

**Community Services Report to
Audit Committee
2018 November 20**

**ISC: UNRESTRICTED
AC2018-1099
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Status of Community Associations & Social Recreation Organizations on City-Owned Land

EXECUTIVE SUMMARY

This report provides a financial review and compliance status of community associations and social recreation organizations with a lease or license of occupation on City-owned land. Overall, the majority of community groups were low risk and compliant with their lease/license of occupation requirements in 2017.

The financial ratings outlined in this report take into consideration the level of risk represented by the organization's financial measures of liquidity, leverage and performance. Compliance to the legal agreement requirements include the submission of year-end financial statements, current general liability and property insurance policies, a business plan, completion of a lifecycle study, confirmation of appropriate use of public lands, and annual return filing for society or non-profit company. Through Administration's review process and early identification of issues, customized mitigation strategies are implemented for elevated and high risk community groups.

This report's content and format reflect changes as recommended by the City Auditor. The recommended changes identified the need to report on the level of risk to The City by community groups in the areas of organizational health and facility management in addition to financial risk. Administration continues to apply a phased approach in implementing these changes to the annual status report.

In responding to the diverse interests and perspectives of residents' voices, the community groups described in this report work in partnership with The City to meet community recreational and social needs through program and service delivery. Effective governance, financial and facility management, while meeting community program and service needs, are factors which contribute to organizational sustainability.

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ADMINISTRATION RECOMMENDATION:

That Audit Committee recommends that Council:

1. Receive this report for information;
2. Direct that attachments 3, 4 and 5 of this report remain confidential pursuant to sections 23(1), 24(1) and 16(1) of the FOIP Act and remain so until such time as section 16 is no longer satisfied.

RECOMMENDATION OF THE AUDIT COMMITTEE, DATED 2018 NOVEMBER 20:

That Council:

1. Receive Report AC2018-1099 for information; and
2. Direct that Attachments 3, 4 and 5 of this report remain confidential pursuant to sections 23, 24 and 16 of the *Freedom of Information and Protection Act* and remain so until such time as section 16 is no longer satisfied.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2018 January 29, Council received AC2017-1149 Status of Community Associations and Social Recreation Organizations on City- Owned Land for information, and approved that the policy, *Status of Community Organizations on City-Owned Land (CSPS015)*, be rescinded and directed that attachments 3, 4 and 5 of this report remain confidential pursuant to sections 23(1), 24(1) and 16(1) of the FOIP Act and remain so until such time as section 16 is no longer satisfied.

On 2017 July 24, Council received AC2017-0401 Calgary Neighbourhoods Support of Community Associations Audit report for information.

On 2012 February 27, Council approved CPS2012-03 including policy CSPS2011 Lease/License of Occupation to Community Organizations. This policy required submission of a board-approved business plan, as well as a lifecycle study, within one year of the commencement of the lease or license of occupation.

On 2006 January 19, Audit Committee approved AC2006-02 Status of Community Associations and Social-Recreation Organizations on City of Calgary-owned Land, directing Administration to expand the report to include all third-party organizations with facilities on City-owned land that Community Services liaises with, and include financial exposure as it relates to an evaluation of liabilities exceeding assets available to satisfy these liabilities.

On 2003 December 18, Audit Committee approved AC2003-68 Financial Status of Organizations on City-owned Land, directing Administration to expand the report to include information on insurance, lease status and lease payment.

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On 1994 January 31, Council approved NM94-03 Facilities on City-owned Lands, directing Administration to acquire financial statements from all organizations which are responsible for facilities on City-owned land; review encountering financial problems; strategies for containing costs and increasing revenues; bring to Council a report including an evaluation of costs or liabilities potentially facing the City.

BACKGROUND

Since 1994, there has been progressive Council-approved direction that required Administration to expand this annual status report. The direction included acquiring and reviewing financial statements from all organizations on City-owned land and reporting back to the Audit Committee, and expanded to include information on insurance, lease status and payment, business plan and lifecycle study submission status.

In 2017, The City of Calgary had a lease or license of occupation with 186 community associations and social recreation organizations in Calgary, so these community groups can provide social, recreation and community programs valued by a broad range of Calgarians.

Administration annually completes a report on the lease/license of occupation compliance status of these community groups.

This annual status report serves the following purposes:

1. Identifies trends within community groups;
2. Provides a snapshot of the general health of community groups;
3. Assesses The City's exposure to risk by proactively identifying community groups struggling to maintain their lease/license of occupation status; and
4. Identifies risk mitigation strategies to support community groups identified as elevated and high risk.

Financial Review Process

Community associations and social recreation organizations on City-owned land are required, under their agreements with The City, to provide signed copies of their financial statements within 30 days of the annual general meeting of the organization. As they become due, City liaisons collect the statements, review information about the organization's financial practices and identify factors that may impact their sustainability and increase The City's exposure to risk. Based on the review, Administration assigns a financial risk rating of low risk, elevated risk, or high risk. In previous years, low risk was rated as "good" or "satisfactory", elevated risk was rated as "marginal" or "insufficient", and high risk was rated as "organization of concern" or "overdue". City liaisons have communicated the financial ratings and mitigation strategies to each community group. Attachment 1 provides the definitions of each rating.

Business Plan Rating Process

In 2012, Council approved policy CSPS2011 Lease/License of Occupation to Community Organizations which added the requirement for groups to submit a business plan. The business plans must meet the criteria as outlined in the lease/license of occupation and they are reviewed alongside financial statements as part of the risk review process. Business plan risk rating definitions are also provided in Attachment 1.

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Report Changes

This report responds to recommendations from the City Auditor (AC2017-0401 Calgary Neighbourhoods' Support of Community Associations Audit) including relevant information about The City's risk as it relates to organizations' facility management and organizational health. As part of the organizational health reporting, Results-Based Accountability (RBA) measures will be used to monitor overall community association health and service to the community. Attachment 2 provides an update pertaining to the phased management response to Recommendations 1 & 2 of AC2017-0401.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Based on a review of 2017 information, the majority of organizations are rated as low risk and are stable organizations capable of delivering programs to meet the needs of their community.

Financial Ratings

Administration has reviewed the financial status of community groups on City-owned land and found the following:

Of the 186 community groups, 174 received a financial risk rating:

- 152 were rated as low risk;
- 15 were rated as elevated risk;
- 7 were rated as high risk

Twelve remaining community groups will be rated upon receipt of financial information.

Business Plan Ratings

In 2017, 93 per cent of community groups had completed or were in process of completing a business plan, which is a five per cent increase from 2016.

Of the 148 community groups required to submit a business plan:

- 112 were rated low risk;
- 26 were rated as elevated risk; and
- 10 were rated as high risk.

The compliance status data for each ward including the financial and business plan ratings for all 186 organizations currently operating on City-owned land is provided in Attachment 3.

As outlined in the lease/license of occupation agreement, organizations are required to release financial statements to Administration but permission to release financial statements and financial ratings to the public has not been granted. Under sections 23(1), 24(1) and 16(1) of the FOIP Act, Attachments 3, 4, and 5 are confidential.

Compliance Results

Attachment 4 outlines community groups not compliant with their lease/license of occupation due to overdue financial statements or overdue insurance submissions. Attachment 4 also provides information on the community groups not rated for financial risk. It includes community groups that have not yet entered into a new agreement; therefore, the agreement is in

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"overhold". At the time of writing this report, financial statements were overdue for four community groups, 10 groups had not submitted proof of insurance and eight groups currently have agreements in overhold; therefore, have not submitted their lease payment.

Risk Mitigation

City liaisons form close working relationships with the boards of directors from the community groups; therefore, they are integral to identifying when boards are experiencing issues and will recommend when additional support is needed. City liaisons support community groups through a decision-making process by providing access to tools and resources for evaluating community needs and investigating other partnership opportunities within surrounding communities.

With support from Finance, mitigation strategies are created and through the implementation of these strategies, City liaisons support community groups to improve financial accountability and sustainability.

Mitigation strategies for both elevated and high-risk groups are outlined in Attachment 5. Previous audit reports only highlighted high risk groups.

In addition to the risk mitigation strategies identified through the financial review process, the following are examples of supplementary risk mitigation measures:

- Annual License of Occupation/Lease agreement requirements letter
A letter will be provided to each community group which indicates "due dates" for submission of their financial statements, insurance, annual corporate return, charitable return, business plan and lifecycle plan.
- Program focus area on financial health
In partnership with the Federation of Calgary Communities, in September 2018, training was provided to City liaisons on reading financial statements, creating budgets and early identification of financial risks along with mitigation strategies. As well, a template was developed to summarize grant opportunities for community groups.
- Quarterly financial mitigation reporting
City liaisons provide an internal quarterly report on community groups that were identified as elevated or high financial risk. The actions taken by both the City liaison and the group to mitigate the financial risks are documented and reviewed to determine if further support is required.
- Community Sustainability Reserve (CSR)/financial consultant support
A chartered professional accountant is working with some community groups to mitigate financial issues and improve financial sustainability which can include the identification of strategies for improving financial controls and procedures. CSR funds have also been provided to support some community groups for operational costs in times of financial crisis. Overall improvement of organizational sustainability for community groups that have received consultant support is dependent on a functioning board with a champion that leads in implementing the consultant's recommendations.

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2017 Trends

Insurance

There is an increase in the number of community groups that do not meet the lease/license of occupation requirement for insurance coverage and therefore were assigned a status of insufficient. Many community groups were not aware of the requirement to evidence “all risks” property coverage on their insurance policies. Upon further investigation and discussion with The City’s Risk Management group, further education has been provided to City liaisons to support the submission of compliant insurance certificates. An insurance checklist is being developed as a training tool.

Organizational Health

Through the *Investing in Partnerships Policy*, Administration is continuing the work of increasing the accountability measures in place for community groups. Community groups are registered as societies or not-for-profit corporations that have governing boards that oversee and strategically guide their operations. As strong governance practices support effective and sustainable organizations, an organizational health assessment tool is being developed that will include governance and risk reporting. In managing a culture of change, Administration will work collaboratively with community groups to collect this information.

Lifecycle and Facility Maintenance

Lifecycle reviews are organized by The City on behalf of community associations and social recreation organizations. For each organization, a lifecycle report is completed every five years for the assets maintained within their lease/license of occupation. Currently, all community groups have an up-to-date report completed.

Lifecycle maintenance of amenities continues to be an area of concern for many community groups and the Capital Conservation Grant (CCG) continues to be a primary funding source for this work.

The Capital Development team that administers the CCG, has started development on a City-supported asset management system, Powerplan. It is anticipated that Powerplan will support The City and community groups to assess asset-related risks, both current and future state, as well as contribute to value-driven decisions for capital funding with a consistent, repeatable approach.

Stakeholder Engagement, Research and Communication

Administration annually sends a letter to each community group which communicates The City’s financial review process, the financial risk rating received and potential mitigation, if applicable. In addition, when the community group is entering into a new agreement term, City liaisons will discuss the lease/license of occupation at monthly meetings.

The program, “This is my neighbourhood”, has demonstrated the positive impact of engagement with residents to both share the priorities of The City at a neighbourhood level, and to better understand neighbourhood gaps and resident priorities for programs and services. As a result, City liaisons can work in partnership with community groups in all neighbourhoods to address gaps and priorities going forward.

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Strategic Alignment

The recommendations in this report align with the One Calgary citizen priority, A City of Safe and Inspiring Neighbourhoods. At the neighbourhood level, this outlines the need to revitalize the role of community associations, and use of community facilities. Administration will work with community groups to provide support in engaging residents, representing diverse residents' voices, and in developing business plans that respond to community needs.

In responding to evolving program and service delivery, Administration works with community groups to develop partnerships to share services and spaces. This aligns with *The Corporate Facility Planning and Delivery Framework*, Goal 5, Complete Communities.

As a best practice, community groups are encouraged to align with The City's Risk Management Framework which is consistent with accountability measures being developed as part of implementing the *Investing in Partnerships Policy*.

Social, Environmental, Economic (External)

Social

Community groups create gathering spaces that foster inspiring neighbourhoods. By supporting these community groups and positioning facilities as community assets, Administration fosters a vibrant city with strong and inclusive neighbourhoods where citizens are empowered, connected and involved in healthy, active and creative lifestyles (One Calgary council directive).

Environmental

Administration has been working with community groups to develop guidance on how to best leverage emerging provincial investments in distributed renewable energy and efficiency. Some community groups are participating in energy audits, purchasing energy-efficient appliances and equipment, and experimenting with solar power.

Economic

With Calgary's changing economy, the viability of a community group is dependent on its ability to adapt to the changing needs of those living and working in the neighbourhood. Administration supports community groups to remove barriers to help vulnerable residents create and participate in economic initiatives, providing opportunity for all (One Calgary council directive). Community groups contribute extensive financial and voluntary resources for the benefit of many Calgarians.

Financial Capacity

Current and Future Operating Budget:

There are no implications as a result of this report.

Current and Future Capital Budget:

There are no implications as a result of this report.

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Risk Assessment

1. Should any community group on City-owned land default or cease operations, the amenity may stop operating. Calgarians would be impacted through a change in programs and/or services. To manage this risk, in collaboration with stakeholders, City liaisons work to refine the support offered to community groups. These resources help community groups to continue to offer valuable programs and services while activating and maintaining safe and inclusive spaces that respond to resident needs.
2. Administration is aware that many of the amenities within the community group-operated portfolio continue to age. In 2016, the total replacement value of the assets within this portfolio was estimated at \$952 million.

The CCG program offers funding and resources to community groups to address lifecycle needs that contribute to maintaining spaces that are safe, accessible and inclusive for all Calgarians.

Community groups can access funding through the CCG to address lifecycle projects both large and small, as well as consulting services to help plan and design complex projects. Consulting services through the CCG also have the ability to provide technical information to support community groups to decide whether they should continue to invest dollars in their amenities. CCG funds can also be used for demolition of infrastructure if required.

REASON(S) FOR RECOMMENDATION(S):

The annual review of community associations and social recreation organizations on City-owned land enhances accountability, highlights risks, and provides an opportunity for Council to understand the current state and challenges of community associations and social recreation organizations that steward City-owned land. The information identifies the processes in place to help the community groups be sustainable.

ATTACHMENT(S)

1. Definitions of Rating Terms
2. Report Changes
3. Compliance Status by Ward (Confidential)
4. Summary of Community Groups with Non-Compliant, Not Rated and Agreement Overhold Status (Confidential)
5. Mitigation Strategies for Elevated and High Risk Community Groups (Confidential)