Analyst Briefing Notes
Budget Committee
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2007 OPERATING BUDGET

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2007 OPERATING BUDGET

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Executive Summary

- The 2006 preliminary year-end net expenditure of $45.002 million is $1.499 million below the 2006 Approved Budget due mainly to realized savings from hiring delays attributed to difficulties in recruiting key qualified IT professionals.

  ➢ These savings have resulted in a recommended increase in gapping by 1% or $0.336 million which has been reflected in the 2007 Recommended Operating Budget.

- The Operating Budget over the next three years will facilitate and enable Information and Technology to continue to develop the e-City multi-year Strategic Plan; and to complete the IT Governance and Transformation Project that will enable the City to meet strategic and service delivery targets and continue working toward the e-City vision.

  ➢ A major challenge is the continuing increased demand for services: data and document management, desktop support, asset management, solution development, and increasing need for wireless technology and GPS and geospatial technologies.

- The 2007 Recommended Operating Budget for Information and Technology of $48.055 million net is comprised of base funding of $47.837 million and $0.218 million for new and enhanced service priorities, associated with the operating impacts of capital projects and is 3.3% higher than the 2006 Approved Budget.

Table 1: 2007 Recommended Budget

	2006		2007 Recommended Operating Budget			Change 2007 Recommended from 2006 Budget		FY Incremental Outlook	
	2006 Appvd. Budget	2006 Projected Actual	2007 Base	2007 New /Enhanced	2007 Operating Budget			2008	2009
(In $000s)	$	$	$	$	$	$	%	$	$
GROSS EXP.	52,661.6	48,635.2	55,056.5	1,633.0	56,689.5	4,027.9	7.6	2,047.6	832.5
REVENUE	6,160.0	3,632.8	7,219.7	1,415.0	8,634.7	2,474.7	40.2	0.0	0.0
NET EXP.	46,501.6	45,002.4	47,836.8	218.0	48,054.8	1,553.2	3.3	2,047.6	832.5
Approved Positions	373.0	373.0	370.0	13.0	383.0	10.0	2.7	0.0	0.0
TARGET			46,501.6		46,501.6				
$ Over / (Under) Program Target			1,335.2		1,553.2				
% Over / (Under) Program Target			2.9%		3.3%				

- The 2007 Recommended Base Budget of $47.837 million net represents a 2.9% increase over the 2006 Approved Base Budget. The total 2007 Recommended Operating Budget including New/Enhanced service priorities is $48.055 million net, which is 3.3% over target.

> ➢ The 2008 incremental net expenditure increase is comprised of collective agreement increases for COLA and merit and step changes, resulting in a year over year net increase of 4.4%. The 2009 Outlook does not include a provision for COLA, as the increase is subject to future negotiations.

- The 2007 Recommended Base Budget of $47.837 million net represents a 2.9% increase over the 2006 Approved Operating Budget.

  > ➢ The 2007 key cost drivers include collective agreements increases for COLA, merit and step, an additional working day in 2007 for union staff, increased server/storage maintenance costs and inflationary increases for non-labour expenses.

  > ➢ The 2007 Recommended Service Level reductions totalling $0.606 million include efficiency savings of $0.120 million for SAP support, reducing the number of GroupWise mailboxes City wide, and discontinuing the backup of dormant datasets; reduction of $0.050 million for external legal costs; $0.100 million for internal staff IT training, and increased gapping of $0.336 million. In addition, revenues increase of $0.370 million for the funding of the incremental IT maintenance from the IT (Sustainment) Equipment Reserve.

- The 2007 Recommended Operating Budget for New/Enhanced services in 2007 is $1.633 million gross and $0.218 million net for operating impacts from Capital and for the implementation of the IT Governance and Transformation Project.

  > ➢ Enhanced service priorities – Temporary staffing to support capital projects, operating impact of capital project for licensing and maintenance.

  > ➢ New service priorities – IT Governance and Transformation Project.

- The resources provided by the 2007 Recommended Operating Budget will allow Information and Technology to complete capital projects, and to implement the IT Governance and Transition Project. The 2006 service levels will be largely maintained. Information and Technology will provide optimal IT products, services and training, and to establish and maintain a reliable and robust technical environment with the highest possible levels of availability, performance and security, as well as to design, implement applications, databases, and associated technologies that is flexible and integrated through an architecture-based approach.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Operating Budget for Information and Technology of $56.690 million gross and $48.055 million net, comprised of the following services, be approved:

Service:	Gross ($000s)	Net ($000s)
Desktop Computing	36,242.9	30,935.4
Applications and Delivery	16,097.3	13,432.2
Voice and Telecommunications	1,192.4	769.4
Land Information	3,156.9	2,917.8
Total Program Budget	56,689.5	48,054.8

Section A: 2006 Budget Variance Analysis

Table 2: 2006 Budget Variance Review

(In $000s)	2005 Actuals	2006 Approved Budget	2006 Projected Actuals*	2006 Appvd. Budget vs Projected Actuals Variance	
	$	$	$	$	%
GROSS EXP.	48,410.9	52,661.6	48,635.2	(4,026.4)	(7.6)
REVENUE	8,552.9	6,160.0	3,632.8	(2,527.2)	(41.0)
NET EXP.	39,858.0	46,501.6	45,002.4	(1,499.2)	(3.2)
Approved Positions	393.0	373.0	373.0	0.0	0.0

*Projected Actual based on the preliminary year-end Operating Variance Report

2006 Experience

Information and Technology's preliminary year-end net expenditures were $1.499 million or 3.2% below budget, primarily due to lower than expected expenditures in salaries and benefits, and services and rents. Delays in project completion and prolonged contract negotiations resulted in reduced spending for maintenance, materials and supplies. Many key positions remained vacant during the year due to recruitment challenges presented by a shortage of qualified IT professionals in the market place. This resulted in reduced salaries and benefits as well as training and other staff related costs and contributed to capital project delays and deferrals.

Impact of 2006 Operating Variance on 2007 Recommended Budget

The 2007 Recommended Operating Budget includes an increase in gapping of $0.336 million attributed to vacancies that remain to be filled.

Section B: 2007 Operating Budget Overview

3-Year Operating Budget Overview

The strategic direction of Information and Technology over the next three years is to continue to develop the eCity multi-year Strategic Plan consisting of:

- Online services and automating business processes to leverage IT
- Maintaining a secure, reliable and high performance technology infrastructure
- Emphasis on service delivery excellence

Key specific components of the plan are to:

- Implement 3-1-1 technology
- Renew the City website
- Implement document management solutions
- Upgrade SAP
- Implement 2007 lifecycle replacement program (Sustainment)
- Upgrade Network upgrades and improve IT security
- Initiate Disaster Recovery planning
- Implement the Corporate Technology Asset Management System
- Participate in planning the implementation of the records management strategy
- Complete the IT Governance and Transformation Project

The increase of $1.553 million in the 2007 Recommended Net Expenditures over the 2006 Approved Operating Budget is required to maintain the current levels of service to provide optimal IT products, services and training, and to establish and maintain a reliable and robust technical environment with the highest possible levels of availability, performance and security, as well as to design, and implement applications, databases and associated technologies that are flexible and integrated through an architecture-based approach. Funding for New/Enhanced service priorities of $0.834 million gross, and $0 net in 2007 provides for the implementation of the IT Governance and Transformation Project that will enable the City to meet strategic and service delivery targets and continue working toward the e-City vision.

The resources available to the Program will be used to continue to support the services to maintain the City's business operations, and to address Council priorities, notably for improving services to residents and businesses and access to City government through eService (3-1-1 and website renewal) and eGovernment programs (Meeting Management). The City's network, data centre, server/storage environment, business applications and data must be secure, available, and reliable in order for the City to effectively operate and serve its citizens.

The 2008 Outlook net increase of $2.048 million or 4.4% is the result of collective agreements for COLA, merit and step changes and operating impacts of capital. The 2009 Outlook increase of $0.833 million or 1.8% does not include a provision for COLA, as the increase is subject to future negotiations.

Service Delivery - Challenges and Issues

Information and Technology's mandate is to provide high quality information and technology services that directly and indirectly support the City's goals for effective and efficient public service delivery.

The emerging challenges and opportunities facing Information and Technology include the following:

- Increased demand for IT services continue to add operational and financial pressures.
- Data storage, desktop support, and asset management resource requirements continue to grow at a pace that places a great burden on I&T infrastructure and operations.
- Ensuring that IT assets are replaced at the end of their lifecycle.
- Demand for solution development continues to rise as Programs look to IT to enhance business service delivery. Ability to maintain a capacity to meet these demands, in addition to maintaining existing applications is a major challenge.
- The wireless unit is understaffed to meet the demand of 10,000 cellular and 1000 blackberry users.
- Increasing need for location based services using wireless, GPS and geospatial technologies.
- Implementation of IT Governance recommendations may result in operational efficiencies for IT infrastructure service delivery.
- Upgrades to SAP in 2007 and 2008 will present an opportunity to better leverage the SAP investment through new functionality.
- As the City's website becomes a more strategic information and service delivery channel, new opportunities for innovative service delivery will emerge.
- Document management implementation is expected to be a "pillar" for the overall implementation of an Information Management program.
- 3-1-1 technology implementation.

Mayor's Mandate

Information and Technology will continue to develop and implement the Mayor's Mandate:

- ***Improve the City's website to make it easier to navigate and take advantage of new technology***

The Information and Technology's 2007 Recommended Operating Budget provides the resources to staff the requisite expertise to redesign the City's website to improve functionality; to upgrade the websphere to expedite online applications and to implement the "Content Management Solution Software (Vignette)" for better management of web content.

- ***Establish a 3-1-1 hotline so that every resident has direct and simple access to a person at City Hall who can help resolve problems.***

The City of Toronto's 3-1-1 customer service, when fully implemented, will improve accessibility to City services and will increase the City's effectiveness in responding to public inquiries.

Services and business processes will be designed and organized from the public's perspective. The public will be able to obtain information and access to non-emergency City government services

using their method of choice: over the telephone, on the City's Web site, by e-mail, mail, fax, in person and eventually at a self-serve kiosk.

Information and Technology continues to participate in required work on front-end content development and business reviews, core technology implementation, work order system integration and other components related to technology infrastructure and applications for 3-1-1.

Section C: 2007 Recommended Base Budget

Table 3: 2007 Recommended Base Budget

(In $000s)	2006 Appvd. Budget	2007 Recommended Base	Change 2007 Recommended Base v. 2006 Appvd. Budget		FY Incremental Outlook	
					2008	2009
	$	$	$	%	$	$
GROSS EXP.	52,661.6	55,056.5	2,394.9	4.5	2,047.6	832.5
REVENUE	6,160.0	7,219.7	1,059.7	17.2	0.0	0.0
NET EXP.	46,501.6	47,836.8	1,335.2	2.9	2,047.6	832.5
Approved Positions	373.0	370.0	(3.0)	(0.8)		
NET TARGET		46,501.6			NA	NA
$ Over / (Under) Program Target		1,335.2			NA	NA
% Over / (Under) Program Target		2.9%			NA	NA

2007 Recommended Base Budget

The 2007 Recommended Base Budget of $47.837 million net represents a 2.9% increase over Information and Technology's 2006 Approved Operating Budget.

- The additional $2.395 million gross funding recommended for the Program's Base Budget is needed to fund annualizations, merit and step increases, union settlements and salary increases for exempt staff, as well as other base changes.

- The $1.059 million increase in revenues recommended in the 2007 Base Budget is attributed to the net recovery from Information and Technology Capital Budget for project management.

The 2007 Recommended Base Budget includes the following cost reductions resulting from efficiency savings and service rationalizations that total $0.976 million, as follows:

- Increased gapping ($0.336 million) – an increase in gapping of 1% is the equivalent of 3 positions that must be held vacant during the year which will affect support of technology infrastructure, applications and capital initiatives, and could result in delays in responses.

- Reduced internal training ($0.100 million) – continuing technological changes and upgrades result in increased demand for ongoing training of staff. The recommended

reduction in internal training costs represents a 20% decrease, and could impact productivity, response time, and system downtime.

- Reduced technical support for incremental IT applications ($0.060 million) – as other Divisions bring systems online, they rely on Information and Technology to provide technical support for these newly implemented applications. This reduction could have a negative impact on Information and Technology's ability to be responsive to growth and increases in service demands.

- Reduced external legal costs ($0.050 million) – Information and Technology maintains a small amount of funding for external legal services to complement those provided by Legal Services to ensure continuity in contract negotiations with vendors when Legal Services are at full capacity. This adjustment could have a negative impact on the timing of completion of capital projects.

- Discontinued backup of dormant datasets ($0.036 million) – the discontinuation of the backup of dormant or inactive datasets in the mainframe systems will result in a savings of $0.036 million.

- Reduced number of GroupWise mailboxes ($0.024 million) – reducing the number of GroupWise mailboxes City-wide by 5% or 900 mailboxes will result in a cost reduction of $0.024 million. Programs will need to review their user list, and reduce redundant or unnecessary mailboxes in order to achieve this reduction.

- Recovery from IT (Sustainment) Equipment Reserve ($0.370 million) - the growth in maintenance costs will be supported from the IT (Sustainment) Equipment Reserve.

2007 Key Cost Drivers

2007 Key cost drivers include:

- Cost-of-living adjustments (COLA) that average 3% for 2007 are non-discretionary expenditures that result in additional costs of $1.120 million.

- Merit and step increases of $0.874 million.

- One additional working day in 2007 for union staff of $0.132 million.

- Inflationary increases on non-salary items of $0.330 million

- Increase in Server/Storage Maintenance costs of $0.370 million.

2008 and 2009 Outlook: Net Incremental Impact

The 2008 Outlooks' net incremental impact of $2.048 million or 4.4% is comprised of mandatory increases from collective agreements for COLA increments, merit and step changes and operating impacts of capital. The 2009 Outlook does not include COLA, as this is subject to future negotiations. Increases in the amount of $0.833 million have been identified to date.

Section D: 2007 Recommended Service Priorities

Table 4: Summary of 2007 New / Enhanced Service Priorities (In $000s)

Priority	Description	2007 Recommended		Rec. New Positions	Net Incremental Impact	
		Gross Exp.	Net Exp.		2008	2009
		$	$	#	$	$
	(a) Enhanced Service Priorities - Council Approved:					
	(b) Enhanced Service Priorities - Program Initiated:					
1	Temporary resources to support capital projects	581.0	0.0	5.0	0.0	0.0
2	Operating impact from Capital-Disaster Recovery project	218.0	218.0	0.0	0.0	0.0
	Sub-Total Enhanced Services	799.0	218.0	5.0	0.0	0.0
	(a) New Service Priorities - Council Approved:					
	(b) New Service Priorities - Program Initiated:					
1	IT Governance Office	834.0	0.0	8.0	0.0	0.0
	Sub-Total New Service Priorities	834.0	0.0	8.0	0.0	0.0
	Total Recommended New / Enhanced Service Priorities	**1,633.0**	**218.0**	**13**	**0.0**	**0.0**

2007 Recommended Service Priorities

Recommended Enhanced Service Priorities – Program Initiated:

- **Temporary resources to support capital projects**

This operating impact from capital at a cost of $0.581 million gross and zero net provides funding for 5 temporary staff to complete the following approved Capital projects:

- ➢ Directory services
- ➢ Hierarchical Storage Management & eMail Archiving Solutions
- ➢ Content Management (Vignette) Software upgrade
- ➢ 2007 SAP Upgrade
- ➢ I&T Performance Measurement Program.

- **Operating Impacts of Capital**

The Disaster Recovery Project will establish a secondary data centre to ensure continuity of the City's operations that are IT dependent, in the event of a catastrophic disaster. As a result, operating costs for maintenance and storage in the recovery site cannot be recovered from capital.

Recommended New Service Priorities- Program Initiated:

- **IT Governance & Transformation Project**

The Information Technology Governance and Transformation Project was initiated in April 2006. The goal is to develop and implement a new governance and organizational structure for information technology that enables the City to meet strategic and service delivery targets and continue working toward the e-City vision of "Local government – anywhere, any time, for everyone".

When completed, IT services will be better aligned with the administrative structure of the City and coordination and delivery of those services will be strengthened. From late 2006 through spring 2008, there will be many transition initiatives, including development of new procedures/tools or changes to existing ones. Throughout the process, IT staff from across the City will be involved.

IT transformation will include:

- New cross-divisional advisory bodies that will provide formal oversight and governance of strategies and the City's IT infrastructure.
- Centralization of Help Desk/Service Desk, Desktop Services and Server/Network infrastructure.
- Divisional control of development and support of business-specific applications, while multi-division applications such as Asset Management systems will be centralized.
- New functions and areas of focus: IT portfolio management, project and resource management, relationship management, enterprise architecture, security/privacy and business transformation.

Implementation of the IT Governance and Organization Design Review has not been included in the 2007 Base Operating Budget for Information and Technology. The 2007 cost to support the IT Transformation Project is $0.834 million, of which $0.714 million is required to fund salary and benefit costs for 8 temporary staff, and the remainder to fund supplies and materials. This is recommended as a New/Enhanced Service change in the 2007 Recommended Operating Budget, to be funded from the IT Equipment (Sustainment) Reserve.

This project is expected to be completed in approximately 18 months (January 2007 to July 2008).

Issues for Discussion

2007 Operating Budget Issues

2007 Recommended Operating Budget vs. Guideline

Information and Technology's 2007 Recommended Operating Budget of $48.055 million net is 3.3% higher than the 2006 Approved Net Budget. This is due to increases attributed to collective agreements, COLA, merit and step, and inflationary increases on non-salary items, partially offset by recommended reduction options.

Information and Technology products and services have steadily increased without a commensurate increase in resources. Demand from Program Areas for IT-enabled solutions to improve their public services and operations are increasing. Absorbing this growth over the last few years has resulted in considerable pressure and service deteriorations that impact services to the other City's Programs. As Information and Technology services are an increasingly integral part of the City's operations, further reduction to the Information and Technology services will impact the reliability, availability, performance, and security of the applications and data that the Programs depend upon to run their operations. In many cases, direct public service impacts would be the result.

IT Governance and Transformation Project

The purpose of the IT Governance and Transformation Project will establish a new model for the delivery of IT services and organization design amongst City Programs. This transformation of IT services is necessary so that:

- IT functions can be aligned into the new corporate structure
- Service delivery quality and efficiencies can be improved
- The City's technology leadership and innovation can be increased
- The overall capability in core IT competencies can be enhanced

The implementation of the new model and organization design will require 8 temporary staff and costs for materials and services through a dedicated project office, which will necessitate a coordinated effort with other City Programs in order to achieve its mandate.

Appendix 1

Summary of Recommended Base Budget Changes
From 2006 Approved Budget

(In $000s)	Summary of 2007 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2008	2009
		$	$	$	$	$
2006 Council Approved Operating Budget	**363.0**	**51,108.4**	**8,585.7**	**42,522.7**	**0.0**	**0.0**
In-year approvals and technical adjustments	10.0	1,492.9	(2,425.7)	3,918.6		
Corporate adjustments	0.0	60.3		60.3		
2006 Final Operating Budget	**373.0**	**52,661.6**	**6,160.0**	**46,501.6**	**0.0**	**0.0**
Prior year impacts	(3.0)	867.9	(571.8)	1,439.7		
Zero base items						
Economic factors		1,450.1	83.5	1,366.6	2,047.6	832.5
Adjusted Base Budget	**370.0**	**54,979.6**	**5,671.7**	**49,307.9**	**2,047.6**	**832.5**
Other base changes		683.1	71.5	611.6		
Base revenue changes						
Recommended Service Level Adjustments:						
Service efficiencies		(545.9)		(545.9)		
Revenue adjustments			1,476.5	(1,476.5)		
Minor service impact		(60.3)		(60.3)		
Major service impact						
Total Recommended Base Adjustments	**0.0**	**76.9**	**1,548.0**	**(1,471.1)**	**0.0**	**0.0**
2007 Recommended Base Budget	**370.0**	**55,056.5**	**7,219.7**	**47,836.8**	**2,047.6**	**832.5**
2007 Program Operating Target	**N/A**	**N/A**	**N/A**	**46,501.6**	**0.0**	**0.0**
% Over (Under) Program Target				**2.9%**	**4.4%**	**1.8%**
% Over (Under) 2006 Appvd. Budget				**2.9%**	**4.4%**	**1.8%**

Appendix 2

Summary of Service Level Adjustments

Appendix 3

Summary of 2007 Recommended New / Enhanced Service Priorities

Appendix 4

Inflows / Outflows to / from Reserves & Reserve Funds

Reserve / Reserve Fund Name	Reserve / Reserve Fund Number	Balance as of December 2006	Proposed Withdrawals (-) / Contributions (+)		
			2007	2008	2009
		$	$	$	$
Insurance Reserve Fund	XR1010	17,536.0	80.4	80.4	80.4
Total Reserve / Reserve Fund Draws / Contributions			**80.4**	**80.4**	**80.4**