



STAFF REPORT ACTION REQUIRED

Information Technology Maintenance Contracts Renewal

Date:	September 6, 2007
To:	Government Management Committee
From:	Joseph P. Pennachetti, Deputy City Manager and Chief Financial Officer Sue Corke, Deputy City Manager Richard Butts, Deputy City Manager
Wards:	All
Reference Number:	P:\2007\Internal Services\pmmd\gm07028pmmd (AFS # 3352)

SUMMARY

The purpose of this report is to seek City Council authority to renew for a three (3) year period, information technology systems maintenance contracts listed in Appendix A, which have exceeded the \$500,000 cumulative threshold as per Municipal Code 195-10F.

The contracts listed in Appendix A are for software and hardware support and maintenance services for various applications throughout the City of Toronto which can only be provided by the vendors listed in Appendix A. Historically a Staff Report was prepared on an annual basis to City Council, however, PMMD and I&T have recommended a three (3) year approval with the expectation that this will allow City Divisions to negotiate savings with the vendors.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer, the Deputy City Manager of Citizen Focused Services A and the Deputy City Manager of Citizen Focused Services B recommend that:

1. City Council grant approval, subject to Operating Budget approval in each year, to renew the contracts listed in Appendix A for a three (3) year period, at a cost not to exceed \$11,805,114.60 net of GST for 2008, \$12,623,180.05 net of GST for 2009 and \$13,333,932.89 net of GST for 2010 for a total amount not to exceed \$37,762,227.54 net of GST.

2. City Council grant authority for City Divisions to negotiate and enter into three (3) year contracts to renew the contracts listed in Appendix A, all in accordance with this Staff Report, City Policies and Procedures and in a form satisfactory to the City Solicitor.

Financial Impact

Funding totalling the following net of GST amounts will be included each year in the respective programs' Operating Budget submissions:

	2007	2008	2009	2010
Requested Amount	\$12,262,113.72	\$11,805,114.60	\$12,623,180.05	\$13,333,932.89
% Change		-3.7%	6.9%	5.6%

The average percentage change over the three (3) period is **2.9%**.

A breakdown of the amounts for each contract grouped by Division is attached as Appendix A to this Staff Report. A divisional summary, which includes the average variance with comments, is attached as Appendix B.

The requested amounts for 2008, 2009 and 2010 are the “not to exceed” amounts for the purposes of obtaining approval to negotiate the contracts in Appendix A and will be subject to Operating Budget approval in each year. The amounts are based on the current support and maintenance requirements, potential future requirements and a percentage increase each year of between 3% and 10% (which is currently the range of non-negotiated increases).

The requested amount for 2008 is lower than the 2007 reported amount for several reasons. The City was able to reduce the volume of items requiring support and maintenance through server consolidation; some contracts were re-negotiated in 2007; and in the case of some hardware contracts, as older technology was replaced, the newer technology included one (1) year support and maintenance.

With approval for three (3) years, the City may be able to negotiate costs lower than those shown in Appendix A. At a minimum, the City will save administrative costs by negotiating these contracts once, instead of annually.

DECISION HISTORY

Annual maintenance contracts are required for various information technology systems and software applications for the City of Toronto that can only be provided by one supplier. Since 2001, the Information & Technology Division has prepared a consolidated list of maintenance contracts requiring renewal for approval by City

Council. The first request was approved at City Council's meeting of January 30, 31 and February 1, 2001, Administration Committee, Report 1, Clause 5.

www.toronto.ca/legdocs/2001/agendas/council/cc010130/adm1rpt/cl005.pdf

Since the maintenance contracts listed in Appendix A, will need to be renewed annually for the foreseeable future, the decision was made to submit one report to City Council, requesting approval for three (3) years.

ISSUE BACKGROUND

The maintenance contracts listed in Appendix A are contracts that support software applications and hardware in the City which are critical to day-to-day operations. These maintenance contracts allow the City to receive security patches and current versions of the software which is required in order to ensure compatibility with other software applications and hardware in the City's information technology environment. In addition, these contracts provide for technical support from the software and hardware vendors when problems occur to minimize any downtime of the City's software applications. Maintenance of these products is only available directly from the manufacturer.

At its session of September 13th, 2005, the Administration Committee requested that the Executive Director of the Information & Technology Division report back on a plan to consolidate maintenance contracts where possible.

www.toronto.ca/legdocs/2005/agendas/council/cc050928/adm7rpt/cl001.pdf

As maintenance contracts have come up for renewal, the Information & Technology Division has worked with the various Divisions in the City to consolidate contracts, however, as approval was obtained on an annual basis, the Divisions could only negotiate one (1) year pricing.

Information technology systems maintenance contracts fall into three (3) general categories;

- contracts with fixed end dates which need new contracts,
- contracts with annual auto-renewal clauses that include a maximum percentage increase year over year, and
- contracts with annual auto-renewal clauses and no price protection.

By continuing to renew contracts on an annual basis, the City will not be in a strong bargaining position as the City's only leverage is discontinuing maintenance (which in practical terms, means replacing the software at a considerable capital cost).

With a three (3) year approval, Divisions will have the flexibility to enter into multi-year renewals or contracts which will give the City a better bargaining position when negotiating price.

COMMENTS

Upon approval, City Divisions will negotiate three (3) year pricing agreements with the vendors listed in Appendix A. These contracts will also include renewal options subject to future City Council approval in 2010. The City will continue with its policy to pay for maintenance on an annual basis.

The City will retain its right to cancel maintenance contracts should the City discontinue using any of the applications, or if the manufacturer authorizes other vendors to provide the service.

The Information & Technology Division and Purchasing and Materials Management Division will continue looking for opportunities for consolidation and cost control.

All contracts will be renewed or re-negotiated in accordance with City policies and procedures, and in a form favourable to the City Solicitor.

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SIGNATURES

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ATTACHMENTS

Appendix A – Divisional Breakdown of Information Technology Systems Maintenance Contracts.

Appendix B – Divisional Summary of Information Technology Systems Maintenance Contracts.