

**Deloitte.**

*The City of*  
**BARRIE**

City of Barrie

ERP Business Case

Council Update

December 10, 2012



# Background

**The Project** - The City of Barrie (City) contracted with Deloitte to undertake a comprehensive needs assessment of their financial systems and applications.

**Current Systems** – The City has at least 48 separate business applications processing financial information. These systems are not integrated and many are challenged in terms of functionality, reporting and vendor support.

**The Opportunity** – In order to further enable the efficient and effective delivery of service, the City needs to rationalize these applications into an Enterprise Resource Planning (ERP) environment with enhanced integration to key operational systems for service and work management.

**Business Case.** Our assessment has identified numerous opportunities for efficiency through process automation, approval workflows, integration, reporting and enhanced, fact-based decision making.

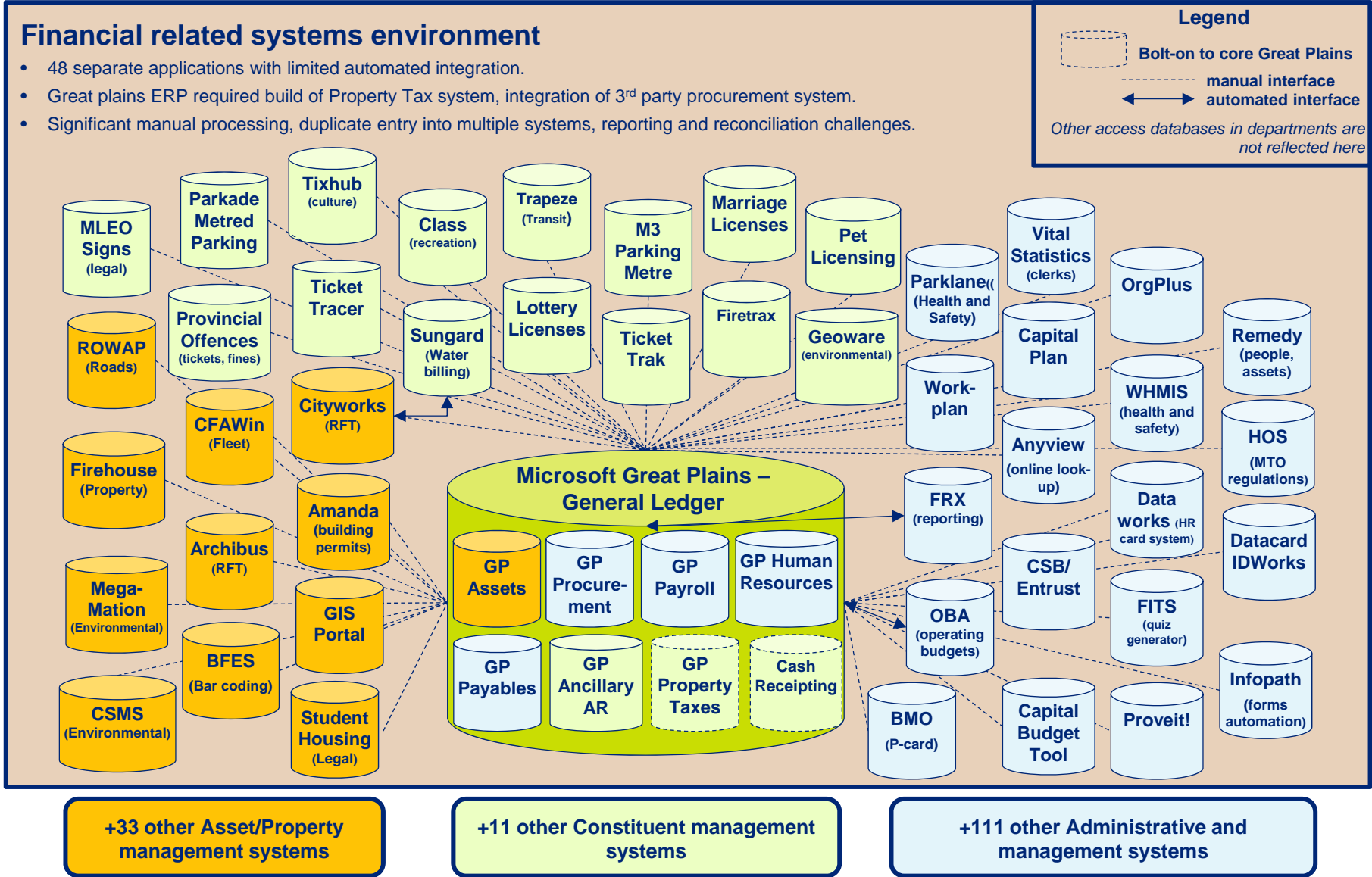
## Business case focus

**Investment** – is significant, estimated at \$10.3M in capital over three years, and an increase in the annual operating budget of \$320,000 (plus inflation) starting in 2015.

**Benefits** – of approximately \$15M are also significant in terms of efficiency, cost avoidance and effectiveness:

- **Automation** – manual processes and activities with forms automation and system workflows;
- **Rationalize** – the number of business applications used to process financial transaction;
- **Improved procurement** – strategic vendor management, percentage savings on future spend;
- **Decision support** – more timely, relevant, reliable and valuable information;
- **Streamline integration** – with other administrative and operational systems;
- **Re-deploy manual effort** – through a centralized mechanism to value added activities;
- **Enhance internal controls** – better mitigate financial and reputation risks; and
- **Avoid cost of adding new staff** – to administrative processes as the organization grows.

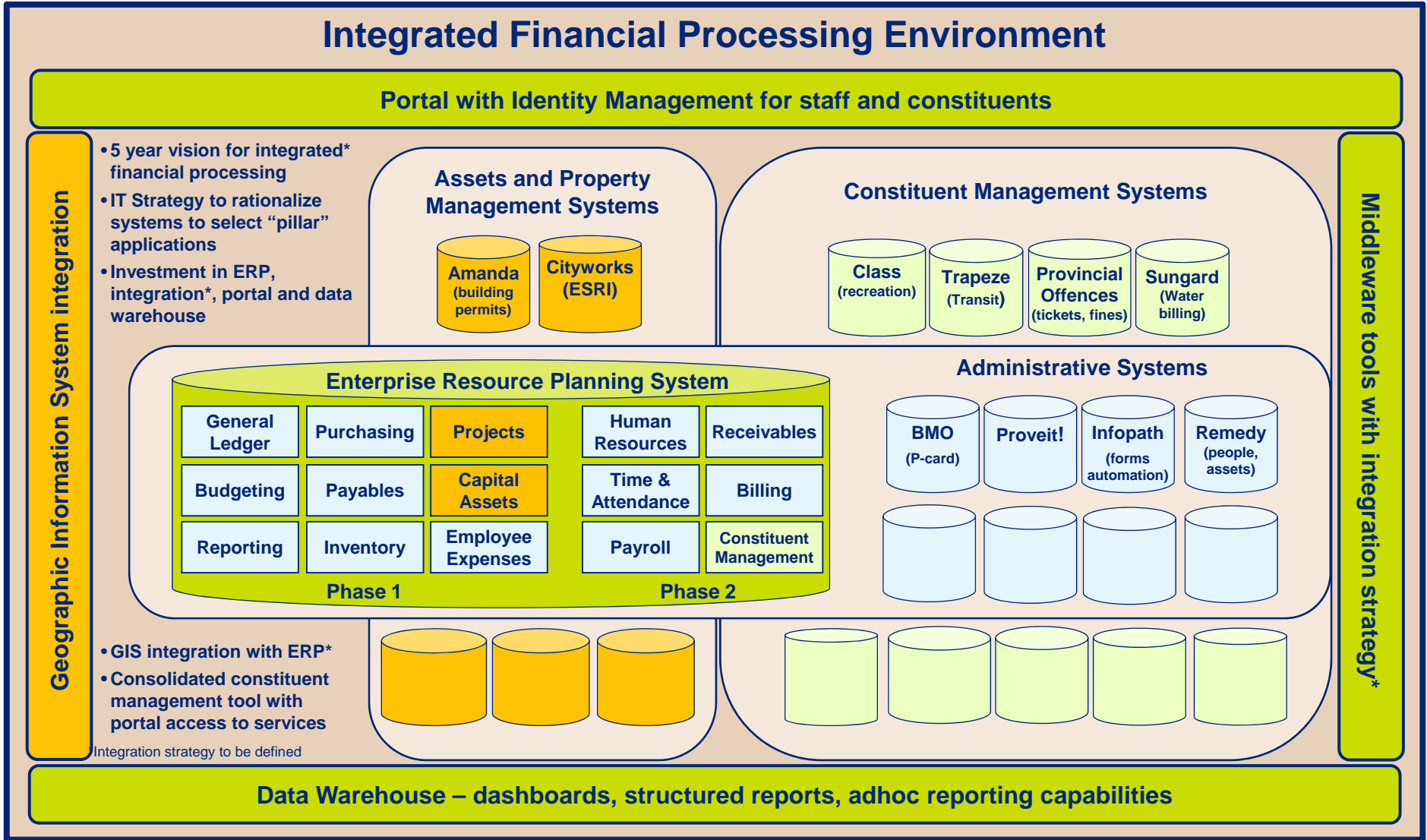
# Financial processing is segregated and manually intensive



# There is significant risk and inefficiency in our current environment

1. **Great Plains is not sustainable** – Microsoft suggests migration to their Dynamics product which is more aligned to the City’s size, complexity and desired decentralized utilization.
2. **Workflows and approvals are 90% manual** – significant effort and paper shuffle is cumbersome to manage, leading to increased financial and reputation risk that is difficult to mitigate.
3. **Limitations in budget forecasting for financial commitments** – increases risk of over-commitment against project or department budgets and inability to maximize interest income on cash flow.
4. **Dispersed information management through “workarounds”** – system inadequacies have inspired a proliferation of Excel in all departments, increasing risk of errors and data integrity in addition to efficiency losses.
5. **Redundant systems** – multiple work management and receivables systems/interfaces increases the risk of duplicate vendor payments, lack of coordinated collections and reputation risk with constituents.
6. **Inconsistent report and data definitions** – varying interpretations of accounts, reports and indicators increases alignment risk within management and wasted effort on reconciliations.
7. **Insufficient automation for managing risk and ensuring financial control** – controls are not formalized and are manually intensive.
8. **Lack of meaningful analytics** – the burden of effort on simply processing and managing information has reduced capacity for value added analytics and fact based decision making.
9. **Manually intensive procurement** – lack of tools and automated workflows has increased the risk of non-compliance with purchasing by-laws and policy.
10. **Proliferation of “point” solutions** – without a new system and application strategy, the City may continue to purchase/build single purpose solutions, increasing support costs and data risks.

# ERP will simplify and enhance our financial processing environment



## Implementation scope for an ERP system

- The scope is to replace Microsoft Great Plains and other specific applications identified by implementing an ERP system with the following functions and integration:
  1. **One view of the Customer** – to standardize and improve service delivery;
  2. **Faster, better reporting** – balanced scorecards, performance dashboards;
  3. **Automated approvals** – workflows and controls for users within the selected system;
  4. **Comprehensive financial reporting** – improve budget management and timeliness of reporting;
  5. **Enhanced vendor management** – improve the efficiency and effectiveness of non-salary spend;
  6. **Improved stewardship of capital** – improve stewardship of the City's assets and capital spend;
  7. **Service based budgeting** – Integrated operating and capital budget preparation tool;
  8. **Improved workforce management** – Integrated Human Resource Information System;
  9. **Proactive cash management** – decrease net interest exposure; and
  10. **End user focus** – training, training and training.

# Options considered for systems renewal

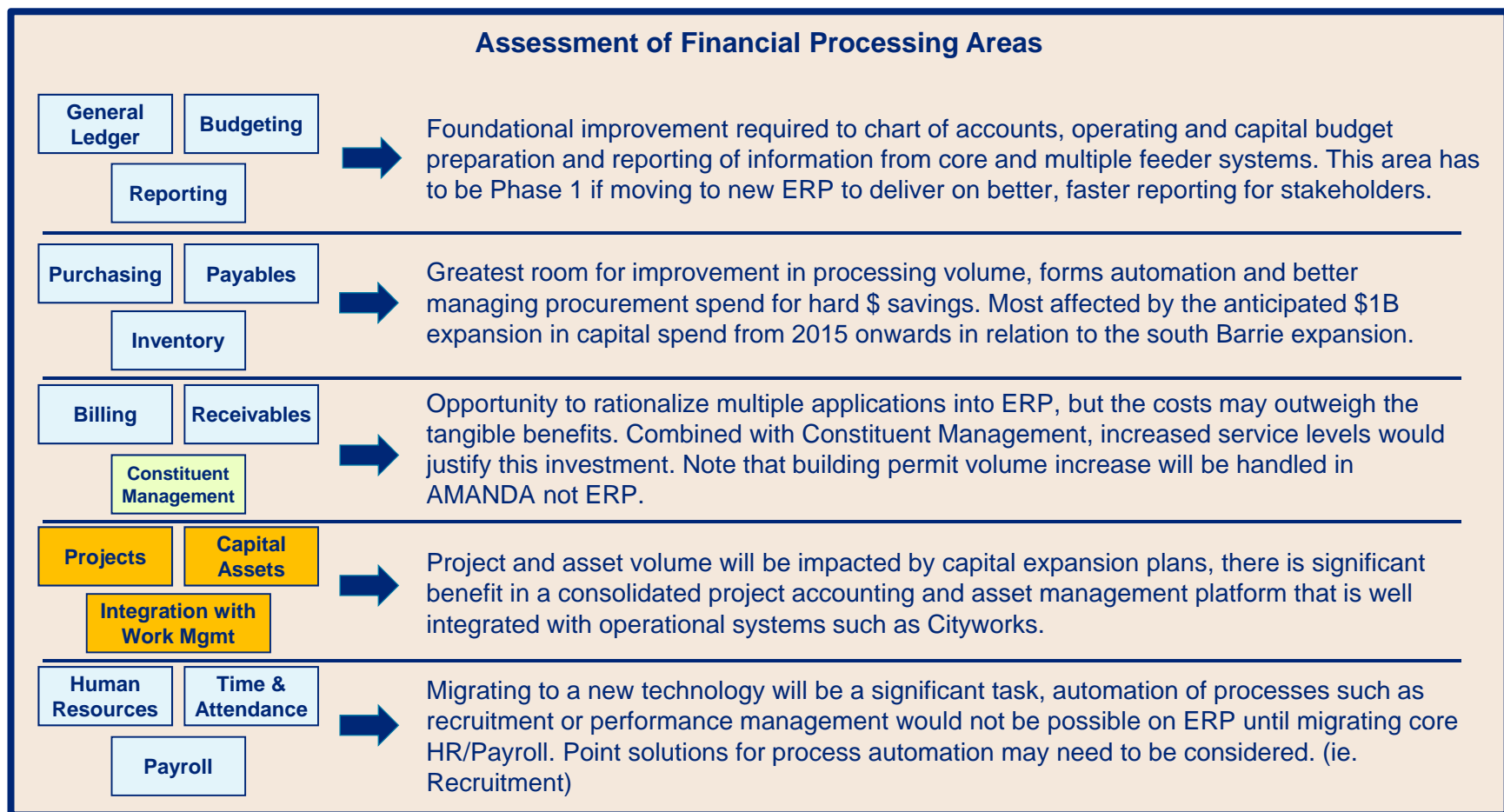
- There is a need for new technology to enable the efficiencies in processing and increased effectiveness of reporting and decision support, therefore a formal RFP process is required to evaluation potential solutions.
  - The City should conduct an RFP for a solution rather than just the software, as this provides for comparable assessment of total cost of ownership, and can allow for better planning and budget estimating prior to contracting for the software license.
- For this business case, we have assessed the options below, estimating costs and benefits only for option 3, as there are more available data points, providing the high watermark of cost and benefits.
  - The RFP process will allow further assessment of options 2,3 and 4, with lower costs expected through a competitive process.
  - If the City determines that SAP is the desired option from this process, then a shared service discussion with the County should be undertaken at that time to identify further cost saving opportunities.
  - This business case should be updated prior to implementing the selected solution.

Option	Risk	Benefits	Cost	Decision
1. Status Quo	HIGH	NEGATIVE	NEGATIVE	Not a viable option
2. Microsoft Great Plains to Dynamics	HIGH	MODERATE	MODERATE	Evaluate further during RFP process
3. Tier 1 ERP – (SAP, PeopleSoft, JDEdwards)	MODERATE	HIGH	HIGH	Evaluate further during RFP process
4. New entrants – ie. NetSuite Cloud Based	HIGH	MODERATE	MODERATE	Evaluate further during RFP process



## Better information for departmental decision making

- While its clear that a new financial processing environment is required, the challenges and opportunities vary in each processing area.
- To assist in planning and estimating, each area was assessed below.



# Phased implementation approach reduces risk

- This is a significant and complex undertaking that requires extensive planning to establish key activities, milestones, decision points and opportunities to re-assess progress, objectives, forecasted costs and benefits.
- There are still many pre-implementation activities to occur as illustrated below, all of which are designed to further assess, plan, estimate and provide control on the overall spend associated with this project.
- The implementation would be phased with milestone dates and assessment of continuing the spend/investment in professional fees and backfill for Phase 2 based on results and lessons learned from Phase 1 (ie. Actual cost vs budget, re-estimation of projected benefits, changes in fiscal environment, staff and vendor performance).

Business Case Approval and Capital Allocation by Council.

Request for Proposals – Software Vendor and System Integrator.

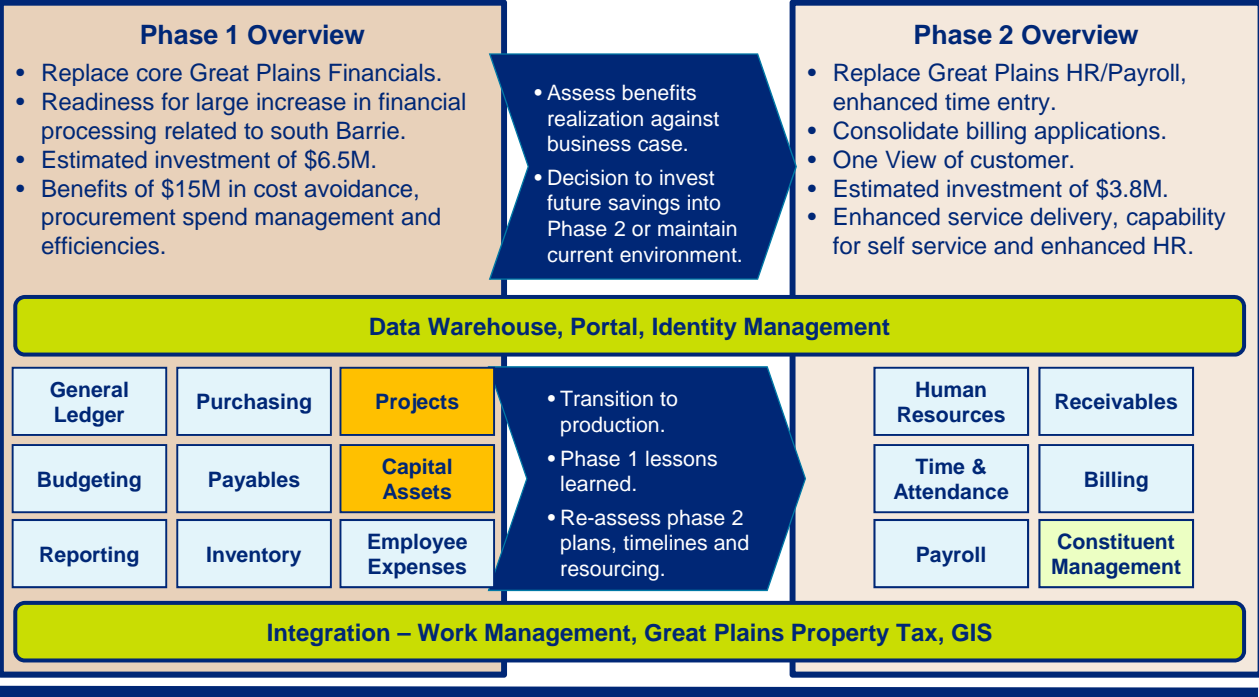
Assess partnering options, decision and Contract Award.

Assign City resource and backfilling process.

Planning and scoping, business case update with successful vendor(s).

License software for full implementation.

Contract for services for Phase 1 with Data Warehouse and Integration.



Pre-Implementation 2013

2013 – 2016 Implementation Timeframe for 2 or more phases

## Capital and operating budget impacts

- This project is included in the capital budget, with funding provided by the Tax Capital Reserve.
- The City is under-invested in Finance related technology – procurement, business intelligence, capital projects/assets, workflow/approval routing, human resources and customer management – this investment will yield cumulative benefits of \$15M over 10 years will require a focused approach to managing benefits realization post implementation.

City of Barrie ERP Business Case	Years					
	2013	2014	2015	2016	2017-2022	Total
<b>Capital budget impact</b>	<b>4,472,000</b>	<b>4,970,000</b>	<b>821,000</b>	<b>-</b>	<b>-</b>	<b>10,263,000</b>
<b>Operating budget impact</b>	<b>0</b>	<b>510,000</b>	<b>429,000</b>	<b>438,000</b>	<b>2,673,000</b>	<b>4,050,000</b>
<b>Total Budget Impact</b>	<b>4,472,000</b>	<b>5,480,000</b>	<b>1,250,000</b>	<b>438,000</b>	<b>2,673,000</b>	<b>14,313,000</b>
<b>Potential Benefits</b>						
<i>Avoidable Current Costs</i>	-	-	87,000	89,000	542,000	716,350
<i>Avoidable Future Costs</i>	300,000	300,000	164,000	164,000	1,280,000	2,208,000
<i>Cost Reduction</i>	-	-	1,915,000	1,934,000	8,712,000	12,561,000
<b>Total Benefits</b>	<b>300,000</b>	<b>300,000</b>	<b>2,166,000</b>	<b>2,187,000</b>	<b>10,534,000</b>	<b>15,487,000</b>
<b>Cumulative Benefits</b>	<b>300,000</b>	<b>600,000</b>	<b>2,766,000</b>	<b>4,953,000</b>	<b>15,487,000</b>	
<b>Annual Cash Flow</b>	<b>(4,172,000)</b>	<b>(5,180,000)</b>	<b>916,000</b>	<b>1,749,000</b>	<b>7,861,000</b>	<b>1,174,000</b>
<b>Cumulative Cash Flow</b>	<b>(4,172,000)</b>	<b>(9,352,000)</b>	<b>(8,436,000)</b>	<b>(6,687,000)</b>	<b>1,174,000</b>	

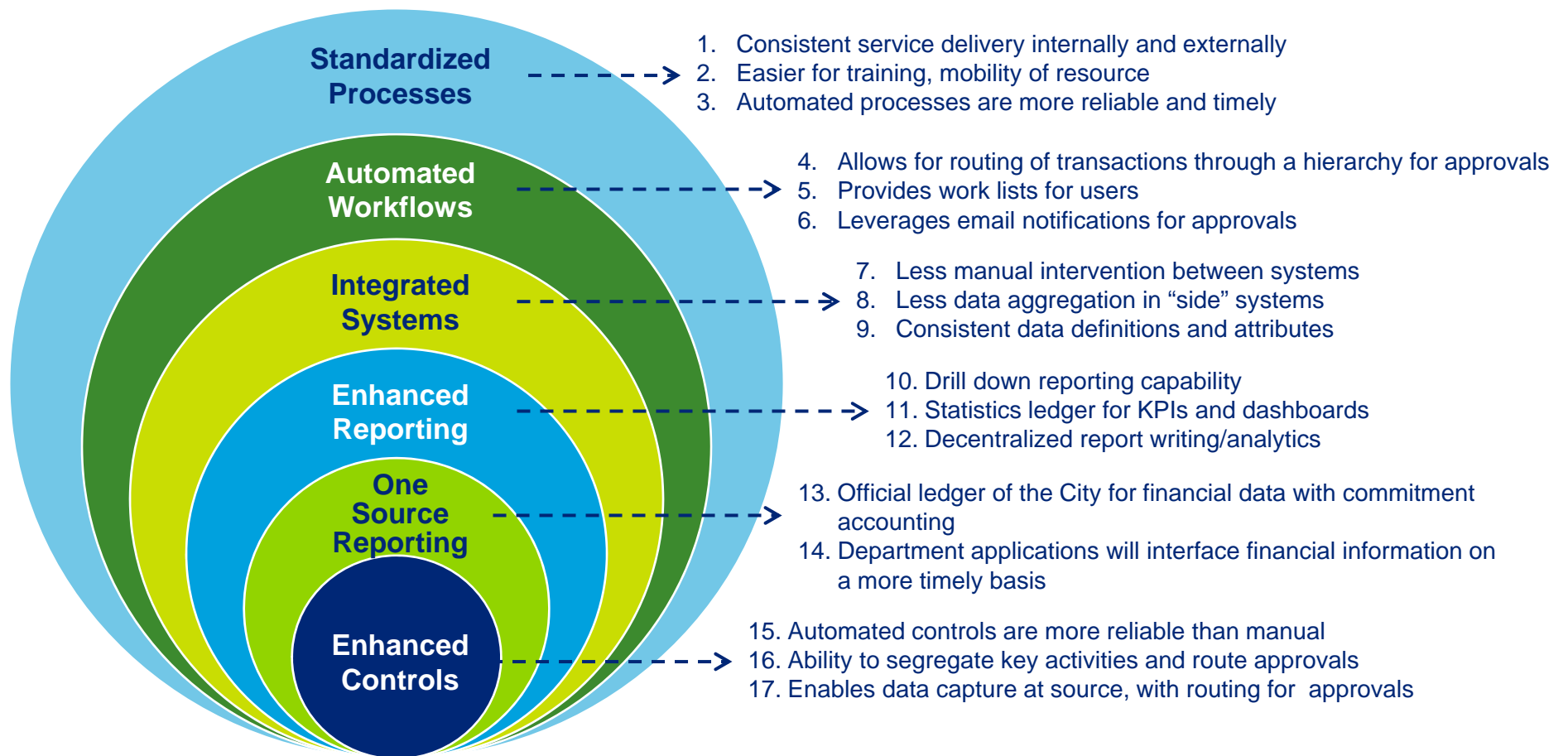
# Tangible benefits of an ERP – details

- These tangible benefits for an ERP implementation require accountability to ensure realization.
- Best practice is to baseline existing measures and costs and have mechanisms in place to measure improvements in performance and evidence of cost avoidance/savings.
- A benefits realization role needs to be assigned within the steering committee with accountability to report back to Council on the implementation costs incurred and the benefits achieved – during implementation and for 3-5 years post implementation.

<p><b>Avoidable Current Costs – Migrating existing systems to new ERP platform.</b> Years 2015-2022</p>	<ul style="list-style-type: none"> <li>• \$65,000 in annual Great Plains maintenance, adjusted for annual inflation of 2%.</li> <li>• \$20,000 in procurement system maintenance, adjusted for annual inflation of 2%.</li> <li>• 1.5 FTE in ICT are supporting Great Plains and Purchasing systems.</li> </ul>
<p><b>Avoidable Future Costs – Expand and upgrade existing systems to partially satisfy business requirements.</b> Years 2013-2022</p>	<ul style="list-style-type: none"> <li>• \$500,000 to upgrade Great Plains and expand functionality to achieve a portion of the desired benefits over the 10 year timeframe.</li> <li>• Avoid the hiring of 2 FTE into Finance for years 2015 onward in relation to the growth of the City of Barrie (expansion of south Barrie and normal growth).</li> <li>• Assumed a fully loaded cost of \$80,000/FTE and adjusted for annual inflation of 2% in following years.</li> </ul>
<p><b>Cost Reduction – lowering the cost of procuring goods and services through automated procurement , advanced vendor management and enhanced contract management</b> Years 2015-2022</p>	<ul style="list-style-type: none"> <li>• Current annual procurement spend of \$16.5M on purchase orders under \$10,000, \$75M on contract awards – estimated annualized procurement spend of \$91.5M.</li> <li>• Expansion in south Barrie requires additional spend of approximately \$1B - annualized at \$200M/year for 2015 – 2020 (conservative).</li> <li>• New purchasing and contract management system should achieve a minimum of 1% annual savings in procurement spend; adjusted to 0.5% for \$1B expansion spend to be conservative.</li> </ul>

# Intangible benefits of an ERP System

- The most desired benefit is to have a consolidated and integrated finance processing environment that will enable data capture and transaction processing at the source, with enhanced integration of operating and administrative systems.
  - There is currently significant effort expended in the department to take copies of transactions, in paper and electronic form, in order to maintain a more timely look up and assessment of budget availability.*



## Conclusion: the risk of doing nothing about Finance systems

- **Financial risk of error and fraud is high** – Internal controls are largely manual, inefficient and ineffective.
  - Only 4% of the controls identified during process mapping were automated.
- **Financial reporting compliance is at risk** – reliability, timeliness and accuracy.
  - All of the City's financial reporting is excel based, not system generated.
- **Escalating costs to serve and administer** – direct correlation of population to staff growth will continue to increase operating budgets.
- **Vendor management risk increases** – vendor contracts will grow in size and volume without a system to manage vendor performance and compliance.
- **Key person dependency risk increases** – manual process workarounds are not documented and rely heavily on the person processing.
- **Inefficient financial processing and reporting** – inhibits timely and quality decision making.
- **Finance system failure** - inevitably, the system will fail to meet requirements and the cost to fix/upgrade will be substantial if undertaken in emergency mode.