

## Fusion Implementation

### ISSUE

The Administration launched the first wave of the Fusion implementation (Enterprise Resource Planning (ERP) program) on January 4, 2021. This milestone was achieved on time, within the intended scope and within budget. Fusion 2.0 is underway with additional functionalities coming online in 2022. The purpose of this report is to update City Council on Fusion and seek approval for an extension to the capital project budget including the temporary reallocation of capital reserve contributions. This capital project is included within the Preliminary Multi-Year Business Plan and Budget Document.

### BACKGROUND

Following the lead of other complex organizations and municipalities, the City of Saskatoon (City) began exploring an ERP system in 2016. The vision of “Fusion,” a project to adopt best practice processes supported by an ERP, is “to fuse our many diverse processes, creating a new energy and a unified approach to managing our resources.” Fusion is the largest internal transformation the City has undertaken and requires almost all employees to change the way they approach their work.

On August 30, 2019, the City entered into an agreement with PricewaterhouseCoopers LLP (PwC) and SAP for the implementation of an ERP system. This agreement includes a five-year contract with SAP for ERP software modules and a five-year ERP Master Services Agreement with a 24-month statement of work with PwC.

Wave 1 of the project was initiated on October 28, 2019 and went live on January 4, 2021 with the following functionality by entity:

- City: Finance; Supply Chain Management; Human Capital Management; and Enterprise Asset Management functionality.
- Saskatoon Police Service: Finance; Supply Chain Management; and Human Capital Management functionality.
- Saskatoon Public Library: Finance and Human Capital Management functionality.
- SaskTel Centre, TCU Place, and Remai Modern: Human Capital Management functionality.

PwC continues to support Wave 1 functionality in a separate contract for Application Managed Services. In this two-year contract, the City has a bank of hours to draw from to support ongoing configuration (changes in the system), as the Administration builds additional knowledge and competencies in SAP configuration.

In April 2021, work began on Fusion 2.0. The second phase of the project builds on the foundation of Wave 1, with added functionality in Human Capital Management and a full roll out of Enterprise Asset Management functionality with GIS (geographic information system) capability. Work in 2021 has focused on engaging stakeholders in conversations on proposed best practices, system configuration, process

documentation and testing. The following functionality will launch to the corporation in stages from January to June 2022:

- Human Capital Management:
  - Recruitment; Onboarding and Benefits
  - Compensation; Learning Management; Workforce Analytics
  - Labour Relations; Enterprise Health, Safety & Environment Management
- Enterprise Asset Management, with GIS capability

The approved capital budget for Wave 1 and Fusion 2.0 was \$29.15 million. Once new processes and the SAP system are fully implemented, the outcome is ongoing operational efficiencies across many departments and functional areas, better tools to support critical operational work, reduction of redundancies, greater potential for collaboration, and accurate and real time data. The operational efficiencies realized through the Fusion program will strengthen citizen services and provide higher value for tax dollars.

Financial benefits of implementation identified in the original business case prepared by Deloitte in 2016 included:

- Over \$40.0 million in anticipated savings and efficiencies in the first six years following implementation; and
- Ongoing savings and efficiencies of \$9.7 million per year in 2028 over today's environment.

Fusion and its supporting technologies are a long-term investment that requires ongoing attention to ensure maximized use of the system, continuous improvement, and adaptation to business innovations.

## **DISCUSSION / ANALYSIS**

The Fusion project is an initiative in the City's Workplace Transformation vision. Administration and City Council have made a significant commitment to this pivotal transformation. It is an initial \$30 million capital investment in the City's future that needs not only sustaining but enhancing to realize its long-term benefits.

Fusion 2.0 implementation and ongoing operations will continue into 2022, with planning for future functionality enhancements in 2023 and beyond. Administration continues to work on the transition to a sustainment and advancement office. The sustainment and advancement function would focus on user adoption, benefits realization, helping leaders make strategic business decisions using a defined master data source, and tapping into ongoing improvements to continue creating a unified approach to managing City resources.

The funding plan for 2024 onward is to transition the ERP implementation from a capital project to an operating program.

## FINANCIAL IMPLICATIONS

### Project Costs:

The following table shows actual and planned costs of the project up to September 30, 2021:

<b>Item</b>	<b>Cost (\$M)</b>
Pre-implementation - Actual costs (2016-2019)	\$1.327
Wave 1 Implementation - Actual costs (2020-2021)	\$15.737
Fusion 2.0 Implementation - Planned costs (2021- April 2022)	\$11.056
Project contingency	\$1.003
<b>CAPITAL PROJECT TOTAL</b>	<b>\$29.150</b>

<b>Cost estimates and additional budget (\$M)**</b>	<b>2022</b>	<b>2023</b>
Advancement projects to deliver advanced employee scheduling and other business process advancements.	\$2.615	\$1.245
ERP annual operating costs: licenses and cloud-based servers	\$0.888	\$1.728
Transition to a sustainment & advancement team that will drive ongoing adoption of new business processes and long-term realization of the ERP benefits	\$1.835	\$3.560
<b>Additional Budget Request</b>	<b>\$5.338</b>	<b>\$6.533</b>

[\*\*Notes: Above forecast based on current assessments at the time of budget reporting. Additional estimates and validation of assumptions may alter this allocation. 2022 cost estimates represent a partial year for ERP annual cost and transition team salaries, as the initial Fusion 2.0 implementation wave and funding ends in spring of 2022. Salaries are split across project and sustainment activities (40% project/60% sustainment in 2022; and 30% project/70% sustainment in 2023).]

The budget for Pre-implementation, Wave 1, and Fusion 2.0 was set at \$29.15M—with funding ending at the end of Fusion 2.0. As noted in the above table, Administration is requesting a 2022 capital budget increase of \$5.338 million to support the new system and business processes, a project to implement additional functionality from our initial SAP bundle (advanced employee scheduling), and other required implementations to provide employee adoption and corporate efficiencies. This request also includes fees for ERP licenses and service charges for our cloud-based servers (the ERP system is stored in the cloud, not on servers at the City).

In 2023, the project budget request of \$6.5 million to continue to support the system and business processes, and further implementation of Fusion 3.0. The Fusion Team is gaining experience in running an integrated ERP, enabling the business to be more

successful, and ensuring we have the skills and resources required to stabilize new business processes into the future. This funding is to bridge from a capital project to an operating program. Administration will report back on further plans to transition to a sustainment and advancement office.

#### Project Funding:

The approved capital budget for Wave 1 and Fusion 2.0 is \$29.15 million, drawn from a variety of capital sources (reallocation of New Building Canada Fund, Police Payroll Project, Reserve for Capital Expenditures, Corporate Financial Services Reserve, and a temporary reallocation from Capital Reserve Contributions).

The 2022 capital project funding request is proposed from \$4.0 million in Capital Reserve Allocations from various reserves and \$1.338 million in Operating Fund Allocations.

The 2023 capital project funding request is proposed from \$4.0 million in Capital Reserve Allocations from various reserves and \$2.533 million in Operating Fund Allocations.

Administration recommends continuing the temporary reallocation of \$4.0 million annually from capital reserve contributions from across the corporation. The Administration believes the reserve allocation is an appropriate funding solution as the ERP system is anticipated to have a wide range of benefits across the corporation and allow the City to be more efficient in the use of its resources, such as:

- Enhanced procurement data and analytics, allowing the City to better understand current spending patterns and implement improved procurement approaches to maximize the value obtained by the City;
- Increased workforce data and analytics, allowing for more proactive time management and improved scheduling and productivity targets; and
- Improved day-to-day processes for accounts payable and payroll, minimizing the amount of time required to complete these tasks.

Although there will be some short-term impacts that could include deferring projects or reducing projects' scopes, the future purchasing power of these reserves will be enhanced as new processes and the ERP are implemented and benefits are gained in terms of capacity, efficiency and decision-making.

To note, the ERP Business Case completed by Deloitte in 2016 outlined that the City should expect a negative efficiency impact for the first four years after implementation, estimated at about \$6.6M per year. After year four post-implementation, savings are expected to start being realized from the ERP investment.

#### **OTHER IMPLICATIONS**

There are no privacy, legal, social or environmental implications identified.