

Analyst Briefing Notes

Administration Committee

(January 5, 2006)

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PART I: 2006 Operating Budget Overview

Table 1: 2006 Proposed Budget

	2005		2006 Proposed Operating Budget			Change 2006 Proposed from 2005 Budget		FY Incremental Outlook	
	2005 Approved Budget	2005 Proj Act.	2006 Proposed Base	2006 New Council Priorities	2006 Proposed Op. Bud.	\$	%	2007	2008
(In \$000s)	\$	\$	\$	\$	\$			\$	\$
GROSS EXP.	52,162.0	48,891.8	50,594.8	1,212.0	51,806.8	(355.2)	(0.7)	1,879.0	694.0
REVENUE	10,426.8	8,444.3	7,460.7	1,125.0	8,585.7	(1,841.1)	(17.7)	754.0	(181.0)
NET EXP.	41,735.2	40,447.5	43,134.1	87.0	43,221.1	1,485.9	3.6	1,125.0	875.0
Approved Positions	393.0	393.0	352.0	11.0	363.0	(30.0)	(7.6)	0.0	0.0
TARGET			42,569.9						
\$ Over / (Under) Program Target			651.2						
% Over / (Under) Program Target			1.5%						

Executive Summary

- The 2005 projected year-end net expenditure of \$40.448 million is \$1.288 million or 3.1% under the 2005 Approved Budget. This is due to delays in hiring staff to fill vacancies to support various capital projects, resulting in under spending of \$2.352 million and some deferred spending for materials and supplies and services, offset by reduced recoveries from Capital.
- The 2006 Proposed Operating Budget for Information and Technology of \$43.221 million net is comprised of Base funding of \$43.134 million and \$0.087 million for New and Enhanced Services and is 3.6% higher than the 2005 Approved Budget and exceeds the 2006 target by 1.5%. This is the result of deferring the final phase of the implementation funding for the SAP Competency Centre from 2005 in the amount of \$0.557 million. Although this is a corporate initiative, the cost is contained in the Information and Technology budget. It is proposed that no further reductions be sought to offset this.
- The 2006 Proposed Operating Budget includes a reduction of 38 positions out of the 55 positions that was approved for the Technology End of Lease project, as a result of this project being completed in 2005. The remaining 17 positions is retained in 2006, for the Information and Technology Sustainment project which will ensure that the City’s technology assets are replaced at the end of their lifecycles to enable a secure, high performance technology infrastructure and systems environment that is maintained in a state of good repair, and can be flexible enough to responsively adapt to changing business priorities.

- 2006 Proposed Service Level adjustments include a recovery from charging an administration fee to other City Programs for wireless service management in the amount of \$0.350 million. Currently, the Wireless and Telecommunications group provide technical support for end users within the City of Toronto, and managing the vendors and contracts for the supply of wireless telecommunications. It also includes a \$0.615 million reduction in gross expenditures to reflect savings from improved contract negotiation and pricing.
- The 2006 Proposed New/Enhanced Proposals of \$1.212 million gross and \$0.087 million net provides for an increase of 6 permanent and 5 temporary positions to accommodate the various City Programs’ requests for project management support for capital projects that have been approved in the 2006 Capital Budget for Information and Technology.
- The 2006 Key Cost Drivers for 2006 include pressures resulting from inflationary increases for non-labour expenditures, and operating impacts from capital projects, and the full year effect of deferring the SAP Competency Centre implementation in 2005.

Recommendations:

It is recommended that Information and Technology’s 2006 Proposed Operating Budget of \$51.807 million gross and \$43.221 million net, comprised of the following services, be approved:

<u>Service:</u>	<u>Gross</u> <u>(\$000's)</u>	<u>Net</u> <u>(\$000's)</u>
Applications Delivery	15,429.2	13,571.3
Desktop Computing	32,066.3	25,976.0
Land Information	3,175.2	2,960.4
Voice & Telecommunications	1,136.3	713.4
	<hr/>	<hr/>
Total Program Budget	<u>51,807.0</u>	<u>43,221.1</u>

PART II: BASE BUDGET

Section A: 2005 Budget Variance Analysis

Table 2: 2005 Budget Variance Review

	2004 Actuals	2005 Approved Budget	2005 Projected Actuals *	2005 Approved vs Projected Actuals Variance Over / (Under)	
(In \$000s)	\$	\$	\$	\$	%
GROSS EXP.	45,306.0	52,162.0	48,891.8	(3,270.2)	(6.3)
REVENUES	4,581.2	10,426.8	8,444.3	(1,982.5)	(19.0)
NET EXP.	40,724.8	41,735.2	40,447.5	(1,287.7)	(3.1)
Approved Positions	331.0	393.0	393.0	0.0	0.0

*Projected Actual expenditures to year-end based on 3rd Quarter Variance Report

2005 Experience

- The 3rd quarter projection to year-end is \$40.448 million net, compared to the 2005 Approved Budget of \$41.735 million, reflecting a favourable variance of \$1.288 million or 3.1%.
- Under spending is largely attributed to difficulty experienced in hiring qualified staff to fill vacancies to support various capital projects, and efficiencies in several capital projects such as the TELS rollout. The TELS implementation was closely managed and efficiencies were realized through documented processes resulting in less workforce requirements to execute this initiative. Key positions in the SAP Competency Centre remained vacant throughout most of 2005 due to a lack of qualified candidates in the market place. The effect of these factors is under spending in the amount of \$2.352 million. Deferrals of some materials, supplies and services resulted in incremental under spending of \$0.918 million, as well as a decrease in recoveries from capital projects of \$1.842 million.

Impact of 2005 Operating Variance on 2006 Proposed Budget

- There has been a hiring push in the third and fourth quarters of 2005, but it is expected that late year hires in 2005, will not impact expenditures levels in 2006.

Section B: 2006 Proposed Base Budget

Table 3: 2006 Proposed Base Budget

(In \$000s)	2005 Approved Budget	2006 Requested Base	2006 Proposed Base	Change 2006 Proposed Base v. 2005 Approved Budget		FY Incremental Outlook	
						2007	2008
	\$	\$	\$	\$	%	\$	\$
GROSS EXP.	52,162.0	51,209.8	50,594.8	(1,567.2)	(3.0)	1,879.0	694.0
REVENUE	10,426.8	7,110.7	7,460.7	(2,966.1)	(28.4)	754.0	(181.0)
NET EXP.	41,735.2	44,099.1	43,134.1	1,398.9	3.4	1,125.0	875.0
Approved Positions	393.0	352.0	352.0	(41.0)	(10.4)	0.0	0.0
NET TARGET			42,569.9				
\$ Over / (Under) Program Target			564.2				
% Over / (Under) Program Target			1.3%				

2006 Proposed Base Budget

The 2006 Proposed Base Budget of \$43.134 million net compared to the 2005 Approved Budget, is \$1.567 million under the gross expenditures and a \$2.966 million below 2005 recoveries, resulting in a net expenditure increase of \$1.399 million over 2005.

The 2006 Proposed Base Budget exceeds the target by 1.3% increase in net expenditures year over year. This is entirely due to a deferral in 2005, of the final phase of the implementation of the SAP Competency Centre into 2006 in the amount of \$0.557 million. This deferral was made in consideration of the City's financial situation in 2005. As this is a corporate initiative, no further reductions to this budget are proposed.

The 2006 Proposed Base Budget includes a reduction of \$0.026 million net as a result of savings identified through a review of their budgeted line items for materials, equipment and services, where they were able to adjust to achieve the savings.

In addition, the 2006 Proposed Base Budget includes an operating impact from Capital projects comprised of a recovery from capital of \$0.325 million.

Included in the 2005 Approved Operating Budget was \$4.904 million for 55 temporary staff positions supporting the TELS roll out. Approved funding was provided in the TELS capital project and had \$0 impact on the 2005 Operating Budget. These 55 temporary staff and the \$4.904 million have been reversed from the 2006 Operating Budget Request as the roll out will be completed in 2005.

Now that the final implementation of the computer replacement (TELS) is complete, the sustainment phase of the Technology Asset Lifecycle project begins in 2006. To this end, the 2006 Proposed Operating Budget includes \$1.288 million operating impact for 17 staff positions which

will be recovered from the 2006 Information and Technology Sustainment project with a \$0 impact on the 2006 Operating Budget.

The Information and Technology Sustainment project is to ensure that the City's technology assets are replaced at the end of their established lifecycles to enable a secure, high performance technology infrastructure and systems environment that is maintained in a state of good repair, and can be flexible enough to responsively adapt to changing business priorities.

2006 Key Costs Drivers

Key cost drivers include:

- Collective agreement cost increases of \$1.249 million.
- Merit and Step of \$0.528 million.
- Economic factors of \$0.320 million.
- Operating impact from Capital for licensing and maintenance support of \$0.116 million.
- Deferral of the final phase of the implementation of the SAP Competency Centre of \$0.557 million.
- An inter-divisional recovery of the applicable costs in the amount of \$0.325 million for supporting the capital projects approved in the 2006 Capital Budget for Information and Technology.

Appendix A

**Table 4: Summary of Proposed Base Budget Changes
From 2005 Approved Budget**

	Summary of 2006 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2007	2008
(\$000's)		\$	\$	\$	\$	\$
2005 Approved Operating Budget	390.0	52,755.7	10,257.0	42,498.7	0.0	0.0
In-year approvals and technical adjustments	3.0	(593.7)	169.8	(763.5)		
2005 Approved (Adj) Operating Budget	393.0	52,162.0	10,426.8	41,735.2	0.0	0.0
Prior year impacts	(38.0)	(955.6)	(3,350.5)	2,394.9		
Annualized impact SAP CC						
Zero base items						
Economic factors		319.8		319.8		
Adjusted Base Budget	355.0	51,526.2	7,076.3	44,449.9	0.0	0.0
Other base changes	(3.0)	(316.4)	(290.3)	(26.1)		
Base revenue changes			324.7	324.7		
2006 Base Budget Request	352.0	51,209.8	7,110.7	44,099.1	0.0	0.0
Recommended Base Adjustments:						
Other base changes						
Additional reductions required						
Service efficiencies		(615.0)	350.0	(965.0)		
Revenue adjustments						
Minor service impact						
Major service impact						
Total Proposed Base Adjustments	0.0	(615.0)	350.0	(965.0)	0.0	0.0
2006 Proposed Base Budget	352.0	50,594.8	7,460.7	43,134.1	1,125.0	875.0
2006 Program Operating Target	N/A	N/A	N/A	42,569.9		
% Over (Under) Program Target	N/A	N/A	N/A	1.3		
% Over (Under) 2005 (Adj.) Budget	(10.4)	(3.0)	(28.4)	0.0		

Section C: 2006 Base Budget Issues**Key Issues / Recommendations****2006 Proposed Operating Budget vs. Guideline**

The 2006 Proposed Operating Budget for Information and Technology is \$43.221 million net, and is comprised of Base funding of \$43.134 million and \$0.087 million for New and Enhanced Services and is 3.6% higher than the 2005 Approved Budget and exceeds the 2006 target by 1.5%. This overage is recommended because of a prior year impact arising from the SAP Competency Centre creation in 2005, the result of a deferred \$0.557 million into 2006 for the final phase of this implementation.

Service Level Changes

The service level adjustments proposed by the Program are recommended. These result in savings totaling \$0.965 million described below:

Service Efficiency

Information and Technology is expecting that improved contract negotiation will result in better pricing for their materials, supplies and services purchases for a forecasted savings of \$0.615 million.

The 2006 Proposed Operating Budget also includes a recovery of an administration fee from charging other City Programs for wireless service management in the amount of \$0.350 million. Currently, the Wireless and Telecommunications group provide technical support for end users within the City of Toronto, and managing the vendors and contracts for the supply of wireless telecommunications. In order to better manage the various separate contracts previously executed by individual Programs, Information and Technology will be staffing a new telecom planner to review and analyze all contracts to find the most economical and viable sources for wireless services. Efficiencies such as pooling of minutes, usage, etc, and sharing of same throughout the City is estimated to generate savings of \$0.900 million City wide, on an annualized basis, once the telecommunications planner has been recruited.

3 Year Operating Budget Overview

The 3-year budget maintains the current level of services, while managing cost increases driven by collective agreements, ongoing merit and step and economic factors.

In addition, the costs for maintenance and licensing of corporate systems continue to grow due to the increasing demand for Information Technology systems development and upgrades.

The 2007 and 2008 net incremental outlook for Information and Technology includes annualizations and operating impacts from Capital. The adjustments necessary to achieve the 0% target set for 2007 and 2008 will be considered during the future year budget cycles.

Service Levels, Delivery, or Gap Issues

Information and Technology has indicated that demand for their services continues to increase and is outpacing their ability to provide services. Specific disciplines that are under-resourced include: information security, enterprise architecture, e-print program coordination, and quality assurance testing. The Program has stated that it cannot propose any additional reductions without impacting services to other City Programs. As Information and Technology services are an integrated part of their operations, any reduction to the Information and Technology services will impact the reliability, availability, performance and security of the applications and data that the program areas depend upon to run their operations. In many cases, direct public service impacts would be the result.

A Citywide Information and Technology governance and organization design review is scheduled to be completed in 2006 which is intended to comprehensively identify gaps and opportunities for restructuring.

Issues Referred to 2006 Operating Budget Process**Corporate Support Provided to the ten City-funded Community Centres**

A report entitled 'Corporate Support Provided to the ten City-funded Community Centres' was considered at the Policy and Finance Committee meeting on November 1, 2005. That report was referred to the Budget Advisory Committee for consideration during the 2006 budget process.

The report identified under-resourcing for the Community Centres in two areas; Information and Technology and Human Resources. It recommended that an additional full time equivalent staff position be provided for Human Resources services (at a cost of \$0.084 million) and two additional full time staff for Information and Technology services (at a cost of \$0.244 million) and that funding be included in the 2006 operating budgets of the respective programs. These amounts have not been included in the Human Resources 2006 Proposed Budget nor the Information and Technology 2006 Proposed Budget.

Outstanding Issues from 2005 and Prior Years

None.

Appendix A

Summary of Proposed Service Level Adjustments

PART III: NEW COUNCIL PRIORITIES

Section D: 2006 Proposed New Council Priorities

Table 5: Summary of 2006 Proposed New Council Priorities (\$000)

Council Priority	Description	Total 2006 New Requests		2006 Not Proposed		2006 Proposed Council Priorities		Proposed New Positions	Net Incremental Impact	
		Gross Exp.	Net Exp.	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.		2007	2008
		\$	\$	\$	\$	\$	\$		#	\$
Council Priorities:										
	None									
	Sub-Total Council Priorities									
New Requests Referred to 2006 Operating Budget:										
	None									
	Sub-Total Referred									
New Program Requests:										
	Impacts from Capital Projects	701.0	87.0			701.0	87.0	5.0	1,125.0	875.0
	Wireless Infrastructure	71.7				71.7		1.0		
	Systems, Products, and Services	155.0				155.0		2.0		
	TCHIS (Public Health) support	284.3				284.3		3.0		
	Sub-Total New Program Requests	1,212.0	87.0			1,212.0	87.0	11.0	1,125.0	875.0
Total New Council Priorities		1,212.0	87.0			1,212.0	87.0	11.0	1,125.0	875.0
Council Priority 1 - Improve Public Service 2 - Make Progress on the Waterfront 3 - Improve Business Climate 4 - Make Toronto a clean and beautiful city 5 - Strengthen our at-risk neighbourhoods 6 - Ensure housing is affordable 7 - Get the powers and funding needed for Toronto to succeed 8 - Improve the planning process 9 - Increase public involvement in civic affairs 10 - N/A										

Key Issues / Recommendations

New/Enhanced Services requests of \$1.212 million gross and \$0.087 million net are proposed for 2006 which includes an increase of 6 permanent and 5 temporary positions to accommodate the various City Programs' needs for capital project management support for capital projects that have been approved in the 2006 Capital Budget for Information and Technology.

2006 New Council Priorities

None.

Council Priorities Referred to 2006 Operating Budget Process

None.

2006 New Program Requests

New Program requests totaling \$1.212 million gross, and \$0.087 million net have been proposed, as these are almost entirely funded from the Capital Budget:

Operating Impacts from Capital:

- Several of the capital projects in I & T involve maintaining existing infrastructure in a state of good repair. When new software and hardware is purchased, licencing and maintenance costs are required and must be renewed annually. Some of the capital projects impacting the 2006 Operating Budget are Electronic Service Delivery, Network and SAP Security Upgrade, Telecom upgrades, and e-City initiatives. The cost to support the capital projects is estimated to be \$0.701 million with a recovery from Capital of \$0.614 million resulting in a net pressure of \$0.087 million. This is proposed.

Telecom Services, Wireless Infrastructure Resources:

- The 2006 Proposed Budget includes one additional position to meet the increasing service delivery requirements resulting from various City Programs and to respond to the Auditor General's January 2005 Telecommunications Services Review. Implementation of the new procedures and duties cannot be addressed with current staffing levels, particularly with the addition of new user groups, including EMS, Fire and Parks, Forestry and Recreation. The request is for \$0.072 million to be recovered from various Programs' Operating Budgets to fund one position to provide telecommunication and, wireless infrastructure services.

Systems, Products and Services Resources:

- The 2006 Proposed Budget includes the conversion of 2 contracted positions to permanent positions to manage increased workload and sustainment of on-going capital and special initiatives to ensure completion of capital projects and post implementation support. This will provide an in-house solution to supporting and managing the Information and Technology technical services. It is to the benefits of the City to develop this knowledge and skills in-house. If not approved, there will be continued dependence on contracted resources and delays in embracing critical new technology for the City enterprise infrastructure. Delays in projects involving Information and Technology and other Programs will impede ability to meet service level agreement and support responsibilities amongst client programs, and to effectively deal with incidents such as virus outbreak, disaster recovery or strike response. The gross cost of \$0.155 million will be recovered from capital projects for a \$0 million net impact on the Operating Budget. The conversion is recommended as they are currently budgeted across several capital projects as consulting costs with the City benefiting from developing these contractors' knowledge and skills in house.

The Toronto Community Health Information System (TCHIS)

- The 2006 Proposed Budget includes costs to support this project in the amount of \$0.284 million which is recovered from and included in Public Health's 2006 New Services Request, and subject to approval of its 2006 Operating Budget. Information & Technology requires 3 additional staff to support the single multi phased information system in 2006 replacing 28 disparate systems. Public Health has located this information system in the City's Corporate Data Centre to be managed by I & T.

The following new/enhanced request is not proposed.

Systems, Products & Services resources for Fraud Investigations and IT Forensic Audits:

- This new/enhanced service request is for an additional position to manage increased workload arising from fraud and forensic audit request by the Auditor General's Office. Current staff undertake special requests related to fraud investigations and forensic audits which require immediate attention as well as technical and management efforts which are not within the existing staff manpower capacity. The proposed inter-divisional charge of \$0.080 million to the Auditor has not been reflected in their 2006 Operating Budget.

Appendix B

Summary of New Council Priority Services