Subject: Financial Enterprise Resource Planning System Shared Services Agreement

Report to: Corporate Services Committee

Report date: Wednesday, June 15, 2022

Recommendations

1. That staff **BE AUTHORIZED** to enter into negotiations with the City of St. Catharines regarding a financial enterprise resource planning (ERP) system implementation work plan, project agreement, and shared services agreement;
2. That Regional Council **DELEGATE AUTHORITY** to the Commissioner of Corporate Services and Director of Legal Services to enter into the agreements; and
3. That upon execution of the agreement, staff **BE AUTHORIZED** to hire up to four (4) new permanent FTE, to be fully funded by the City of St. Catharines under the terms of the agreements, to provide the implementation and ongoing system support.

Key Facts

- The purpose of this report is to seek Council's approval to enter into discussions with the City of St. Catharines to establish an implementation work plan, project agreement, and a shared services agreement for Niagara Region to become their financial enterprise resource planning (ERP) system and support provider.
- The Region has proposed a model that will require up to four (4) net new permanent FTEs to support the City, to be fully funded by the terms of the project and annual support agreement.
- This initiative aligns with one of the recommendations from the KPMG sustainability review, to explore opportunities for integration of service delivery with the Region's local area municipal partners.

Financial Considerations

In 2021, the City of St. Catharines engaged EY to estimate the costs associated with implementing a new financial enterprise resource planning (ERP) system on their own, compared with the costs to partner with the Region to leverage our system. EY estimated a net present value (NPV) of $12.3 million to go it alone, compared with an

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NPV of $7.1 million to partner with the Region. EY presented to City Council that they would see an NPV estimated savings of $5.2 million by using the Region's system.

Region staff challenged some of the assumptions used in EY's report to further refine those estimates, based on our own implementation experience in 2016 coupled with existing in-house skills and knowledge. The Region estimates that a partnership would have an NPV of $9.6 million, compared to a stand alone NPV of $12.8 million, which is still an estimated NPV savings of $3.2 million to the City versus going it alone. The reduction relates primarily to fact that the Region is proposing to be involved in the pre-implementation project phase as well as an understatement of sustainment resources.

By staff's estimation, in a partnership, the City will cover all incremental costs to the Region for shared services support, which are identified as internal backfill costs during the project, up to four (4) new permanent FTEs, incremental software licensing costs, and hardware, infrastructure, and overhead costs. These costs are subject to further negotiation with the City to finalize the overall structure of the project, implementation work plan, timelines, and sustainment support model.

Analysis

In February 2016, Niagara Region went live with a new financial enterprise resource planning (ERP) system (specifically, PeopleSoft Financials, and Hyperion for budgeting and forecasting) to transform and modernize our financial management processes. At the time, the Region ensured the licensing agreement for the software could be extended to the local area municipalities, should any of them choose to review their own systems in the future.

The City of St. Catharines (the City) has been reviewing opportunities to modernize City processes and improve service delivery in recent years. In 2019, under the province's Audit and Accountability Fund, the City engaged Ernst & Young LLP (EY) who identified an opportunity to replace and improve outdated technical systems. (See City of St. Catharines Audit and Accountability Fund – Public Report (CAO-249-2019) (https://stcatharines.civicweb.net/document/72767).)

Under the second intake of that fund in 2021, EY was further engaged to complete a feasibility analysis and recommendation for the City to upgrade outdated financial systems and software with a more robust solution. (See City of St. Catharines Audit and Accountability Fund Intake 2 – Public Report (CAO-154-2021) (https://stcatharines.civicweb.net/document/90560).)

Through these engagements, the City began making inquiries regarding the potential to leverage the Region's ERP. In September 2020, Region staff provided a demonstration of PeopleSoft Financials for City staff. During the 2021 EY engagement, Region staff were interviewed regarding our implementation process, as well as the current structure, processes, and policies supporting our use of the ERP. The Region also had the opportunity to provide feedback on a draft of the 2021 EY report before it was presented to City council, although much of staff's comments were unfortunately not reflected in the final version.

Both the Region and City agree, this partnership is a shared services opportunity between municipalities. This type of cooperation between municipalities has been a focus of the provincial government in past years. The Region's sustainability review, completed by KPMG in 2020, identified integration of service delivery with LAMs as a potential opportunity for cost reduction. In this instance, the City gets the benefit of the Region's large scale ERP, as well as our years of experience supporting the system, without the same scale of initial expense outlay. In addition, the PeopleSoft Financials skills set becomes transferrable as staff take new roles between municipalities, meaning less time is required to onboard from a systems perspective. The Region gets the benefit of additional staff resources for the ERP Support team who can be cross-trained for deeper bench strength and more sustainable long-term support.

Systems will be set up in a way that Region users would not have access to City financial data, and vice versa, which will simplify support of the system when issues arise, and basic processes will be the same for both organizations (how an invoice is entered by an Accounts Payable Clerk will be the same for both Region and City staff, for example). In addition, the City gets the benefit of the existing ERP Support team resources, meaning fewer new FTE are required than originally proposed by EY, since backup, vacation coverage, and cross-training can be provided by Region staff.

The end result is that on October 4, 2021, City Council approved a recommendation to support EY's findings that the City should pursue moving to PeopleSoft Financials as the City's ERP, and that staff work with the Region to develop an operating model and shared services agreement for the City to leverage the Region's instance of the software.

A small working group of Region Finance and IT staff developed a proposed operating model and high level costing estimates that suggest a pre-implementation, implementation, and sustainment support structure to become the City's ERP Support provider. This model is slightly different than the one proposed by EY, but reflects what

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Region staff believe aligns best with both the Region and the City's needs, resources, and time available. The ERP Support team, put in place with the corporate restructure that occurred as part of the 2016 system implementation, is very lean. Deloitte, the Region's implementation partner, had recommended a team of up to 15 resources, and the Region moved forward with only eight. As such, the Region does not have internal capacity to take on this support work, so additional FTE resources will be required for dedicated City support. The draft model was shared with the Region's Corporate Leadership Team (CLT) in November 2021, and with CLT's approval, staff shared it with the City early in 2022. The City agreed that it aligned at a high level with their expectations and budget. A summary of the project phases are described below.

Phase 1 – Pre-implementation

The Region will assign existing internal resources to support the project, including a project lead, a Senior ERP Business Analyst (functional support), Senior ERP Systems Analyst (technical support), with various subject matter experts from teams across the Region called upon as needed to provide input on processes and policy. The project lead will work with City project staff to develop the City's RFP for an integration partner. Over the first 6-12 months, the project team and integrator will work together on:

- Organizational structure realignment
- Report rationalization
- Chart of accounts development
- Sub-system interface requirements assessment
- Data cleansing
- Business process analysis
- Policy development (budget control, procurement by-law amendments, etc.)

Recruitment will take place for the backfilled resources so onboarding is completed prior to the implementation phase. The intent is that the backfills will become the permanent City support in the sustainment phase; they will have the benefit of more than a year of cross-training under the Region's structure before moving to the City portfolio.

Phase 2 – Implementation

The Region's project resources will be assigned full-time for the implementation phase. This phase is estimated to take 12 months and includes:

- Mobilization and planning, with baseline configuration

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- Design, build, configuration, and unit testing
- System integration testing (SIT) and user-acceptance testing (UAT)
- Training
- Cutover/go-live

Phase 3 – Sustainment

Ideally, the City would like to go-live with using PeopleSoft Financials on January 1, 2024. Given the time taken to have upfront discussions on the model, that date may no longer be feasible. However a cut-over as early as possible in 2024 is still the goal, at this time.

Post go-live, the Region is proposing that permanent FTE are added to the ERP Support team, fully funded by the City shared services agreement, and dedicated to City support.

As conversations with the City have progressed, they identified that they would like to bring Hyperion for budgeting and forecasting into scope of the arrangement. Region staff are still identifying the impact to the proposed support model and costing; however, both parties have agreed that in order to accomplish this, some PeopleSoft Financials modules may need to be brought online post-go live (such as project costing and asset management). This aligns with the approach the Region took during our own implementation in 2016, so staff believe this is reasonable.

Next Steps

With Regional Council approval of this report, the next steps will be as follows:

- July 2022: The City will report to St. Catharines Council for approval to proceed with partnership
- Q3 2022: Negotiate project plan and agreement, proceed with RFP for implementation partner
- Q4 2022: Negotiate shared service agreement, proceed with hiring the backfill resources, pre-implementation phase begins
- 2023: Implementation phase
- 2024: Go-live and sustainment phase

It is worth noting that since discussions began with St. Catharines, the City of Niagara Falls has reached out as they are keen to explore a similar partnership to replace their

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own legacy financial systems. Niagara Falls has recently retained EY to undertake a similar review as St. Catharines, and Region staff provided a demonstration to the Niagara Falls team in March of this year. The Region expects that upon successful completion of the St. Catharines project, a similar project with Niagara Falls is likely to begin.

Risks

While there are significant advantages to this partnership, as noted above, there are identified risks as well:

- Should recruitment of critical ERP support roles prove to be a challenge, the Region and City would have to rely on existing team resources in the interim and then collectively assess the impact to timelines of a multi-year implementation strategy, alternative recruitment strategies, etc. This would also impact Region-side system enhancements through the transition.
- The Region has never implemented an ERP for anyone else, therefore there is a risk around cost estimates used in the model. The intent is this will be mitigated with a time and materials project agreement.
- The incremental cost increase by adding the City to the Region's software license is permanent. Therefore, should the City for any reason wish to exit the agreement, they would still be liable for the incremental City-related license cost, until such time as the Region is no longer using PeopleSoft Financials.
- Any Region decisions regarding future ERP strategy will impact the City. The City is requesting a minimum 10-year commitment, which binds the Region to the current financial ERP for this duration. However, the City has indicated that they desire to continue this relationship for the foreseeable future.
- Coordination of system downtime for security patches, fixes, upgrades, etc. could impact business processes for all Region staff. A strategy for coordination will be discussed in the service agreement.

Alternatives Reviewed

This type of agreement is new to the Region. As such, there are inherent operational and financial risks that staff may have underestimated the resources and time needed to complete this project and support the City going forward. Council could choose not to approve the recommendations in the report, which would mean the City would have to proceed with looking for an alternate software and support solution, likely either at a much greater cost than proposed by the Region, or much less available functionality.

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This is not recommended, due to the alignment with the recommendation of the KPMG sustainability review to pursue shared services opportunities with our local area municipality partners.

Relationship to Council Strategic Priorities

This report ties to the Council Strategic Priority of Sustainable and Engaging Government, in particular the objectives to promote high quality, efficient, and coordinated core services, and be fiscally sustainable.

Other Pertinent Reports

CSD 55-2020   Sustainability Review Final Report (https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=b4176fca-9b55-4570-8d9b-82ce6e61da09&Agenda=Merged&lang=English&Item=11&Tab=attachments)

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Appendices

None