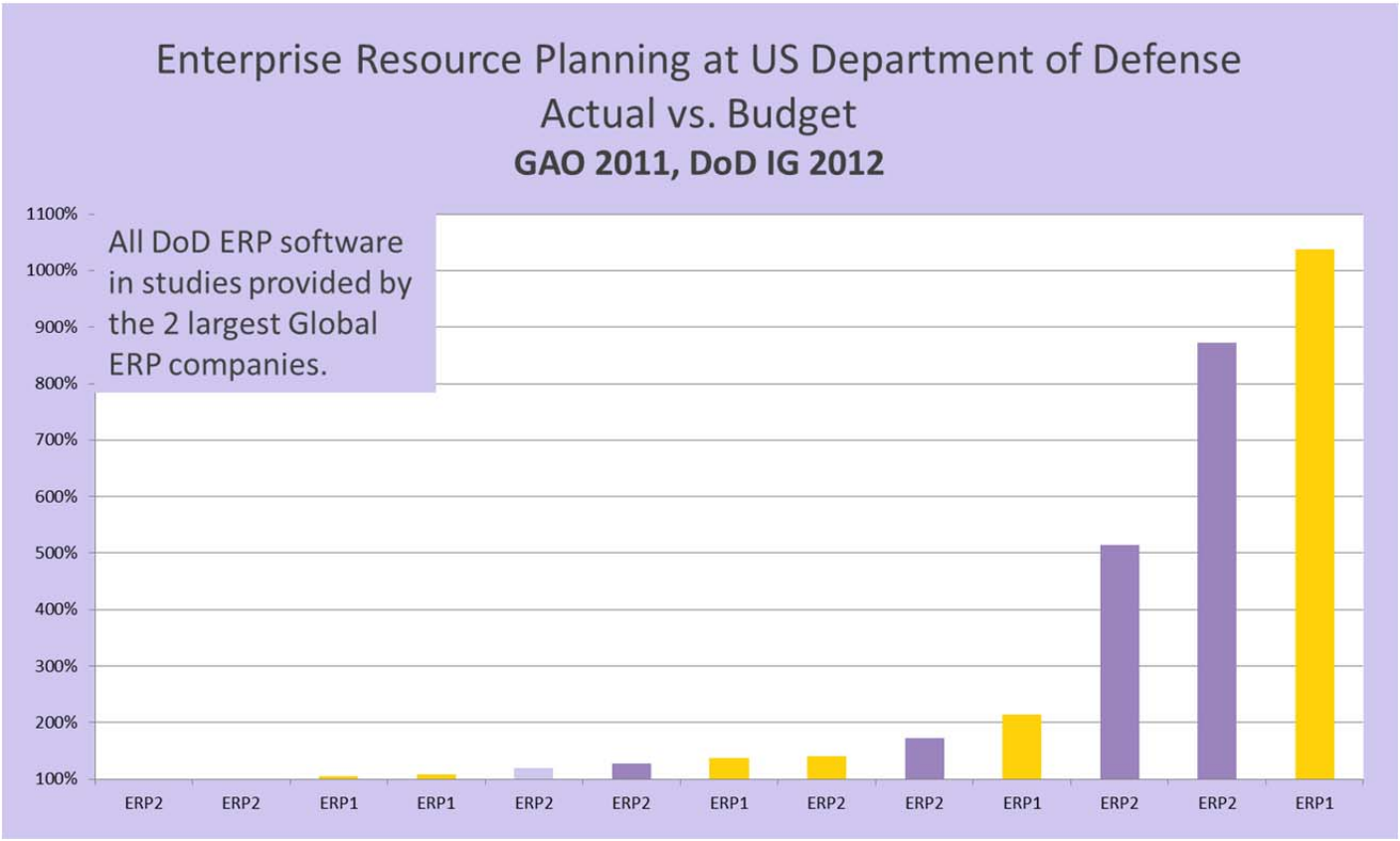
FreeBalance®
Public Financial Management Good Practices

PFM Domain	GRP Sustainability & TCO
Good Practice	Implementation Good Practices
Applicable	Developed Country Governments

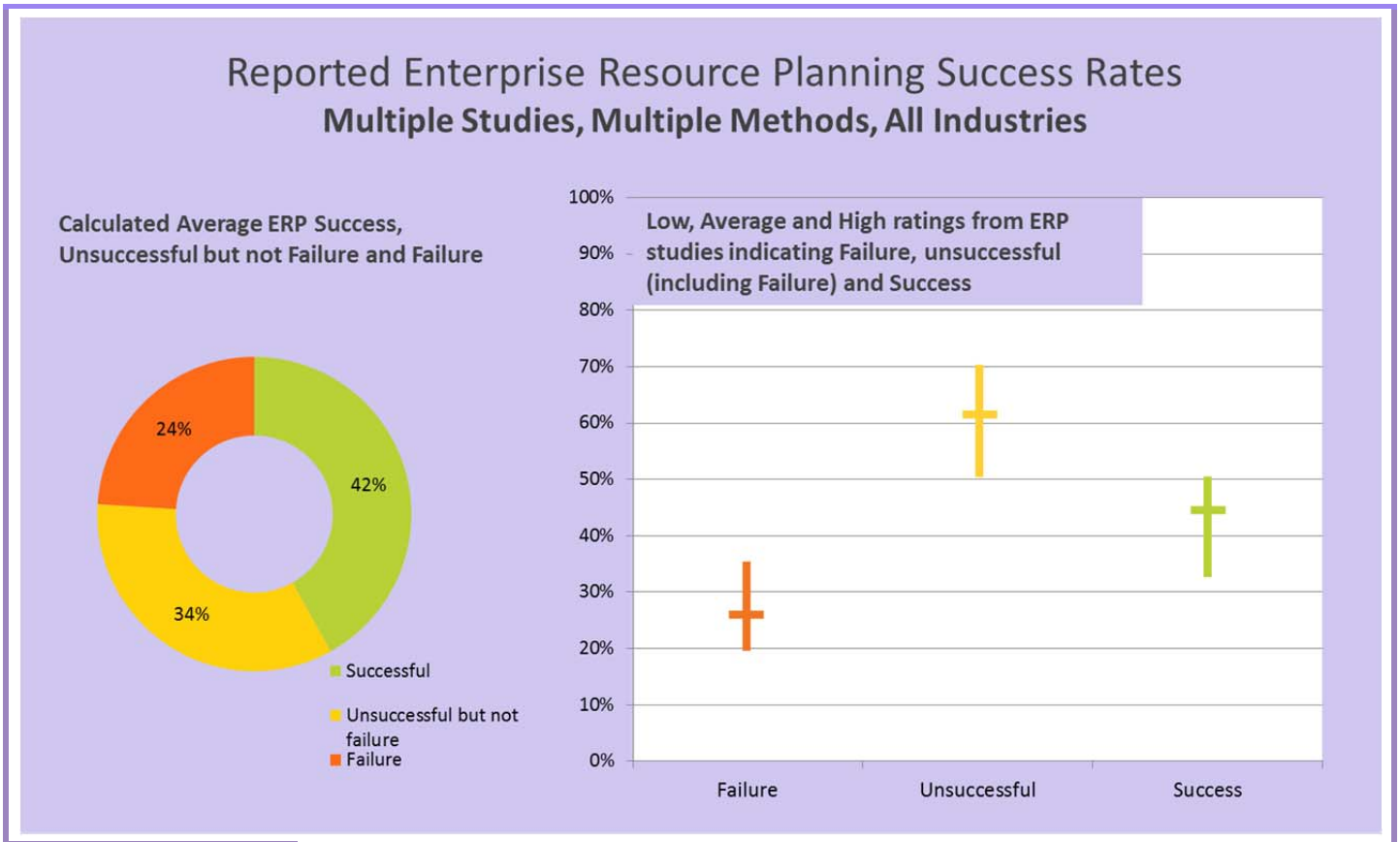
should governments consider ERP or GRP?

- Developed country governments are increasingly adopting Commercial-Off-the-Shelf (COTS) software to replace legacy and custom developed software applications for financial, budget, expenditure, tax, treasury and civil service management.
- A major impetus for recent COTS projects is to replace multiple applications within a government organization with one integrated solution or to support numerous government organizations with a hosted shared service or private government cloud.
- Government organizations can chose to acquire Enterprise Resource Planning (ERP) software from large software firms whose software is used in multiple "vertical" markets or Government Resource Planning (GRP) software designed exclusively for governments.



Reports by the United States Government Accountability Office (GAO) and the Department of Defense (DoD) Inspector General (IG) found that 11 of 13 ERP projects were over-budget costing American taxpayers Billions of Dollars with one ERP project resulting in $1B "largely wasted" and another project stopped after 7 years and $1B invested would require an additional $1.1B for about a quarter of the original scope

large ERP project failures in developed country governments	**Major ERP Project Failure in Developed Country Governments** • A large ERP shared services project in **France** country was estimated to be $200M over budget by the audit office and more than 1 year late and resulted in late payments of over $2.2B to defense contractors • National Audit Office in the **United Kingdom** found that the use of ERP shared services added rather than reduced costs
major difficulties experienced in ERP implementations in the public sector in developed countries	ERP failures and cost overruns in the public sector have resulted in difficulties, contract cancelations and lawsuits, although lawsuits are rare because vendors would rather do what it takes to make the situation right than face potential public-relations damage from a high-profile legal battle: • **Australia:** State government ministry • **Canada**: non-profit, city • **France:** city • **Ireland:** 2 projects within an important ministry • **United Kingdom:** university, councils (1) (2) (3) and government ministries (1) (2) (3) • **United States**: non-profit, school district, universities (1) (2) (3) (4) (5), a police department, cities (1) (2) (3) (4), counties (1) (2), state government (1) (2) (3) (4), federal government (1) (2) (3) (4) (5) (6)
evidence of limited success rates with ERP implementations across multiple industries	**Success Rates** • Between 20% and 35% of all ERP implementations fail • 51% of ERP implementers judged their implementation as unsuccessful • Nearly 70% of large projects were found to be improbable of achieving project success • 41% of ERP projects achieved all or the majority of benefits • 40% of ERP projects failed to meet business case within 1 year of going live • Average for ERP projects was 50% of intended benefits • ERP projects saw the implementation of -59% of intended functionality • 34% of respondents "very satisfied" with ERP project • Fewer than 1/3 of decision-makers recommend their ERP vendor • ERP vendors achieved a D+ in return on investment • 75% of organizations experienced a productivity dip after implementing ERP • 20% of survey respondents terminated ERP projects



evidence of typical cost and schedule overruns of ERP projects across multiple industries

Costs

- 40% of all ERP projects will exceed estimates by 50% or more
- Average ERP cost variance was 182% of budgets
- Average ERP cost variance was 178% of budgets
- Average ERP implementation cost was 40% over budget
- Average ERP implementation takes 23 months, has a total cost of ownership of $15 million and with an average negative net present value of $1.5 million
- Users of Tier 1 ERP vendors will experience higher Total Cost of Ownership (TCO) than users of Tier 2 vendors
- ERP upgrades cost about ½ the value of the original license fee and 20% of the original implementation costs
- Experts warn that organizations should expect to pay as much as 3 times the original ERP software cost to upgrade to new technology
- Interviews with reference customers of a major ERP vendor found that 57% did not achieve a positive ROI

	On-time Delivery • Average implementation time from the 2 major ERP vendors are 17 and 18 months with average variance of 2 and 4 months over schedule • Average variance for ERP projects was 230% of schedule • Up to 80% of ERP exceed time and budget estimates • 70% of respondents stated their ERP project timeline was inadequate
why does ERP have low success rates in government?	**Diagnosis** ERP software is designed for the private sector across many industries that rarely provide a good **value for money** to governments. Large-scale public sector ERP implementations require additional time during the analysis and design phase to focus on the gap between the commercial process and the required process 1. ERP cost overrun and the failure to meet schedule are because ERP software requires **significant software** complex code **customization** (BPM scripts, call-outs & software development) to meet government requirements that extends implementation cycles. The ratio of services to software cost in the public sector is estimated to be three time that in the private sector or up to 15 times the cost of software. 2. **High maintenance costs** come from maintaining complex code through problem troubleshooting, and difficult upgrades that increases the Total Cost of Ownership (TCO). For example, the **Government of Canada** internal support for 15 different customized versions of a major ERP package received an award for saving more than $12M annually in "cost avoidance." This is hardly a definition of IT success. 3. ERP functionality is often **complex and hard to use** in the private or public sector. 46% of ERP implementers characterized that their organizations were not able to understand how to leverage features to improve the way that they did business.
what is a good practice approach to COTS back-office implementation in government?	**Conclusions** 1. *GRP software is designed for the government. It is possible to create software for a single "vertical market" that does not require code customization to support needs in most countries across all levels of government.* 2. *Governments can configure GRP software to meet unique requirements thereby reducing lifecycle costs and more likely meeting implementation schedules and optimizing benefits.* 3. *Software designed for government tends to be more intuitive and easier to learn for PFM needs.*

There are very few “best practices” but many “good practices” in Public Financial Management.

FreeBalance, a global provider of Government Resource Planning (GRP) software and services shares good practices from experience with developed and developing country governments around the world.

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