

Staff Report for Decision

DATE OF MEETING May 21, 2025

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SUBJECT ERP Project – Budget Increase Request

OVERVIEW

Purpose of Report

To provide an update to the Finance and Audit Committee on the Enterprise Resource Platform (ERP) project and request additional funding. |

Recommendation

That the Finance and Audit Committee recommend that Council increase the budget for the ERP project by \$1,900,000 funded by \$200,000 in 2025 and \$900,000 in 2026 from the General Asset Management Reserve Fund and \$800,000 in 2025 from the IT Reserve Fund in the 2025 – 2029 Financial Plan.

BACKGROUND

In 2018, the City was informed by their ERP software vendor, SAP, the system would not be supported at end of 2025. This notification initiated the City's ERP replacement activities that included requirements collection, market research and a competitive procurement. In 2022 the City selected Unit4's cloud-based ERP software suite, and Victoria, BC based Agilyx Group as the implementation consultant.

In addition to the software licensing and consultant costs, the project budget included Finance staff secondments. Secondments allow staff to direct their time to a project, however it also creates resource gaps which get covered by backfilling with temporary staff to take on the operational responsibilities vacated by staff seconded to a project. |

DISCUSSION

Despite the plans to fund secondments and procurement efforts that included contracted consultants to define system requirements, the project has incurred delays and additional costs because of staffing resource and technology constraints. To offset these challenges and move the project forward, the City requested (additional) contractor resources, seconded Information Technology (IT) staff to the project and purchased software that was not part of the original scope but deemed mandatory for the project's success. The additional contractor resources, IT staff secondment and software services have increased the project budget by \$1,900,000.

Contractor cost increase to augment project team

The project budget included funding for staff backfills as its scope and schedule depended on the seconded staff to be dedicated to the project. Unfortunately, in 2023 and 2024, the City was unable to backfill the roles and without these resources, seconded staff were needed to complete operational tasks, resulting in project delays. To compound the impact caused by the backfill challenges, the Finance department incurred staff departures reducing their ERP project time as most staff hours were required to maintain operational service levels.

To stem project delays caused by staff shortages, additional contractor resources have been procured. The scope for the additional resources includes:

- Coordination and assistance with data migration to the new system
- System test script development and configuration testing
- Financial report portfolio development
- Integration with the City's asset management system, Cartegraph
- Development and implement of the organizational change management plan

Most of these items were expected be to be covered within the original budget and staffing resource allocations.

The total contractor costs are expected to be approximately \$2,510,000. This is an increase of \$967,000 over the original budget and this increase in contractor resources will improve the project's progress, while allowing staff to maintain operational service levels.

Secondment of IT staff cost increase

The original project budget included \$811,000 for Finance staff secondments. As the project evolved and modifications to the original scope and schedule became necessary, IT staff resources needed to be dedicated to the project. The Manager, Application Services was selected as the Project Manager, and it was anticipated they would spend less than 40% of their time on the project. However, because of the project's complexity, the individual is now seconded and dedicated to the initiative and their wages and benefits are being charged to the project. This, along with the extension of secondments due to the delayed launch date and some other minor staffing changes, has increased the total expected secondment cost to \$1,145,000.

Software license cost increases

As the project progressed through various milestones, it became evident that additional software tools were necessary to complete specific tasks. These tools include a trouble ticket management system, data migration software, and year-to-date automation tools. Since these tools were not part of the original scope, their inclusion has increased the project's budget by \$145,000.

Due to delays caused by staff shortages and system complexity, the project schedule has been extended. The original launch date was Q3 2025, but the revised target is now Q2 2026. The Unit4 solution, which is cloud-based, carries an annual licensing fee of approximately \$375,000. This fee has been paid since the project began in 2023. Upon completion, the annual software fee shifts to IT's operating cost center. Consequently, the project extension means that a portion of the 2026 software license fee is now included in the project costs. The additional license costs for 2025 and 2026 total approximately \$472,000.

FINANCIAL CONSIDERATIONS

The \$1.9M budget increase will bring the total project budget to \$5.1M which reflects a 59% increase to the overall budget.

The IT Reserve Fund currently has a minimum reserve balance requirement of \$533,000, the allocation of \$800,000 in 2025 to the project will bring the 2025 projected closing balance of the reserve to \$932,007.

The General Asset Management Reserve Fund currently has a minimum balance requirement of \$6,117,500. The allocation of \$200,000 in 2025 and \$900,000 in 2026 to the project will bring the 2026 projected closing balance of the reserve to \$13,114,010 if the Committee recommends this budget increase and the funding increase for the Nanaimo Aquatic Centre HVAC Equipment Upgrades project or a 2026 projected closing balance of \$18,407,370 if only this budget increase is recommended.

SAP Support Extension – 2027

In 2024 SAP announced it extended system support to December 31, 2027, and removing the risk the existing system will be unsupported prior to the implementation of the new ERP.

OPTIONS

1. That the Finance and Audit Committee recommend that Council increase the budget for the Enterprise Resource Platform (ERP) project by \$1,900,000 funded by \$200,000 in 2025 and \$900,000 in 2026 from the General Asset Management Reserve Fund and \$800,000 in 2025 from the IT Reserve Fund in the 2025 – 2029 Financial Plan.
 - The advantages of this option: Address the challenges of staff resource constraints by augmenting the project team with IT staff and external contractors and enable for the successful completion and replacement of the City's ERP in 2026.
 - The disadvantages of this option: Less funding will be available in the reserves to fund other projects or initiatives.
 - Financial Implications: The 2025 – 2029 Financial Plan will be amended at a later date to reflect the budget increase.
2. That the Finance and Audit Committee recommend that Council provide alternative direction for staff to consider for the completion of the ERP project.

SUMMARY POINTS

- The Enterprise Resource Platform is software that facilitates all financial processes for the organization. The City is replacing its current ERP because it will no longer be supported by the vendor, SAP.
- Although the project budget included staff secondments, the City was unable to recruit the required backfill positions resulting in delays to the project because staff were needed to maintain operational service levels and could not work on the project.

- To mitigate the impact of staff resource constraints on the project, additional contractor hours and IT staff secondments are required for the successful completion of the project.

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