

**Community Services Report to
Audit Committee
2020 October 22**

**ISC: UNRESTRICTED
AC2020-1049
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Civic Partner Audit Report

RECOMMENDATIONS:

That the Audit Committee recommend that Council:

1. Receive this report for the Corporate Record; and
2. Direct that Attachments 3, 5 and 6 remain confidential pursuant to Sections 16 (Disclosure harmful to business interests of a third party), 23 (Local public body confidences), and 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*, to be reviewed 2026 October 22.

RECOMMENDATION OF THE AUDIT COMMITTEE, 2020 OCTOBER 22:

That Council adopt the Recommendations as contained in Report AC2020-1049.

HIGHLIGHTS

- The Civic Partner Audit Report presents the results of an annual financial review of Civic Partners that evaluates The City's exposure to risk related to Civic Partners and rates these organizations as low risk, elevated risk, or high risk. The process is one aspect of a broader accountability framework, and it assesses the overall financial health of Civic Partner organizations and provides an opportunity to work with partners as needed to improve their financial health.
- *What does this mean to Calgarians?* The City invests significant operating and capital funding in Civic Partners, and they manage and operate valuable City-owned community assets. The review of audited financial statements helps identify The City's potential financial exposure and risks, enhances accountability, and provides an opportunity to understand the current state of Civic Partners' operations. Information about organizations' governance and risk management practices helps identify if the necessary structures and processes are in place to be sustainable and effective.
- *Why does this matter?* Reviewing a Partner's financial health, risk management and governance practices reduces risks inherent in partnering, and provides opportunities to assess and address organizational sustainability.
- Based on 2019 audited financials, the majority of Civic Partners were rated as low risk in 2019. Administration is working with the remaining four partners rated as elevated risk and one rated as high risk to confirm mitigation strategies are in place and provide support where appropriate.
- To provide insight into Civic Partners' organizational health, highlights of partners' governance and risk management practices are included in this report, and detailed self-reported information from partners is included in Attachment 6 (confidential).
- This report usually comes before Audit Committee in Q2 each year, however it was delayed due to COVID-19. Due to the timing of the report, and significant impact of COVID-19 on Civic Partner financial health and operations, some information about the impact of COVID-19 in 2020 is included in this report and partner templates included in Attachment 6. The full review of 2020 audited financial statements will take place in Q2 2021.

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- Top risks that were most frequently reported by Civic Partners included financial risk (including as it relates to the impact of COVID-19), operational risks specific to each partner operation, and talent management and retention risk.
- Governance practices continue to evolve, with all Partners focused on improvements in key areas. Diversity practices in operations and governance continue to evolve, with more Partners reporting approved policies or practices in place or plans to undertake this work in 2020.
- 2019 June 17 Council adopted AC2019-0472 Civic Partner Audit Report recommendations as follows: 1. Receive this report for information; and 2. Direct that this report and Attachments 2, 4 and 5 remain confidential under Sections 23(1) (b), 24(1)(b), and 16(1) of the *Freedom of Information and Protection of Privacy Act* (Alberta) until such time as six years from this date.
- Strategic Alignment to Council's Citizen Priorities: A well-run city
- Background and Previous Council Direction is included as Attachment 1.

DISCUSSION

By working in partnerships, The City benefits from partners' knowledge and expertise, and ability to leverage and multiply The City's investment to meet the needs of Calgarians. Civic Partners manage and operate over \$865 million in City-owned assets, and in 2019, The City invested over \$100 million in operating funding, and over \$12.5 million in capital funding.

To mitigate risk, partnerships are structured to steward public investment appropriately and this report is one component of a broader accountability framework for Civic Partners. Following Council direction in 2012, Administration has brought forward a Civic Partner Audit Report every year since 2013. "Partnership Risk" is also one of The City's 17 Principal Corporate Risks that is monitored and reported twice a year to Council (AC2020-0711).

Financial review process

The annual financial review process evaluates The City's exposure to risk related to Civic Partners, assesses the overall financial health of Civic Partner organizations, and provides an opportunity to work with partners as needed to improve their financial health. The process follows established criteria and ratios that evaluates operating cash on hand, working capital/cash expenses, deficit level, and reserves, among other items. The same financial review tool is also used to review community associations and social recreation groups with a Lease or License of Occupation.

Based on the criteria, Partners are assigned a rating of low risk, elevated risk, or high risk (definitions are included in Attachment 2).

Based on 2019 audited financials, the majority of Civic Partners are financially stable with 23 rated as low risk, four rated as elevated risk, and one rated as high risk. Ratings for all organizations reviewed are included in Attachment 3 (confidential).

Civic Partner organizations are arms-length and separate entities from The City. In addition to their accountability to The City, they are accountable to their boards of directors, patrons and customers, partners, members, and funders. When a Civic Partner is rated as elevated or high risk during the financial review process, Administration works with them to identify mitigation

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strategies that can be implemented to improve the organization's financial health and reduce The City's exposure to risk. Attachment 5 (confidential) provides a summary of risk mitigation strategies for the organizations rated as elevated and high risk.

Detailed, self-reported information from Civic Partners about board governance, talent and culture including compensation and evaluation, and policies and practice including risk management is included in Attachment 6 (confidential). The following are some highlights:

Risk management: Civic Partner organizations have a range of risk management practices in place to effectively manage their unique operating and strategic risks. Each organization engages their board in this work, and is working to create a culture of risk management. While top strategic risks vary depending on the nature of partner operations, the most commonly reported for 2019 included:

- **financial risk** related to economic uncertainty in 2019 and previous years, and the need to adapt and diversify revenue streams, reduce expenses and adjust operating and business models. Funding challenges connected to this risk included reduced sources of revenue such as corporate sponsorships, donations, grants, and earned revenues. A number of partners identified changing government priorities that impact investments.
- **infrastructure risks** related to maintenance or replacement of aging infrastructure, and impact of lower revenues on capital programs.
- **operational risks** specific to partner operations including ability to meet the needs of changing demographics and changing community needs, and shifts in structures and future business and revenue generation models.
- **talent management and retention:** Given ongoing economic uncertainty and challenges, many partners have reduced their workforce, creating potential gaps in skills and experience. Those with increased demand and financial constraints pointed to increased workloads, and staff fatigue. Smaller organizations and those with focused programming noted a risk related to losing senior staff, and the related loss of organizational knowledge and sector-specific expertise.

Governance: It is the responsibility of each Civic Partner organization's board of directors to oversee and strategically guide the organization. Strong governance practices can help ensure an organization is sustainable and manages risk appropriately.

Across the non-profit sector, there is evolving understanding and changing practices to recognize and integrate diversity into governance structures and address racism. While strategies to improve gender representation has been a focus for a number of years, diversity has come to be defined more broadly to include identity diversity (i.e. gender, race, ethnicity, age, sexual orientation) and cognitive diversity (i.e. skills, perspectives, thoughts). All Civic Partners report examples of how they are integrating diversity practices into their governance and operations, but they vary in stages of development. In 2019, The City offered opportunities for Civic Partners to participate in training about Gender Based Analysis Plus (GBA+), and unconscious bias. Looking ahead, as practices in the broader non-profit sector and government evolve, Administration will continue to support opportunities for Civic Partners to refine their approaches to diversity as appropriate.

Information in this report is complimented by CPS2020-1051 Civic Partner Annual Report to the Standing Committee on Community and Protective Services on October 20, 2020.

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STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

- Public Engagement was undertaken
- Public Communication or Engagement was not required
- Public/Stakeholders were informed
- Stakeholder dialogue/relations were undertaken

Administration worked collaboratively with Civic Partners on this report and partners self-reported their governance and risk management practices (Attachment 6). As part of the review process, Administration communicates with each organization to inform them of their rating, and discuss issues and potential mitigation as required.

IMPLICATIONS

Social

Civic Partners lead and support implementation of *Enough for All 2.0* poverty reduction strategy, and provide valuable recreation, sport and cultural opportunities for Calgarians in alignment with The City's *Sport for Life* Policy, and a *Cultural Plan for Calgary*. They foster healthy physical and social environments and enrich the social fabric of Calgary and support a high quality of life.

Environmental

Through the Civic Partner Asset Management Program and internal organizational programs, Civic Partners continue to review and adjust their operational practices to reduce consumption of resources and their ecological footprint. They promote conservation, environmental stewardship and community sustainability strategies including public education and awareness related to public spaces and natural resources.

Economic

Guided by *Calgary in the New Economy*, the Council-approved economic strategy stewarded by Calgary Economic Development, many Civic Partners contribute to economic development in Calgary through related strategies and activities including the *Enough for All* poverty reduction strategy, *Destination Strategy*, *Living a Creative Life*, and convention centre services. The City's allocation of operating and capital funding to Civic Partner operations are strategic investments that create a diverse range of facilities and programs for Calgarians and visitors to enjoy. The City's investment in Civic Partner operations are multiplied and leveraged by Civic Partners through resources and funding.

Service and Financial Implications

Civic Partner 2019 operating grant funding

\$107,483,889

The base operating funding for Civic Partners included in One Calgary allows the organizations to extend and compliment The City's service delivery under the following eight lines of service: Economic Development and Tourism, Library Services, Arts and Culture, Affordable Housing,

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Community Strategies, Parks and Open Spaces, City Planning and Policy, and Recreation Opportunities.

RISK

Partnership-related risks are associated with any circumstance in which a third-party organization operating a City-owned facility defaults or ceases operations. In these cases, responsibility for the building’s capital costs to ensure building safety for a new tenant or the public may fall on The City. Dependant on the circumstances, the operating costs of the facility may also be The City’s responsibility. In addition, Calgarians would be negatively impacted through a loss or decrease in programs and/or services. Administration works closely with its Civic Partners to develop and implement strategies to mitigate these risks.

ATTACHMENTS

1. Previous Council Direction & Background
2. Definition of Rating Terms
3. Civic Partner 2019 Audit Ratings (Confidential)
4. Civic Partner Grant Funding 2017-2020
5. Civic Partner Risk Mitigation Strategies (Confidential)
6. Self-Reported Governance and Risk Management Practices (Confidential)

Department Circulation

General Manager	Department	Approve/Consult/Inform
Not applicable		