S/4 HANA build is the most complex of the three projects. Issuing an RFP will allow HRM to take advantage of our lessons learned over the past year while mitigating budget and project risks with our current Solution Implementation partner Deloitte. Through the RFP process, the Program will take advantage of Plan and Design findings to increase the efficiency and effectiveness of the Build and Deploy phase further limiting both financial and contract risks.

While the overall budget impact is still greater than originally projected, by reducing scope and minimizing new work along with increasing delivery efficiencies, the Program budget is now projected to be approximately $46M with a +/- 15% accuracy.

The current implementation schedule will be as follows:

- Tax and Revenue Management - February 2022
- Human Resources (Employee Central) – May 2022
- Finance (Accounting and Procurement) – March 2024

FINANCIAL IMPLICATIONS

The project budget of $34.3M as presented in the approved 21/22 capital budget is summarized in the table below with the revised estimate of $46M that was developed based on an increased understanding of the business requirements and scope of the project including rising program costs. The adjusted estimate includes a decrease in the program's scope of work including the removal of Recruiting, Onboarding and Learning Management, Budget Planning and Consolidation (BPC) and SAP Ariba e-Procurement to reduce the overall budget impact and will be explored in future years.

		MARCH 2021	**JUNE 2021**
	POST CAPITAL ACCOUNT CONSOLIDATION		**PROGRAM FOUNDATION**
	PROGRAM ESTIMATE	**AMOUNT**	**AMOUNT**
CI200002	S/4 HANA Finance (Acc & Proc.)		$20M
	eProcurement & BPC	$16M	-
	Tax & Revenue Management (TRM)		$9M
	Success Factors - Employee Central		$5M
	Success Factors - Learning Management System	$7M	-
	Success Factors - Recruiting & Onboarding		-
	SAP Integration (Finance and HR)	$6M	$5M
	Program Management Office	$5M	$5M
	Program Shared Services	$340K	$2M
	Allocation of Projection Across Program	**$34M**	**$46M**

The estimate was revised and reforecast, separating the project work into 3 distinct projects (Tax and Revenue Management, Human Resources, and Finance).

The table below outlines the work completed to date and revised estimate to complete based on the total presented in the revised table above.

	Work Complete (Budget Spent to Date)	**Estimate to Complete**	**Cost to Completion**
Tax and Revenue Management	$ 5,940,000	$3,310,000	$9,250,000
Human Resources (Employee Central)	$ 5,120,000	$ 5,840,000	$10,960,000
Finance (Accounting and Procurement)	$ 4,750,000	$ 21,005,800	$25,755,800
TOTAL	**$15,810,000**	**$30,155,800**	**$45,965,800**

The revised program costs of $46M are included in the proposed 22/23 4-year capital plan. Of the $14.5M allocated for approval between fiscal years 22/23 to 24/25, approximately $13M is proposed new funding as $1.6M was included in the prior year capital budget to be allocated in 22/23. Parts of the program's estimated cost increases will be proposed for inclusion in each of HRM's capital budgets during the 4-year capital plan, starting with the 22/23 budget year.

The project budget is estimated to have a +/- 15% level of accuracy. Additional project costs may come to light with the completion of the RFP for the Build and Implement work of the project and will be addressed through future capital budgeting process.

The ongoing operational costs associated with this project for the 22/23 budget year are estimated at $2.1M for managed SAP applications for Cloud services and Cloud Solution Provider services. These costs have been included in the proposed 22/23 budget to be approved by Council.

RISK CONSIDERATION

The current total project cost is estimated to have a +/- 15% level of accuracy outside of existing project contingency which may result in an additional requirement of approximately $6.5M to complete the current scope of work. The completion of the RFP for the Build and Implementation work of the project is expected to provide better insight into the final project costs. Staff would seek to address any funding shortfalls that may result from the result of the RFP in the upcoming budget cycle when the costs are better understood.

COMMUNITY ENGAGEMENT

No community engagement was required.

ATTACHMENTS

No attachments.

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

Report Prepared by: David Thorpe, Chief Information Officer, PCIT 902.441.1141