Analyst Briefing Notes
Budget Committee
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2008 OPERATING BUDGET

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2008 OPERATING BUDGET

Executive Summary

- The 2007 projected year-end net expenditure of $46.610 million is $1.455 million below the 2007 Approved Budget largely due to savings from better pricing resulting from effective contract negotiations, lower maintenance costs through consolidating servers and adopting standard platforms, and vacancies attributed to recruitment challenges for IT professionals. However, the under-spending in salaries is offset by lower recoveries from capital. Savings from cost containment measures essentially contributed to the under spending.

- The 3-Year Operating Budget will facilitate and enable Information and Technology to continue to develop the e-City multi-year Strategic Plan. It will also enable the Program to complete the IT Governance and Transformation Project that will allow the City to meet strategic and service delivery targets and continue working toward the e-City vision. The Program faces the following challenges and issues:

  ➢ 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.

  ➢ Complexity in delivering, and supporting IT solutions in a changing IT organization and governance model.

  ➢ Demand for uninterrupted 24/7 access to computing resources.

- The 2008 Recommended Operating Budget for Information and Technology is 0.7% or $0.347 million over the Program's 2007 Approved Operating Budget, exceeding the 0% target.

Table 1: 2008 Recommended Budget

	2007		2008 Recommended Operating Budget			Change - 2008 Recommended from 2007 Appoved Budget		FY Incremental Outlook	
	2007 Appvd. Budget	2007 Projected Actual	2008 Base	2008 New /Enhanced	2008 Operating Budget			2009	2010
(In $000s)	$	$	$	$	$	$	%	$	$
GROSS EXP.	56,700.0	53,354.8	57,225.4	460.0	57,685.4	985.4	1.7	1,290.6	747.0
REVENUE	8,634.7	6,745.0	8,813.5	460.0	9,273.5	638.8	7.4	0.0	0.0
NET EXP.	48,065.3	46,609.8	48,411.9	0.0	48,411.9	346.6	0.0	1,290.6	747.0
Approved Positions	384.0	384.0	384.0	2.0	386.0	2.0	0.5		
TARGET			48,065.3		48,065.3				
$ Over / (Under) Program Target			346.6		346.6				
% Over / (Under) Program Target			0.7%		0.7%				

- The 2008 Recommended Budget for Information and Technology is $48.412 million net. This is comprised of base funding of $48.412 million net, and funding for new/enhanced service priorities of $0.460 million gross, $0 net. Approval of the 2008 Recommended Operating Budget will result in the Program's staff complement increasing from 384 to 386 approved positions.

  - The 2009 Outlook net incremental increase of $1.291 million consists of merit and step increases, and operating impacts of capital. The 2010 Outlook net incremental increase of $0.747 consists only of merit and step increases.

- The 2008 Recommended Base Budget is $48.412 million or 0.7% over the 2008 target. The base budget incorporates the Program's key cost drivers, including COLA, collective agreement and other non-discretionary expenditures that total $2.740 million net. These are partially defrayed by efficiencies of $2.217 million net, and minor service reductions of $0.176 million.

- The 2008 recommended funding for New/Enhanced services in 2008 is $0.460 million gross, and $0 net provides for two temporary staffing resources, and backfill for four positions to deliver capital projects.

- The 2008 Recommended Operating Budget will provide Information and Technology the resources to support the design and implementation of systems applications, databases, and associated technologies that are flexible and integrated through an enterprise architecture-based approach. It will enable the Program to maintain a reliable and robust technical environment with the highest possible level of availability, performance and security.

- The 2008 Recommended Operating Budget continues to provide funding to maintain service levels and to complete the IT Governance and Transition Project that was launched in 2007.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2008 Recommended Operating Budget for Information and Technology of $57.685 million gross and $48.412 million net, comprised of the following services, be approved:

Service:	Gross ($000s)	Net ($000s)
Desktop Computing	34,990.2	28,981.5
Applications and Delivery	18,330.9	15,736.8
Voice and Telecommunications	1,300.6	877.8
Land Information	3,063.7	2,815.9
Total Program Budget	57,685.4	48,411.9

Section A: 2007 Budget Variance Analysis

Table 2: 2007 Budget Variance Review

(In $000s)	2006 Actuals	2007 Approved Budget	2007 Projected Actuals*	2007 Appvd. Budget vs Projected Actuals Variance	
	$	$	$	$	% Unspent
GROSS EXP.	48,706.6	56,700.0	53,354.8	(3,345.2)	(5.9)
REVENUE	3,636.8	8,634.7	6,745.0	(1,889.7)	(21.9)
NET EXP.	45,069.8	48,065.3	46,609.8	(1,455.5)	(3.0)
Approved Positions	373.0	384.0	384.0	0.0	0.0

*Projected Actual based on 3rd quarter operating variance report

2007 Experience

Information and Technology's projected year-end actual as reported in the 3rd quarter variance report is $46.610 million net. This represents a favourable variance of $1.455 million or 3.0% below the 2007 Approved Operating Budget.

A number of factors have contributed to this under-spending:

- Salaries and benefits were under-spent by $1.634 million as a result of:

  ➢ Vacancies prolonged by a number of factors, including recruitment challenges, hiring freeze and delay in capital projects;

- Savings as a result of better than expected pricing, effective contract negotiations, and reduced service levels on hardwares and server maintenance in the amount of $0.256 million.

- Revenues shortfall resulting from lower recoveries from capital of $1.890 million that largely offset the under-spending in salaries, materials, supplies and services.

- Cost containment savings of $1.455 million as identified in the table on page 6.

2007 Cost Containment Savings

As discussed above in the 2007 budget variance analysis, Information and Technology expects to achieve cost containment savings of $1.455 million in 2007 through measures itemized below:

Net Cost Containment Savings	2007 ($000s) Savings	2008 ($000s) Continued Savings	Comments
Hiring Freeze Savings:			
Hiring Freeze/Increased gapping savings	540.0	100.0	Recommended as a reduction option for 2008.
Sub-total	**540.0**	**100.0**	
Service Level Adjustments:			
Reduce contracted services	75.0	1,356.4	Recommended as a reduction option for 2008.
Sub-total	**75.0**	**1,356.4**	
Discretionary Savings:			
Reduce conferences,seminars & training	88.0	62.0	Recommended as a reduction option for 2008.
Reduce materials and supplies	752.0	215.0	Recommended as a reduction option for 2008.
Sub-total	**840.0**	**277.0**	
TOTAL COST CONTAINMENT	**1,455.0**	**1,733.4**	

Impact of 2007 Operating Variance on 2008 Recommended Budget

The cost containment measures implemented in 2007 as described above will continue into 2008 as recommended reduction options in the 2008 Recommended Operating Budget to help defray key cost drivers.

Section B: 2007 Operating Budget Overview

3-Year Operating Budget Overview

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

  ➢ Developing Online services and automating business processes to leverage Information Technology.

  ➢ Maintaining a secure, reliable and high performance technology infrastructure.

  ➢ Emphasizing service delivery excellence.

- The IT Governance and Transformation Project was launched on May 14, 2007 with the establishment of a Chief Information Officer position for the City to develop and implement a new governance and organizational structure for information technology that enables the City to meet strategic and service delivery targets. When the IT Governance and Transformation Project is completed, IT services will be better aligned with the administrative structure of the City and coordination and delivery of those services will be strengthened. Over the next two years, there will be many transition initiatives, including the development of new procedures/tools or changes to existing ones. Throughout, IT staff from across the City will be involved.

- The transition from an eCity vision to reality requires a disciplined approach to service delivery realization according to which eService, eBusiness, eGovernment, and eFoundation functionality is vetted to ensure that

  ➢ Development is based on sound, repeatable processes;

  ➢ Anomalies in production systems are reduced in the pre-release environment;

  ➢ Completion cycles are shortened.

- The 2008 Recommended Operating Budget supports Information and Technology as it transitions into the new IT governance and organization structure by providing the resources required to develop and implement.

- The 2008 Recommended Operating Budget for Information and Technology is $48.412 million net. This is $0.347 million or 0.7% over the Program's net target of $48.065 million. The Recommended Budget incorporates base expenditures to maintain existing service levels, and attempts to minimize their effects by recommending feasible reduction options. (see page 11)

- Information and Technology's 2008 Recommended Operating Budget will provide funding to add 2 temporary positions to the Program as new and enhanced service priorities recommended for 2008 to develop and complete capital projects as described on page 12. The Program's staffing complement will thus increase from 384 to 386 approved positions.

- For 2008, salary and wage impacts alone account for incremental net pressures of $1.758 million net. This includes a cost-of-living adjustment of $0.927 million net, and merit/step increases of $0.831 million net.

- To help mitigate the impact of rising base costs, the 2008 Recommended Operating Budget for Information and Technology includes a number of efficiency measures as well as some service level adjustments. These recommended changes produce net savings of $2.393 million.

- The Program will continue to face mounting base pressures including rising salary and other costs. Information and Technology continues to be challenged to meet the City's affordability targets for 2008 and beyond.

- The 2009 Outlook net incremental increase of $1.291 million is the result of merit/step increases, and operating impacts of capital resulting in a year over year increase of 2.7%. The 2010 Outlook net incremental increase of $0.747 million or 1.6% is due to only to merit and step increases.

Challenges and Issues

The mission of Information and Technology is to provide information and technology leadership and services to the City of Toronto to support effective program delivery and to enable service improvements and operational efficiencies through the innovative application of information technology.

To achieve this vision, the Program is structured along the following service lines:

SERVICE AREA	DESCRIPTION
I&T Strategic Planning & Enterprise Architecture	To provide information technology leadership that supports effective City program delivery and enables services to be progressively improved and delivered in a cost effective manner.
Application & Infrastructure Solution Development	To design, develop/acquire and implement critical enterprise and/or divisional computer applications and infrastructure to enable client business objectives.
Application & Infrastructure Solution Sustainment	To sustain critical enterprise and/or divisional computer applications and infrastructure to support client business objectives.

As the following chart illustrates, there are a number of challenges that impact on Information and Technology's ability to deliver service that meets expectations.

Driver	Challenges	Plan	Strategies/2008 Service Objectives
Technology trends and opportunities, and	• Increased demand for IT services. • Growth in data storage,	• Implement the IT Governance and Transformation model.	• Work with Divisions to move forward to implementing the IT Governance and

Driver	Challenges	Plan	Strategies/2008 Service Objectives
City's strategic priorities	desktop support, and asset management. • Demand for solution development continues to rise as Programs look to IT to enhance business service delivery. • Increasing need for location based services using wireless, GPS and geospatial technologies.		Transformation model.

Future challenges include:

- Technology Infrastructure Services: the new Technology Infrastructure Services unit consolidates service delivery and support. This means a large number of positions that are currently in divisional or cluster IT groups will move to a shared services division.

- Solutions Development & Deployment: Clarifying the roles and the fit of Solution & Information Architecture with the new Enterprise Architecture function in the business services area will be a challenge.

- Portfolio Management: the design, development and realization of a   portfolio approach to managing the City's investment in information and technology.

- Technology Planning: the need to create two new functional areas:

  ➢ Enterprise Architecture function.
  ➢ Technology Risk Management and Information Security function.

  There is a need to define clear roles and responsibilities and finding staff with the right skill sets.

- Business Enablement and Client Service: the development of a new client relationship framework and associated service level agreements; ongoing advisory assistance in the use of IT to transform business services.

Strategic Priorities

The 2008 Recommended Operating Budget provides funding to advance the following priorities:

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

The Information and Technology's 2008 Recommended Operating Budget provides the resources to redesign the City's website to improve functionality, and navigation; to upgrade the underlying software (Websphere) to provide more functionality and expedite online applications and to

implement the "Content Management Solution Software (Vignette)" for better management of web content.

- ***Establish a 3-1-1 technology solution 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 strategy, 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: 2008 Recommended Base Budget

Table 3: 2008 Recommended Base Budget

(In $000s)	2007 Appvd. Budget	2008 Recommended Base	Change 2008 Recommended Base v. 2007 Appvd. Budget		FY Incremental Outlook	
					2009	2010
	$	$	$	%	$	$
GROSS EXP.	56,700.0	57,225.4	525.4	0.9	1,290.6	747.0
REVENUE	8,634.7	8,813.5	178.8	2.1		
NET EXP.	48,065.3	48,411.9	346.6	0.7	1,290.6	747.0
Approved Positions	384.0	384.0	0.0	0.0	0.0	0.0
NET TARGET		48,065.3			NA	NA
$ Over / (Under) Program Target		346.6			NA	NA
% Over / (Under) Program Target		0.7%			NA	NA

2008 Recommended Base Budget

- The 2008 Recommended Base Budget of $48.412 million net represents a $0.347 million or 0.7% increase over Information and Technology's 2007 Approved Operating Budget. The 2008 Recommended Base Budget will largely serve to maintain service levels offered in 2007.

- The additional $0.347 million net expenditure is needed to fund annualizations, merit and step increases, as well as other base changes.

2008 Key Cost Drivers and Reduction Strategies

2008 Key Cost Drivers include:

- Cost-of-living adjustments (COLA) that average 2.44% for 2008 are non-discretionary expenditures that result in additional costs of $0.927 million.

- Merit and step increases of $0.933 million.

- Inflationary increases on non-salary items of $0.071 million

- Operating impacts of capital of $0.841 million.

- One additional work day in 2008 of $0.146 million.

The 2008 Recommended Base Budget incorporates the following recommended reduction options totaling $2.393 million to offset $2.918 million in total base cost pressures:

- Efficiency savings:

  - Materials, supplies and services $0.214 million
  - Training   0.062 million
  - Software and hardware maintenance support level   0.924 million
  - Network Fibre Service   0.230 million
  - Computer Associates licenses   0.356 million
  - Deferred operating impact from capital   0.431 million

- Minor Service Level adjustments:

  - Reduced contracted services by SAP specialists   0.076 million
  - Deferred hiring for vacant positions   0.100 million

The above cost reduction options will be achieved by Information and Technology re-examining its services and activities, identifying savings through optimizing existing resources, rationalizing service contracts and effective management of costs.

2009 and 2010 Outlooks: Net Incremental Impact

The 2009 Outlook net incremental impact of $1.291 million is comprised of merit and step increases, operating impacts of capital, and annualizations resulting in a year over year increase of 2.7%. The 2010 Outlook net incremental increase of $0.747 million or 1.6% is due only to merit and step increases.

No provision for cost-of-living (COLA) adjustments have been included for 2009 or 2010 as these are subject to future negotiations.

Section D: 2008 Recommended Service Priorities

Table 4: Summary of 2008 New / Enhanced Service Priorities (In $000s)

Priority	Description	2008 Recommended		Rec. New Positions	Net Incremental Impact	
		Gross Exp.	Net Exp.		2009	2010
		$	$	#	$	$
	(a) Enhanced Service Priorities - Council Approved:					
	(b) Enhanced Service Priorities - Program Initiated:					
	Sub-Total Enhanced Service Priorities	0.0	0.0	0.0	0.0	0.0
	(a) New Service Priorities - Council Approved:					
	(b) New Service Priorities - Program Initiated: Temporary staffing resources to deliver Capital projects	460.0		2.0		
	Sub-Total New Service Priorities	460.0	0.0	2.0	0.0	0.0
	Total Recommended New / Enhanced Service Priorities	**460.0**	**0.0**	**2.0**	**0.0**	**0.0**

Recommended Enhanced Service Priorities – Program Initiated:

Temporary resources to deliver capital projects

Funding is recommended in the amount of $0.220 million for two temporary positions and $0.240 million to backfill four approved positions for a total impact of capital of $0.460 million gross and $0 net to deliver IT Capital Projects:

1) The Information Technology Infrastructure Library (ITIL) Implementation: This project will enable a single enterprise help desk (service desk) and provide support service excellence in the provision of IT services to meet the City's business needs. Funding to backfill 4 approved positions, one each from I&T, and Clusters A, B and C will be selected for the Process Teams and as Technology leads. This will enable completion of this project.

2)   The Enterprise Systems Management Strategy Project: This project will integrate business
      framework for policy, strategy, change, alignment and execution with the various information
      systems in the City. This includes networks, systems, storage, applications and business
      services, all of which support the City's day to day business operations. Two staff resource is
      required to deliver the project.

Section E: Issues for Discussion

2008 Operating Budget Issues

IT Governance and Transformation Project

Information and Technology was one of the first programs to be reviewed under the Council approved Program Review framework. IBM was hired as the IT Governance and Organization Design Review consultant in 2006. The objective of the review was to determine a model for IT governance and organization design that could be implemented to increase the City's technology leadership and innovation while supporting continuous improvement and effective, cost efficient service delivery within its new corporate administrative structure.

The Program Review resulted in the launch of an IT Governance and Transformation Project that effectively began in May 2007, with the establishment of a Chief Information Officer position for the City, reporting to the Deputy City Manager and Chief Financial Officer, to develop and implement 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 two year project will strengthen and integrate I&T leadership and services across the City by creating a strong shared services division, that works with business units to take better advantage of information and technology in delivering services to citizens and other clients.

A Business Advisory Panel, and an Enterprise Architecture Review Panel have also been established to ensure that the City derives the maximum value from the overall investment in information and technology and to ensure that the investment occurs in a planned and coordinated manner.

Over the next two years, there will be many transition initiatives, including an introduction of an Enterprise Architecture for IT in the City, the development of new procedures/tools or changes to existing ones. Throughout, all Divisional IT staff from across the City will be involved.

In addition, Information and Technology has been able to identify savings through optimizing existing resources, rationalizing service contracts, and effectively managing costs by re-examining its services and activities that are contained in the Recommended 2008 Operating Budget.

Appendix 1
Summary of Recommended Base Budget Changes
From 2007 Approved Budget

(In $000s)	Summary of 2008 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2009	2010
		$	$	$	$	$
2007 Council Approved Operating Budget	**383.0**	**56,689.5**	**8,634.6**	**48,054.9**	**0.0**	**0.0**
In-year approvals and technical adjustments	1.0					
Corporate adjustments		10.5		10.5		
2007 Final Operating Budget	**384.0**	**56,700.0**	**8,634.6**	**48,065.4**	**0.0**	**0.0**
Prior year impacts		1,671.7		1,671.7	594.4	747.0
Zero base items						
Economic factors		998.3		998.3		
Adjusted Base Budget	**384.0**	**59,370.0**	**8,634.6**	**50,735.4**	**594.4**	**747.0**
Other base changes		248.6	(16.9)	265.5		
Base revenue changes			195.8	(195.8)		
2008 Base Budget Request	**384.0**	**59,618.6**	**8,813.5**	**50,805.1**	**594.4**	**747.0**
Recommended Base Adjustments:						
Base changes						
Service efficiencies		(2,216.8)		(2,216.8)	596.2	
Revenue adjustments						
Minor service impact		(176.4)		(176.4)	100.0	
Total Recommended Base Adjustments	**0.0**	**(2,393.2)**	**0.0**	**(2,393.2)**	**696.2**	**0.0**
2008 Recommended Base Budget	**384.0**	**57,225.4**	**8,813.5**	**48,411.9**	**1,290.6**	**747.0**
2008 Program Operating Target	**N/A**	**N/A**	**N/A**	**48,065.4**	**0.0**	**0.0**
% Over (Under) Program Target				**0.7%**	**2.7%**	**1.55%**
% Over (Under) 2006 Appvd. Budget				**0.7%**	**2.7%**	**1.55%**

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 Dec 2007	Proposed Withdrawals (-) / Contributions (+)		
			2008	2009	2010
		$	$	$	$
Insurance Reserve	XR1010	23,610.4	90.9	90.9	90.9
Total Reserve / Reserve Fund Draws / Contributions			**90.9**	**90.9**	**90.9**