

**Community Services Report to
Audit Committee
2020 May 20**

**ISC: UNRESTRICTED
AC2021-0557
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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 (Alberta)*, to be reviewed 2026 October 22.

RECOMMENDATION OF THE AUDIT COMMITTEE, 2021 MAY 20:

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HIGHLIGHTS

- The Civic Partner Audit Report presents the results of an annual financial review that evaluates The City's exposure to risk based on Civic Partners' audited financial statements and assigns a rating of low risk, elevated risk, or high risk. The process provides an opportunity to work with partners as needed to improve their financial health and is one component of a larger accountability framework that assesses the overall financial and organizational health of Civic Partners.
- **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 assets. The financial review process helps identify The City's potential financial exposure and risks, enhance accountability for partners, and provides an opportunity to understand the current state of Civic Partner operations.
- **Why does this matter?** Reviewing a partner's financial health, risk management and governance practices reduces the City's exposure to risks that are inherent in partnering. It also provides an opportunity to assess and address organizational sustainability.
- Based on 2020 audited financials, the majority of Civic Partners were rated as low risk. Administration is working with the remaining six 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 organizational health, particularly in light of the significant financial impact of COVID-19 on most partner operations, governance and risk management practices are highlighted in the cover report, and detailed self-reported information from each Civic Partner is included in Attachment 6 (confidential).

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- Risks most frequently reported by Civic Partners included the impact of COVID-19, financial risk (including as it relates to the impact of COVID-19), and risks related to operations, and managing assets and infrastructure.
- In 2020 October, Council adopted AC2020-1049 Civic Partner Audit Report recommendations.
- Strategic Alignment to Council's Citizen Priorities: A well-run city
- Background and Previous Council Direction is included as Attachment 1.

DISCUSSION

By partnering with external organizations, The City benefits from partners' knowledge and expertise, and their 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 (insured value), and in 2020, The City invested over \$107 million in operating funding, and \$18 million in capital funding.

This report is one component of a broader accountability framework in place to mitigate risks related to partnering. Following direction from Council, Administration has brought forward a Civic Partner Audit Report every year since 2013. "Partnership Risk," with a focus on partners managing City-owned assets is also one of The City's Principal Corporate Risks that is owned by the General Manager of Community Services, and reported twice a year to Council through Audit Committee.

The annual financial review process evaluates The City's exposure to risk related to Civic Partners, assesses the overall financial health of these organizations, and provides an opportunity to work with partners as needed to improve their financial health. The process uses a tool with clearly established criteria and ratios to evaluate operating cash on hand, working capital/cash expenses, deficit level, and reserves, among other items. The same process and tool are used to review Community Associations and Social Recreation Groups with a Lease or License of Occupation.

Based on established criteria, each Civic Partner is assigned a rating of low risk, elevated risk, or high risk (definitions are included in Attachment 2). Based on 2020 audited financials, the majority of Civic Partners are financially stable with twenty-two rated as low risk, six rated as elevated risk, and one rated as high risk. Ratings for all Civic Partners reviewed are included in Attachment 3 (confidential). The 2020 ratings have a similar overall risk profile as previous years. Of the small number of partners rated as elevated risk in 2020 (six), four have experienced longer term challenges that contributed to similar ratings since 2018. The remaining two partners rated as elevated risk, and the one rated as high were significantly impacted by COVID-19 in 2020.

When a Civic Partner is rated as elevated or high risk during the financial review process, Administration works with them to identify mitigation strategies that can 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, risk management, and policies and practice is included in Attachment 6 (confidential). The following are some highlights reported by partners:

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Civic Partner organizations have a range of **risk management practices** in place to effectively manage their operations. Each organization engages their board in this work, and has a risk matrix or similar tool to monitor and manage risk. While top strategic risks reported by partners varied depending on the nature of their operations, the most commonly reported risks included:

- **Financial risk, including the impact of COVID-19 on financial health**, was the most frequently risk reported by partners. Lower attendance, ticket sales, events, catering, programs, and other key earned revenue activities had a significant impact. Partners also reported more challenges attracting sponsorships and donations. Partners mitigated this risk in part by accessing COVID-related subsidies and funding programs including The City's Emergency Resiliency Fund (ERF) program, the federal government's Canadian Emergency Wage Subsidy and Canadian Emergency Commercial Rent Assistance Program, and the provincial government's Small and Medium Enterprise Relaunch Grant. However, not all partners were eligible for these programs, including City of Calgary wholly owned subsidiaries such as the Calgary Convention Centre Authority. For additional information about the operational impacts of COVID-19 on Civic Partners with City operating grants, refer to CPS2021-0587 *Civic Partner Annual Report* coming forward to the Standing Policy Committee on Community and Protected Services on 2021 May 27.
- Risks related to **operations** and **assets and infrastructure** were also most frequently reported. Operating risks were diverse, and included the negative impact of disruptions, ability to carry out work effectively, and challenges identifying new signature projects. Asset-related risks varied due to the range of City-owned assets Civic Partners manage and operate, but the most common type of risk was related to operating and maintaining aging assets that require ongoing lifecycle maintenance investments.

Self reported information from Civic Partners (Attachment 6) demonstrates that partners' **governance practices** continue to evolve. Civic Partner organizations are arms-length, separate entities from The City. In addition to their accountability to The City, they are also accountable to their boards of directors, and a broad range of stakeholders including patrons and customers, partners, members, and funders. Strong governance practices can help ensure an organization is sustainable and manages risk appropriately.

All partners report using a skills matrix for board recruitment, and a variety of evaluation tools to assess board performance and identify areas for improvement. An area of continued development reported by most partners is diversity, inclusion and equity. In 2020, boards adopted new policies and practices, focused on recruiting for more diversity, struck board committees and working groups, carried out audits, and engaged consultants and organizations with expertise in diversity to help shape changes to governance and operations. A number of partners identified diversity and inclusion as a continued area of focus in 2021.

Additional information about Civic Partner operations and results is available in the *Civic Partner Annual Report* (CPS2021-0587) to be presented to the Standing Policy Committee on Community and Protective Services on 2021 May 27.

STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

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

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Stakeholder dialogue/relations were undertaken

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

IMPLICATIONS

Social

Many Civic Partners lead and support implementation of the *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: An economic strategy for Calgary*, 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

Existing operating funding - base

\$107,893,796

Existing capital funding – one time

\$17,979,851

Base operating grant funding for Civic Partners included in One Calgary contributes to partners' capacity 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, Community Strategies, Parks and Open Spaces, City Planning and Policy, and Recreation Opportunities. Civic Partner capital funding programs provided through programs such as the *Civic Partner Infrastructure Grant*, support the maintenance and lifecycle work required to support high functioning City-owned assets managed and operated by partners. Additional one-time funds provided to partners are not included in the above number, for example, one-time Emergency Resiliency Fund grants provided in 2020.

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RISK

Partnership-related risks may include reputational risk, financial risk, infrastructure management risk, operations risk, political risk, among others. The most significant 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. Depending on the circumstances, the operating costs of the facility may also be The City’s responsibility and Calgarians would be negatively impacted by a loss or decrease in programs and/or services. Administration works closely with its Civic Partners to develop and implement strategies to mitigate risks and this report is a key tool for monitoring and reporting on risk.

ATTACHMENTS

1. Previous Council Direction, Background
2. Definition of Rating Terms
3. Civic Partner 2020 Audit Ratings (Confidential)
4. Civic Partner Grant Funding 2018-2021
5. Civic Partner Risk Mitigation Strategies (Confidential)
6. Self-Reported Governance and Risk Management Information (Confidential)

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform