P.O. Box 1749
Halifax, Nova Scotia
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Item No. 11.2.1
Halifax Regional Council
October 23, 2012

REGIONAL MUNICIPALITY

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: Original Signed

Russell Walker, Chair, Audit and Finance Standing Committee

DATE: October 17, 2012

SUBJECT: **Alternative Service Delivery Models for SAP Support**

ORIGIN

A request by the Chair and members of the Audit and Finance Standing Committee, at their
meeting of October 17, 2012, to update Regional Council on the possible transition of HRM SAP
support services to the Province of Nova Scotia.

RECOMMENDATION

It is recommended that Halifax Regional Council accept this report for its review.

BACKGROUND

The Alternative Service Delivery Models for SAP Support report, dated October 17, 2012, was before the Audit and Finance Standing Committee on October 17, 2012.

The report details the background on the process for the possible transition of HRM SAP support services to the Province of Nova Scotia. The business case included background information on the motivation to undertake this evaluation, a review of the evaluation process, a recommended option for HRM, budget implications and risk considerations.

DISCUSSION

Committee members discussed this item and directed questions to staff.

The Director of Finance prefaced the discussion by noting that staff are still giving due diligence to this item and HRM is not yet at a decision point. However, the evidence as presented would indicate a favourable decision toward the recommended transition.

Members of the committee expressed a reservation that there is much more information required before the Audit and Finance Committee can make a recommendation to Regional Council and requested that documents provided by the consultants following their initial evaluation be made available.

Members expressed further reservation with respect to the perception that the decision to transfer the SAP is inevitable.

The Audit and Finance Committee recommended Regional Council be in possession of the Alternative Service Delivery Models for SAP Support report, dated October 17, 2012, for its review at the October 23, 2012 Regional Council meeting.

BUDGET IMPLICATIONS

There are no budget implications associated with this report.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Project and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Project and Operating reserves, as well as any relevant legislation.

COMMUNITY ENGAGEMENT

The Audit and Finance Standing Committee is comprised of elected members of Council. All meetings are open to the public and agendas and reports are posted to the web.

ENVIRONMENTAL IMPLICATIONS

No Environmental implications identified.

ATTACHMENTS

Attachment A: Staff Report dated October 17, 2012

A copy of this report can be obtained online at http://www.halifax.ca/council/agendasc/cagenda.html then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Matt Godwin, Legislative Assistant, 490-6521

Original signed

Financial Approval by: _____
                            Greg Keefe, Director of Finance & Information Technology/CFO, 490-6308

HALIFAX
REGIONAL MUNICIPALITY

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

Audit & Finance Committee
October 17, 2012

TO: Chair and Members of Audit & Finance Committee

SUBMITTED BY: _____Original signed_____

Greg Keefe, Director, Finance & Information, Communication &
Technology

DATE: October 17, 2012

SUBJECT: **Alternative Service Delivery Models for SAP Support**

INFORMATION REPORT

ORIGIN

Request of CAO Richard Butts to update Regional Council on the possible transition of HRM
SAP support services to the Province of Nova Scotia.

BACKGROUND

Since 1997 the Halifax Regional Municipality (HRM) has leveraged SAP as its enterprise resource planning (ERP) solution. Currently, HRM's predominant use of SAP is limited to the SAP Financial and Human Capital Management (HCM) modules. HRM currently has an SAP operational support team that is responsible for providing SAP support to business end-users, maintaining master data and administering the SAP infrastructure for HRM. HRM currently hosts its SAP technical infrastructure within the HRM data center.

The Information, Communications and Technology (ICT) Division is undergoing a transformation to align itself with the standards typical of an enterprise class service provider. A component of this transformation involves ensuring ICT managed systems, such as SAP, are meeting the requirements of HRM's business units. HRM's current version of SAP is several versions behind industry standard enhancement packs. In order to implement further SAP functionality that can streamline HRM operations and supply additional value to HRM business units and tax payers, an upgrade of SAP software and related hardware is required. These activities require considerable human and capital investment to complete.

Prior to approving these required investments in HRM's instance of SAP, Finance & ICT management made the decision to explore alternative support options to determine the most effective means of addressing current SAP support requirements. The focus of this analysis centered on outsourcing options to the Province of Nova Scotia's (PNS) SAP Customer Competency Center (CCC).

The SAP CCC has developed extensive experience and expertise working with and utilizing SAP over the last 15 years. The CCC resides within the PNS department of Finance and oversees the SAP system used by provincial government departments, as well as provides SAP outsourcing services to six municipalities, regional school boards, housing authorities, Nova Scotia Business Inc., Halifax Regional Water Commission, and the Nova Scotia Liquor Corporation. In total, the CCC supports approximately 66,000 SAP users.

The CCC was the primary focus of investigation as they supply a centralized service delivery model that provides support services specific to infrastructure, technical services (system administration) and functional services (configuration and enhancements). While the CCC's organization is designed to effectively administer support, it also includes a Project Management Office, a Municipal Support Team, a Change Management office, and a fully staffed Service Desk. Lastly, the CCC operates on a cost recovery basis and has significant buying power because of its size.
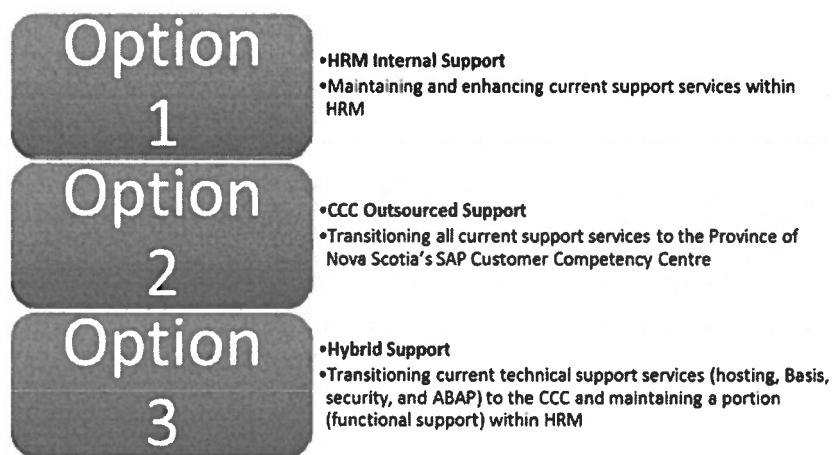
The following focus areas were used in evaluating a potential move to the CCC:

- Industry track record;
- Security and data management policies;
- Availability of proven application processes and procedures;
- Culture match;
- Ease of doing business; and,
- Investment in tools and methodologies relating to the SAP practice. [1]

The business case is complete and has been presented to HRM executive management. The purpose of this report is to update Regional Council on the recommended direction of the business case.

DISCUSSION

A project team was assembled to objectively evaluate the following three alternative support options:

Option 1
- HRM Internal Support
- Maintaining and enhancing current support services within HRM

Option 2
- CCC Outsourced Support
- Transitioning all current support services to the Province of Nova Scotia's SAP Customer Competency Centre

Option 3
- Hybrid Support
- Transitioning current technical support services (hosting, Basis, security, and ABAP) to the CCC and maintaining a portion (functional support) within HRM

The three alternative options were analyzed against industry best practice, using standard criteria for measuring effective SAP support models. In addition, the anticipated total cost of ownership over five years was determined for each option. Inputs into the process included consultations with HRM management, SAP support staff and HRM SAP users, reference interviews with current CCC clients, extensive investigation of the CCC's service offerings, and industry best practice research.

Administration of the approved weighted evaluation criteria identified Option 2, the complete transition of SAP technical and functional support from HRM to the CCC, as the strongest model of the three options. In addition, the completed cost analysis identified Option 2 as having the

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[1] Gartner: *Q&A: How Do You Make SAP Outsourcing Deals Really Work?*, 2011.

lowest total cost of ownership over five years of the three options examined (see table in Budget section below). The report indicated the SAP support model and framework in place at the CCC is likely to produce the most effective SAP support results compared to the other two options, primarily because the CCC views SAP support and delivery as a core competency. If SAP is not a core competency of an organization, it may be too complex to keep pace with functionality that is required to meet emerging business needs. By outsourcing SAP to the CCC, HRM can shift its focus away from competencies that are not part of its core delivery and allow a service organization to expend the effort necessary to keep up with the complexities of SAP delivery.

The recommendation of the business case is that HRM should pursue **Option 2,** engaging the CCC to negotiate a Service Level Agreement and financial contract for the provision of all functional and technical support services. This recommendation was reviewed and supported by the HRM executive management.

Prior to formalizing an agreement, appropriate due diligence is required with the SAP CCC as it lays the foundation for a new service management contract. Human resource considerations will be a significant component of the due diligence process. In addition it will be necessary to develop a detailed transition plan. A transition strategy and associated due diligence stage is now underway to establish a service level agreement and lay the ground work to complete a successful transition.

BUDGET IMPLICATIONS

This section outlines the total anticipated costs for each solution option over a 5 year period. Direct (net new to operational budgets) and indirect costs (internal investment required to complete project from current operational expenditures; e.g. time investment from current staff) are both included in the total cost figures. .

Comparative Summary of Costs by Solution Option							
	Implementation Year						
Solution Options	0	1	2	3	4	5	Total
Option 1: Internal	$ 131,840.00	$ 1,427,744.83	$ 1,451,038.32	$ 1,470,883.89	$ 1,491,027.15	$ 1,511,472.56	$ 7,484,006.75
Option 2: CCC	$ 301,960.00	$ 1,195,520.54	$ 1,173,680.43	$ 1,181,723.14	$ 1,189,886.49	$ 1,198,172.28	$ 6,240,942.88
Option 3: Hybrid	$ 300,280.00	$ 1,555,037.58	$ 1,545,055.81	$ 1,562,286.40	$ 1,579,775.44	$ 1,597,526.82	$ 8,139,962.05

A fully outsourced model will cost HRM approximately $170,000 more in upfront costs (some of which come from internal staff costs). However, the average annual operating cost over the five years is $282,000 less through a fully outsourced model, leading to a total cost savings of approximately $1,240,000 over a five year period.

Research also indicates that an average SAP support division features 1.92 support staff per 100 users. Fifty percent of these staff are committed to functional support. HRM has 750 SAP users.[2] This would suggest that seven SAP Specialists are required, compared to the current contingent of six. Thus, in order to provide a level functional support equal to the CCC, HRM would incur additional annual staffing costs of $90,000. This would lead to an additional $450,000 in costs over a five year period.

Risk

The business case identified a number of risks to proceeding with this initiative (see diagram below). The most significant risk is that the SAP CCC is currently part of a province wide service review, where alternative service delivery models for the CCC are being examined. This introduces an element of risk and uncertainly to HRM's desire to outsource its SAP support service to the CCC. All elements of this risk will be examined as part of the due diligence process underway, and will form a key consideration in the final decision to proceed with the outsourcing engagement as outlined in the business case.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Project and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Project and Operating reserves, as well as any relevant legislation.

Solution Option	Risks				
	Loss of Institutional Knowledge	Hardware Failure	PNS SAP Review	Loss of Staff Affecting Morale	Security of Police Data
Option 1		☑			
Option 2	☑		☑	☑	☑
Option 3			☑	☑	☑

COMMUNITY ENGAGEMENT

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[2] Gartner: *Gaining Insights From SAP Support Staffing Data*, 2005

N/A

ATTACHMENTS

N/A

A copy of this report can be obtained online at http://www.halifax.ca/commcoun/cc.html then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by :   Donna Davis, Chief Information Officer, 490-4417

Original signed

Report Approved by: Greg Keefe, Director of Finance & ICT/CFO , 490-6308