Winnipeg

Audit of the Special Operating Agencies Initiative

Final Report

February 2006

Audit Department

Leaders in building public trust in civic government

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Executive Summary

Governments around the world have been reforming their service delivery systems to better serve their citizens. The City of Winnipeg's Alternative Service Delivery (ASD) model arose out of City Council's 1997 commitment to make *"civic government more affordable and efficient"*. Special Operating Agencies (SOAs) were identified as one method to be explored. SOAs meld the benefits of public policy direction with the benefits of operating in a more business-like manner. The SOA initiative is seen as a vehicle for catalyzing City government reform by managing change and serving as a test-bed for ideas. SOAs have been proven to produce cost-savings while enhancing customer satisfaction, promoting operational flexibility, and improving bottom-line accountability.

With the accountability framework governing SOAs established and the first four SOAs reaching the end of their transition periods, it is an appropriate time to evaluate whether the City's SOA initiative has achieved the results and benefits that were anticipated. The *Audit of the Special Operating Agencies Initiative* was approved by the Audit Committee in September 2004. The objectives of the audit were

- To evaluate the design of the policy and framework governing the City's SOAs.
- To assess the adequacy of the process conducted to establish the SOAs.
- To determine the extent to which the SOA initiative has achieved its intended outcomes.
- To assess the effectiveness of the SOA accountability framework.

The design of the policy and framework governing Winnipeg's SOA initiative is logical and comprehensive. Policy direction and intended outcomes are to be stated at the outset. SOAs are given increased management autonomy and flexibility in order to stimulate innovation and continuous improvement in service delivery. In return, SOAs are to provide an agreed upon level of performance and results. The financial and operational reporting requirements are intended to improve transparency and accountability. An accountability framework has been developed, and detailed guidance is provided on the process for establishing, operating and monitoring the SOAs.

To date, five SOAs have been created: Animal Services, Glacial Sand & Gravel ("Glacial"), Golf Services, the Fleet Management Agency ("Fleet") and the Winnipeg Parking Authority ("Parking"). In general, we found that the process conducted to establish these SOAs was not adequate. All relevant ASD options were not fully considered, and it was not apparent that the SOA structure was necessary or the most appropriate in all cases. Feasibility studies and business plans did not include current baseline costs, complete operational performance measures or support for projections. The rationale for the transfer of assets and liabilities and the treatment of debt and return on investment were not clear. In addition, documented evidence of comprehensive analysis and corporate due diligence was incomplete and time required to establish the SOAs was excessive.

In our *Report on Performance,* we looked at performance from two perspectives: the extent to which the SOAs reviewed achieved their intended results and the overall benefits that have been realized from implementation of the SOA initiative. We reviewed the performance of the first four SOAs from the commencement of their operations until the end of 2004. We did not review the performance of the Winnipeg Parking Authority, since the agency only commenced operations in 2005. Our review found that none of the four SOAs had fully attained its key financial goal and three SOAs (Animal Services, Glacial, and Golf Services) had not achieved their financial targets as at December 31, 2004. These three agencies have accumulated deficits and are in poorer financial condition than projected in their initial business plans. Fleet did surpass its financial target and had a surplus at the end of 2004. In addition, only Animal Services has improved its financial performance since the first year of operation. Since baseline information was either not available or not current, we were unable to determine whether the change to an SOA structure resulted in improved financial results or reduced overall costs from the City's perspective. In the absence of baseline measures, 'before' and 'after' comparisons cannot be made.

Each of the four SOAs reported operational improvements. Performance measures and targets were not established or improvements quantified, however, and customer satisfaction levels were not monitored. From a financial perspective, full-costing of operations, public business plans and audited Financial Statements have made SOA performance more transparent at the agency level. This was not true from the corporate perspective. City Operating and Capital budgets require revisions to make the planned activities of the SOAs transparent.

For the most part, SOAs continued to operate their programs without significant changes. Two exceptions noted were the significant increases in fees by Animal Services and the consolidation and reduction of City vehicles by Fleet. While the SOAs were provided with additional delegations of authority and exemptions from selected City policies, these proved to have a minor impact on the delivery of services. For the SOAs to act as a "test-bed" of change for the City as a whole, corporate departments must be responsive to piloting different administrative practices while ensuring that SOAs continue to respect the principles of public service management. This did not always happen.

We found that the accountability framework has not been functioning as intended. Overall, the SOAs did not achieve the "bottom line" results projected in their initial business plans and the Chief Operating Officers (COOs) did not provide complete and timely performance information. Senior Administration failed to adequately monitor the SOAs, conduct performance evaluations of the COOS or respond on a timely basis to significant issues. Finally, the Chief Administrative Officer (CAO) has not delivered an annual report to the ASD Committee and Council that provides information on the overall performance of the SOA initiative. Despite the SOA initiative arising out of a commitment to 'affordability' and 'efficiency', associated costs have not been tracked and no cost-benefit analysis has been performed to ensure that the time and funds invested resulted in value for money with respect to the benefits received.

At the same time, several senior managers believe that the SOA initiative did act as a catalyst to improve performance. Despite the identified shortcomings, much has been learned from this experience that can be applied to the City of Winnipeg organization as a whole. For example, the benefits of service-based budgeting and full costing to financial management and performance reporting are clear. Public Business Plans and audited Financial Statements have made information on the services delivered by SOAs more transparent. The COOs have demonstrated that they can innovate and improve services with appropriate support.

We believe the SOA model still has merit as an alternative to the status quo. To optimize the value from the initiative, the City has to ensure that the model functions as designed and that corporate support is on-going. While some benefits have been realized to date, the City has not fully capitalized on the potential of the initiative. The streamlined process for establishing SOAs and the new governance model initiated by the Administration as well as implementation of our audit recommendations should facilitate further progress. While the future of the SOA initiative is debated, we believe that there is no reason to delay applying the lessons learned to date. We urge the Administration to get on with this task.

Chief Administrative Officer's Comments

February 9, 2006

His Worship, Mayor Sam Katz and
All Members of City Council
Ms. Shannon Hunt, City Auditor

Thank you for the opportunity to respond to the recommendations of the *Audit of the Special Operating Agencies Initiative*. I appreciate the time and effort that the City Auditor and her staff have dedicated to helping us identify ways in which we can improve the City's Special Operating Agencies (SOA) initiative.

The establishment of SOAs is one means to pursue the goal of more businesslike, cost-effective service, which is better attuned to citizen satisfaction. Implementing new business models and the improvements they are intended to effect involves significant commitment of time and resources, while the benefits associated with these investments often take some time to be fully realized.

Since the inception of the Alternative Service Delivery (ASD) initiative in 1997, and the establishment of the SOAs on which the audit reports, we have learned a great deal about the optimal functioning of such agencies, and how better to balance organizational autonomy, productivity, and accountability. Since 1997, we have been working to strengthen SOA oversight and reporting, and, in keeping with the City Auditor's recommendations, will continue to do so.

As the City's SOAs continue with their annual business planning, baseline information is being developed which is providing better markers for progress. To ensure better communication and greater transparency, each of these business plans will be submitted for Council approval prior to March 31 each year. We will be implementing processes to strengthen the SOAs' financial oversight. Two of the City's SOAs, Glacial Sand and Gravel and Winnipeg Golf Services, are currently undergoing independent operational reviews.

All of these measures will help us strengthen our SOAs. Further, Council's directive regarding ASD evaluations, adopted on February 25, 2004, and regarding SOA reporting relationships, adopted on November 24, 2004, will continue to guide us as we work to enhance both the process and its outcomes. We are confident that the streamlined process for establishing SOAs, the new governance model for managing them, and our responses to the City Auditor's recommendations, will help make the most of the City's ASD initiative for Council and the citizens of Winnipeg.

Yours truly,

(Original signed by)

Annitta L. Stenning
Chief Administrative Officer

Mandate of the City Auditor

The City Auditor is a statutory officer appointed by City Council under the *City of Winnipeg Charter*. The City Auditor reports to Council through the Audit Committee (Executive Policy Committee) and is independent of the City Administration. The City Auditor conducts examinations of the operations of the City and its affiliated bodies to assist Council in its governance role of ensuring Civic Administration's accountability for the quality of stewardship over public funds and for the achievement of value for money in City operations. After communication to City Council, an audit report becomes a public document.

Background

The Audit Department's current audit plan focuses on assessing how well the City of Winnipeg has adapted to a business-oriented culture. The design and implementation of the City's model for Alternative Service Delivery (ASD) was a significant aspect of this transition. As a result of this initiative, the City has created five Special Operating Agencies (SOAs) since 2000:

- Animal Services ("Animal")
- Glacial Sand & Gravel ("Glacial")
- Golf Services ("Golf")
- Fleet Management Agency ("Fleet")
- Winnipeg Parking Authority ("Parking")

With the SOA model established and four of the SOAs reaching the end of their transition periods, it is an appropriate time to evaluate this investment in alternative service delivery and to assess the applicability of lessons learned to the delivery of other City services.

Audit Objectives

The *Audit of the Special Operating Agencies Initiative* was recommended in our 2004 – 2006 Audit Plan, approved by Audit Committee in September 2004. The objectives of the SOA audit were

- To evaluate the design of the policy and framework governing the City's SOAs.
- To assess the adequacy of the process conducted to establish the SOAs.
- To determine the extent to which the SOA initiative has achieved its intended outcomes.
- To assess the effectiveness of the SOA accountability framework.

Audit Scope and Approach

The audit has been conducted in accordance with generally accepted auditing standards. In preparing our report, we have relied upon interviews with management and staff of the SOAs, Corporate Finance, Corporate Services, Corporate IT, Public Works, Community Services and Planning, Property and Development (PP&D). In addition, we relied on information, data, and other documentary evidence provided to us. Operational results were provided by SOA management and staff and have not been audited. The overall focus of the audit was on the outcomes of the SOA initiative, not on providing assurance on the performance results of each SOA. The conclusions reached in this report are based upon information available at the time. In the event that significant information is brought to our attention after completion of the audit, we reserve the right to amend the conclusions reached.

In conducting our audit, we employed a variety of methods:

- We reviewed relevant City of Winnipeg policies and administrative directives.
- We interviewed and corresponded with the ASD Development Officer throughout the project.
- We met with the SOA Chief Operating Officers (COOs), their Host Department Directors and the Chief Information Officer (CIO), as well as a member of the ASD Committee.
- We interviewed Corporate Finance, Corporate Services and Corporate HR management and staff as well as the SOAs' external auditors.
- We interviewed the Treasury Board of Canada Secretariat's Special Advisor on ASD, who was formerly the Province of Manitoba's SOA Coordinator and advisor to the City of Winnipeg in launching its ASD and SOA initiatives. We also interviewed the current Provincial SOA Coordinator.
- We analyzed SOA financial performance to date through review of audited financial information and budgets.
- We reviewed feasibility studies, business plans, operating charters, selection reports, consultant and internal reports, annual reports and documentation reviews for each of Winnipeg's SOAs.

Risk Assessment

We used a risk-based approach to perform this audit. This approach involved looking at all the processes in the establishment, governance, operation and monitoring of the City of Winnipeg's SOAs. We documented the potentially significant risks that could lead to a financial loss for the City or impact the efficiency of these services and reviewed the controls in place to mitigate each risk. This preliminary risk assessment was used to focus our resources on specific areas for the audit.

"Risk is defined as a future event that may impact the achievement of an organization's objectives measured by likelihood and impact. Because future impacts can be both positive and negative, risks can take the form of either threats that would prevent us from achieving our objectives or opportunities that would enhance our ability to achieve our objectives."

- City of Winnipeg
Integrated Risk Management Model

Risk is defined as any circumstance or event that may have an impact on the achievement of business objectives. Accordingly, risk can be either a threat or an opportunity. The failure to seize an opportunity can negatively impact the achievement of business objectives. The potentially significant risks involved in the accountability and governance of SOAs include

- deficient, unsupported or predisposed evaluation processes in establishing SOAs;
- inadequate or non-functioning accountability and governance frameworks;
- inadequate performance measurement systems or monitoring; and
- non-compliance with accountability mechanisms.

Less than optimal performance and financial loss to the City of Winnipeg are impacts associated with each of these potential risks. The recommendations contained in the report are intended to provide management with actions that will assist in the mitigation of the significant risks or take advantage of opportunities identified during the audit.

Audit Conclusions

Based on the audit work completed, we have come to the following conclusions:

- The design of the policy and framework governing the City's SOA initiative is logical and comprehensive. Policy direction and intended outcomes are clear; an accountability framework has been developed; and guidance is provided on the process for establishing, operating and monitoring the SOAs.

- In general, the process conducted to establish the City's five SOAs was not adequate. All relevant ASD options were not fully considered, and it was not clear that the SOA structure was necessary or the most appropriate in all cases. Feasibility studies and business plans did not include current baseline costs, complete operational performance measures or support for projections and the financial aspects of transition. Documented evidence of comprehensive analysis and corporate due diligence was incomplete and the time required to establish the SOAs was excessive.

- While some progress has been made, the first four SOAs established have not achieved all of the key financial and operational targets projected in their business plans. At the same time, transparency and accountability requirements have been enhanced at the agency level. The City has not fully realized the potential benefits anticipated at the design stage of the SOA initiative or been able to demonstrate that value for money has been achieved. Lessons have been learned, however, and there is an opportunity to capitalize on the benefits achieved to date by sharing these lessons with the organization and expanding the initiative in the future.

- The accountability framework governing the SOAs has not functioned as intended. While COOs of the first four SOAs have reported on their financial performance, deadlines were not met and operational performance information was incomplete. Senior Administrators did not monitor operations of the SOAs, evaluate the performance of the COOs, or take timely action to address significant issues. The CAO has not presented a formal report on the costs and benefits of the SOA initiative to the ASD Committee and City Council.

Acknowledgement

The Audit Department wants to extend its appreciation to the many individuals who participated in the audit. Their comments and insights assisted us in completing our analysis and provided the foundation for many of the report recommendations.

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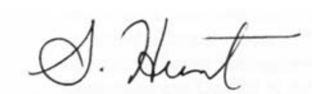


Shannon Hunt, CGA, CFE
City Auditor

December, 2005

Date

Part I – Evolution of Alternative Service Delivery

Public Service Delivery Reform

Over the past quarter century, governments around the world have been reforming their service delivery systems in response to globalization, fiscal challenges, political commitments, technological advancements, and enhanced public expectations. The United Kingdom, New Zealand and Australia were leaders in this movement. To a large extent, the United Kingdom uses "executive agencies" to provide services to the public. These agencies operate at arm's length from their parent departments in government and have considerable autonomy and freedom. Accountability structures are in place and executive agencies are required to meet specific financial and operational targets set by their departments. New Zealand's public service reform process has resulted in many services being provided by "state-owned enterprises" (SOEs). In addition, many corporate assets have been privatized and department heads now have fixed term contracts and annual performance agreements with the relevant minister. Canada and the United States followed this reform process with their own "new public management" and "reinventing government" initiatives.

Alternative Service Delivery in Canada

Canada's pursuit of new organizational forms to improve program and service delivery is referred to as Alternative Service Delivery or ASD. ASD is defined as "a creative and dynamic process of public sector restructuring that improves the delivery of services to clients by sharing government functions with individuals, community groups and other government entities." (*Alternative Service Delivery: Transcending Boundaries, 1997 - Ford and Zussman, IPAC)*

ASD encompasses service improvements while ensuring value for money by creating efficiencies. The need for both innovation and public sector values are balanced through changes to the organization's culture and granting more authority to those closer to the point of service delivery. ASD options range from reorganization to privatization, with each option having a different degree of autonomy and accountability. To narrow the range of acceptable ASD alternatives for review, the Government of Canada utilizes an ASD framework in the form of a decision tree. The results of a series of six tests identify the ASD options to be considered.

At the federal level in Canada, the ASD process has utilized several organizational forms. For example Canada Revenue Agency is a legislatively based service agency, the Passport Office is an SOA and Canada Business Service Centres are partnerships with other levels of government. At the provincial level, British Columbia, Alberta and Ontario are increasingly looking to public-private partnerships (P3s) to structure and finance infrastructure projects, while Manitoba has embraced the SOA model of service delivery.

The City of Winnipeg's ASD/SOA Initiative

In March 1997, Council of the City of Winnipeg committed to making civic government more affordable and efficient. The principles for this commitment were outlined in the *Reshaping Our Civic Government* report that Council adopted as a directive to Administration. Council outlined its expectations regarding cost reductions, innovations and ASD methods including contracting out, privatization, public/private initiatives and SOAs.

SOAs are service delivery units that are designed to provide greater freedom from administrative processes in exchange for a service-oriented delivery approach and agreed upon levels of performance and results. SOAs are emblematic of the paradigm shift in the Public Sector where bureaucratic-focused operations have given way to service-oriented delivery, embracing the following principles:

- entrepreneurship and innovation;
- client-centred focus;
- decentralization, autonomy, and flexibility;
- full costing;
- diversity and uniqueness;
- responsiveness; and
- performance measurement.

A Task Force on SOAs was struck to provide strategic direction for the integration of SOAs into civic government.

> "SOAs have been proven to produce cost-savings for government while enhancing customer satisfaction, promoting operational flexibility, improving bottom-line accountability and raising productivity in the workplace. SOAs meld the benefits of public policy direction under a line department with the benefits of operating in a more business-like way. They are vehicles for managing change comprehensively, and their potential as a test-bed for ideas and in catalyzing government reform is significant."
>
> -*Special Operating Agencies Initiatives,* Report of the SOA Task Force

In its report entitled *Special Operating Agencies Initiative*, the Task Force paved the way for the amendment of the *City of Winnipeg Act* to allow Council to establish Special Service Units (SSUs). SSUs would legislatively accommodate a variety of organizational units including public-private partnerships, contracting-out, privatization, continuous improvement and SOAs. To date, the only SSUs created under Bill 39 of the *City of Winnipeg Charter Act* are SOAs.

The Task Force on SOAs called for the development of a detailed framework for SOAs. This was consistent with a recommendation made by the City Auditor in a 1997 report to Council entitled "*Best Practice Review of Frameworks for Alternative Service Delivery".*

The City Auditor recommended that *"the City review strategies and criteria for the implementation of Alternative Service Delivery models in the City of Winnipeg and that Council adopt, as policy, an appropriate ASD framework. The framework should include a step-by-step decision-making process; criteria for selecting activities for ASD and in determining the appropriate ASD model; cost comparison and evaluation methods to be used; principles concerning staff, training, communication, legal or other issues; and procedures for monitoring and reporting on the performance of ASD models."*

In March 1998, the *Policy and Framework for Alternative Service Delivery in the City of Winnipeg ("Policy and Framework")* was adopted by Council to establish the rules and directions for ASD decision-making. Since the Province of Manitoba had introduced its first SOA in 1992, Provincial staff was extensively consulted in the initial years of the City's ASD and SOA initiatives.

A chronology of significant events in the establishment of the City's ASD/SOA initiative is provided in Appendix 1.

Part II – Audit Observations

The focus of our audit is on the SOA initiative as a whole, not on a detailed review of the operations of the individual organizations. Interviews, documentation reviews and financial analysis of performance raised a number of issues during the course of the audit. Not all issues are relevant to all SOAs in all cases, but represent general observations that are not confined to a single organization. Our observations are discussed in this part of the report under three sections:

- Design of the Policy and Framework
- Establishment of the Special Operating Agencies
- Report on Performance

Recommendations to address identified issues are provided under the appropriate sections and summarized in Appendix 6.

Design of the Policy and Framework

The *Policy and Framework for Alternative Service Delivery in the City of Winnipeg* sets out a framework for the review of City services and delivery mechanisms on a case by case basis to determine and develop the most appropriate methods and structures for providing affordable, sustainable services. The ASD policy is intended to be applied to any public or internal City service identified by Council on an annual basis. The service delivery strategy is

- to ensure consistency with *Plan Winnipeg* , and
- to pursue the most appropriate service delivery methods and structures while continuing to protect the public interest.

ASD Policy and Framework
Policy Statement

"The City of Winnipeg is committed to providing quality services at an affordable cost on a sustainable basis. To this end, the City will systematically review its programs, services and delivery mechanisms and will pursue the most appropriate methods and structures for providing services to achieve the best value for the municipal tax dollar and the optimal balance of overall benefits to the City and its Community."

- Policy and Framework for ASD in the City of Winnipeg

The policy directs that the ASD Development Process consists of five phases:

- Generation
- Identification and Planning
- Development
- Implementation
- Monitoring and Evaluation

In the 'Generation' phase of the process, Departments identify potential candidates for ASD review in response to an annual call by the Chief Administrative Officer or as part of the annual business planning process.

To determine the applicability and appropriateness of ASD options, a six-test ASD Decision Process is used, which mirrors the one used at the federal level. Appendix 2 provides the details of the six-test ASD Decision Process. The decision-tree format is designed to limit the range of acceptable ASD options. According to the model, for an SOA structure to be selected, all of the tests have to be addressed.

The ASD Decision Process

The key policy considerations related to a given program or service are addressed through six tests:

- Public Interest Test
- Role of Government Test
- Jurisdictional Alignment Test
- External Partnership Test
- Business Principles Test
- Affordability Test

-Policy and Framework for Alternative Service Delivery in the City of Winnipeg

Following review of the potential candidates, the CAO prepares an ASD Review Agenda for consideration by the ASD Committee. The formation of an ASD Committee was approved by Council in February 1999 to oversee the annual ASD Review Agenda. The Committee is comprised of four members of Council, appointed annually by the Mayor. The Committee recommends the ASD Review Agenda to Council through the Executive Policy Committee (EPC). Council confirms the services to be submitted to the ASD review process by approving the ASD Review Agenda.

The *Policy and Framework's* 'Identification and Planning' phase details the process for conducting and reviewing feasibility studies of ASD candidates. The 'Development' phase involves the pursuit of the recommended ASD option through preparation and review of a 'selection report', consisting of a summarized business plan and ASD Agreement (if applicable).

ASD Committee's responsibilities in the two phases noted above include evaluating feasibility studies to establish SSUs, reviewing SSU business plans and submitting recommendations to Council through EPC. In the 'Implementation' phase of the ASD Development Process, a formal agreement between the City and ASD provider partner is entered into and delivery of services commences through the new program. The ASD provider partner may be a partner from another level of government or private enterprise. When services are to be delivered through an SOA, the agreement or governing document is in the form of a customized operating charter. Operating charters articulate an SOA's guiding principles, accountability, financial and reporting structures and management flexibilities.

'Monitoring and Evaluation' is the last phase of the ASD Development Process. It involves ongoing review of performance in relation to expectations. In this phase, the *Policy and Framework for ASD* calls for the CAO to submit an annual report on the results and accomplishments of ASD programs to Council through the ASD Committee.

Initially, Council approval was not required before conducting the six-test ASD Decision Process. Council approval was required, however, at the end of each phase of the ASD Development Process. Delays were encountered and costs were incurred, particularly if Administration's policy assumptions proved incorrect. Council rescinded the *Policy and Framework for* ASD in 2004 in favor of continuing its use as a guide, administratively. A streamlined ASD Development Process was adopted to obtain clear policy direction at the outset and reduce the number of Council committee approvals required throughout the process. The *Policy and Framework* continues to be used as an administrative guide today.

The City of Winnipeg's SOAs are designed as City agencies that provide goods and services utilizing City capital, administration and employees under the *City of Winnipeg Master Collective Agreement*. Policy direction is provided through civic administration and elected officials, but SOAs are granted certain freedoms, delegated authorities and management flexibilities that are not provided through line departments, in order to attain efficiencies and provide an agreed upon level of improved performance. Exemptions from certain City policies such as City-wide budget reductions, restrictions on choice in the purchase of services (internal or external to the City), and delegated fee setting and purchasing authorities are examples that are documented in each SOA's operating charter.

Together with the operating charter, selection reports and annual reports are the key accountability documents for SOAs. Selection reports, prepared annually, set direction as well as act as an accountability document between the City and SOA management. The annual report is to include an analysis of operational and financial results compared to business plan targets, as well as the audited financial statements of the SOA for that fiscal year. SSU legislation and SOA operating charters require SOAs to prepare and submit an annual report to Council within 120 days after the end of each fiscal year. SOAs were initially required to submit quarterly reports to Council regarding SOA financial position and progress against key objectives and performance targets; however, this requirement was eliminated for all SOAs in 2004 in an effort to streamline the reporting process.

The City of Winnipeg's *Policy and Framework for ASD* outlines the accountability framework for SOAs:

- The COO is responsible for managing the SOA including the planning and reporting processes and ensuring objectives and targets are achieved.
- Each SOA operates under a Host Department. The Director of the Host Department is to monitor the Agency's "management, operations and performance relative to attainment of civic goals and departmental objectives".
- Each SOA is to have an Advisory Board whose role is to provide advice on the SOA's strategic operations, mandate changes, structure, business practices and finances.
- The CAO has executive management responsibility and advises the ASD Committee and EPC on policy matters and provides guidance to each SOA.
- The ASD Committee is responsible for providing corporate leadership of ASD initiatives. While its overriding concern is to assess financial needs and implications, it maintains a broader role in evaluating the corporate benefits delivered by SOAs.
- Council has final decision authority relative to SOAs.

(The accountability structure for SOAs is depicted in Appendix 3 while roles and responsibilities are outlined in Appendix 4.)

Were the expected benefits of the SOA initiative clearly articulated?

Potential benefits anticipated from SOA status were stated in the Task Force report*, Special Operating Agencies Initiative*:

- clear mandate and purpose;
- long range planning capability;
- bottom-line accountability;
- operating flexibility;
- cost-savings to government;
- satisfied customers; and
- competent, motivated employees.

The *Special Operating Agencies Initiative* and *Policy and Framework for ASD* also broadly described the intended results to be delivered by the SOAs:

- achieving financial targets established at inception;
- attaining specific profitability goals;
- improving financial performance;
- improving operational performance;
- increasing transparency;
- achieving more autonomy and management flexibility; and
- enhancing accountability.

Are the prescribed accountability reporting requirements appropriate for SOAs of different sizes?
The prescribed accountability requirements can be appropriate for SOAs of different sizes. Winnipeg's SOAs range in size from Animal Service's $2 million in revenue and Glacial's 6 full-time and 5 seasonal employees to Fleet's $27 million in revenue and 110 full-time employees. The Province of Manitoba SOAs have from 8 to 151 employees and from $1 million to $30 million in annual revenue. As will be discussed later in our report, however, initial costs may be prohibitive for a very small service to convert to an SOA structure. In addition, reporting processes should be assessed on an individual SOA basis, to take into account the varying degrees of complexity of operations and sophistication of financial systems and personnel.

Are the prescribed accountability reporting requirements appropriate for SOAs that provide services to the public or to internal customers?
The SOA accountability reporting requirements are suitable for agencies that deliver public or internal services. All costs of operating are to be accounted for and are to be reported on. The SOA mandate, customers and the intended level of profitability shapes pricing policies.

Where SOAs are providing services to the public, prices are based on market rates to ensure competitiveness. Rate structures, however, may be impacted by other factors such as public interest considerations.
For internal services, ongoing comparisons with market prices are also needed to ensure competitiveness. Prices are generally set so that the intended level of service is provided at a cost that is competitive with the market. Pricing which results in consistently large SOA profits or losses is a sign of an inappropriate pricing strategy. Inappropriate pricing results in unintended subsidies between Departments and the SOA and can lead to illogical decisions about the level of consumption/use of goods and services.

Are the SOA accountability reporting requirements appropriate for services that will never be self-sustaining?
SOA accountability reporting requirements can be appropriate for services that will never be self-sustaining. An SOA can commit to provide an agreed upon level of performance and results without the requirement to be self-sustaining in exchange for increased management flexibility and a funding commitment. Once again, the SOA mandate, customers and the intended level of profitability shapes pricing policies.

Animal Services is an example of a service that is not expected to be self-sustaining since a policy decision has been made to provide tax support to the agency. Otherwise, Animal Services would have to significantly increase fees and fines or make significant cuts to the level of service. The objective of Animal Services is to be financially self-sustaining to the greatest extent possible through reduced reliance on grant support. Pricing policies are designed to balance revenue and expenditures after taking into account grant support.

> "Market rules are not necessary to drive success in all SOAs. It comes down to their mandate – what we expect of them as agencies of Government."
>
> *Conversations with John Wilkins, Special Advisor, Treasury Board of Canada Secretariat, Ottawa, 2003; Frontier Centre for Public Policy*

Mr. Wilkins also noted that while it isn't a requirement, it is easier to operate under an SOA structure when there is a revenue stream "because it is clearer what the effects of decision-making are in a transactional arrangement".

Are SOA budget requirements consistent with those of the City's Operating Budget?

The SOA operating charters state that the SOA "planning and reporting schedule is determined by the Chief Financial Officer in consultation with the COO to synchronize with the general planning, budgeting, and reporting requirements of the City of Winnipeg". SOA selection reports are to be "provided to Council for the purposes of debating and adopting the City Budget".

Is the design of the policy and framework governing the SOA initiative adequate?

The design of the policy and framework governing the City's SOA initiative is logical and comprehensive. Policy direction and intended outcomes are clear; an accountability framework has been developed; and guidance is provided on the process for establishing, operating and monitoring the SOAs.

Establishment of the Special Operating Agencies

In 1998, the CAO issued the first Call Letter to departments requesting the identification of any potential ASD initiatives. The first *ASD Review Agenda*, comprised of fifteen potential ASD candidates, was approved by Council in 1999. Additional ASD candidates were identified in subsequent annual Call Letters and business planning processes. The majority of the ASD initiatives identified over the years have resulted in recommendations for improvement within the Departments or further study; to date five SOAs have been created as a result of the ASD Development Process.

Canada's first municipal SOA was established in 2000 with four more SOAs created since that date:

- Animal Services – 2000
- Glacial Sand and Gravel – 2001
- Golf Services – 2002
- Fleet Management Agency – 2003
- Winnipeg Parking Authority – 2005

Each of these services was included in the original list of fifteen candidates. An overview of Winnipeg's current SOAs is provided in Appendix 5.

Winnipeg's SOAs were provided with a transition period of three to five years. This was to enable customers, stakeholders, and the SOA itself to adjust to the new structure.

Were the "six tests" in the ASD decision process thoroughly analyzed and considered?

Overall, we found that thorough analysis of all six tests for Winnipeg's SOAs was not performed and documented. There is no separate document or section of the feasibility studies where responses to the questions can be found.

Some questions were analyzed and the responses were documented while others were not analyzed or documented. A number of tests were not addressed in sufficient detail. Responding to the ASD detailed questions provided in *the ASD Policy and Framework* would have aided in this process. Responses to the six tests are most thoroughly analyzed and documented for the Winnipeg Parking Authority through the *Downtown Parking Policy*.

Without the analysis of results of the "six tests" in the ASD decision process, it is difficult to determine if all the issues were adequately addressed at the beginning of the review. Inadequate policy reviews, incomplete documentation and delays in these processes can result in expending time, money and effort needlessly.
We note that the ASD options considered in the feasibility studies for both Glacial and Golf were inconsistent with options to be considered following the ASD decision process depicted in Appendix 2. They both included sale of asset/service shedding options as well as options to continue operations in some form (including through SOAs). Continuing operations in some form should not have been an option if the answer to the 'Public Interest Test' or 'Role of Government' test was "no". These policy questions were not thoroughly addressed at the outset. The result is that, although Glacial and Golf are now at the end of their transition periods, the fundamental questions, such as whether or not there is a legitimate and necessary role for government in these businesses and whether they should be provided in whole or in part by the private sector, are still being raised.

Both SOAs have recently engaged consultants to reconsider and re-evaluate their ASD options. This requires expenditures of public monies to address questions that should have been answered before the establishment of these SOAs.

How strong was the business case for changing the structure through which the service is provided?
Business cases for changing to an SOA structure, presented in feasibility studies, were weak. Problems associated with achieving efficiencies and service improvements under the existing departmental structure were not always identified. Similarly, there was no correlation in business cases between specific management flexibilities to be granted under the SOA structure and difficulties under the existing structure to be alleviated.

We believe that Winnipeg's ASD development process placed too much focus on organizational structure selection rather than on determining why desired benefits and changes were not achievable within the existing organizational structure.

> "It is important to know why existing arrangements do not work in a setting before launching into ASD. Many performance improvements can be achieved without restructuring. Clearer mandates, advisory bodies, managerial flexibilities, service quality strategies and robust performance measures are possible within departments without creating the complications arising from new formats."
>
> *Conceptual and Practical Considerations in Alternative Service Delivery* - John K. Wilkins, Special Advisor on ASD with the Treasury Board of Canada Secretariat

While the *Policy and Framework* for the most part offered a consistent approach to determining and developing various ASD options, business cases showed a predisposition to the SOA option.

More optimistic revenue projections were generally presented under the SOA option than for other ASD options in the feasibility studies without justification or support. Customer service and marketing enhancements, increases to the customer base as well as process savings were presented as achievable under the SOA structure but not under other structures. Reasons for these assumptions were either unclear or not presented. This makes it difficult to later quantify to what extent financial and operational improvements can be directly attributable to the SOA structure.

> "SOA status is a means to manage change, not an end in itself."
>
> *-Special Operating Agencies Initiative,* Report of the SOA Task Force

The business cases often did not present ASD options other than SOAs with the same degree of research and analysis. For example, a wide range of additional costs were said to be associated with Fleet's 'contract-out' option, yet no support was provided to substantiate these costs. Similarly, Golf identified a 'service shedding' option, but no conclusions were reached regarding this option because it would have required the assistance of a Certified Business Valuator to deal with a complicated cost model.

The ASD development process cannot be shown to be effective in arriving at the optimal service delivery decision if all relevant options are not fully analyzed, evaluated and documented. A superior ASD option may be rejected in favor of an inferior one due to a lack of a complete and balanced review.

Did the SOA feasibility studies provide clear baseline data for performance measurement?

Contrary to the requirements of the *Policy and Framework*, the source of baseline data utilized to form cost projections was often not stated or was several years old by the time the initial projections were reviewed by the ASD Committee due to delays in the evaluation process.

> "Performance measurement will require the initial identification of costs for the delivery of services and a related beginning performance measurement. This baseline establishes the costs by which all future performance can be and will be measured."
>
> *-Policy and Framework for ASD in the City of Winnipeg*

Baseline data is defined as the initial identification of costs for delivering services and related initial performance indicators. Establishing baseline data is critical for performance measurement and is used to determine benchmarks for identifying potential savings or service improvements.

What was the quality of the initial SOA business plans?

The format of the initial business plans is reasonable and fairly consistent among SOAs. Our review of the substance of the initial business plans, however, disclosed the following key areas of concern:

- The validity of some of the projections is questionable as discussed above. Support for changes in projections during the evaluation process was not adequately documented. For example, Glacial's projected sales volumes were increased by 20% for 2001-2004 and 30% for 2005 during the evaluation process. The initial business plan review by Corporate Finance indicated that the plan presented did not provide an adequate return on the City's asset. The revised plan resulted in approval for operation as an SOA. No support was documented justifying the increase in sales volumes.

- The initial business plans included assertions that financial and operational improvements could be made under the SOA structure. These assertions were not adequately quantified or supported with pledges to commit more resources to certain areas, plans to improve customer satisfaction, product mix enhancements or service delivery efficiencies.

- While minor capital acquisition and vehicle replacement for Fleet are included in its business plans and selection reports, major long-term infrastructure renewal or new construction requirements and related financing sources are generally not. For example, Fleet budgeted for a new facility in its 2005 selection report but was asked to remove it due to uncertainties regarding the financing of Fleet. Parking SOA management also noted that the ongoing question about how new construction and restorative work will be funded has not been answered. This is inconsistent with the premise that SOAs act like a business.

- Specific operational performance measures were missing or poorly defined and targets were not established. Assumptions were generally clearly documented, but there was often minimal support for them.

- A number of SOA assumptions were inconsistent with a traditional business model, yet the rationale for the inconsistency was not stated. For example, some of the debt transferred to the SOAs upon their establishment does not have repayment requirements. Administration advised that repayment requirements were based on an SOA's ability to pay. In addition, general and inter-departmental charges are not supported and service level agreements are generally not in place with Host Departments or corporately.

- All but one of the SOAs' projections includes tax equivalency charges and recoveries. This is consistent with a traditional business model but SOAs are not subject to taxes. While it is useful for SOAs to consider taxes when comparing with business operations that are subject to them, for the SOAs, these amounts are, in effect, transfers to the City's General Revenue Fund.

- Two of the SOAs' projections include ROI requirements representing the City's anticipated annual return as a result of providing SOAs with the infrastructure to operate. This is consistent with a traditional business model but these amounts are, in effect, transfers to the City's General Revenue Fund and are more accurately portrayed as 'revenue sharing'. These pre-determined amounts do not take SOA profitability and accumulated surpluses into account and can create or increase deficits.

Were the expected benefits of the SOA structure clear and supportable for Winnipeg's proposed SOAs?

Financial expectations were reflected in the projections within SOA business plans. Operational performance measures were broadly defined in these business plans but were generally not quantified. Improvements to both financial and operational performance were supported in SOA business plans through commitments to increase customer bases, initiate service improvements and enhance marketing efforts. As indicated above, however, the validity of some of the projections is questionable and support for assumptions is minimal. In addition, specific operational performance measures and targets were missing or poorly defined.

Planned improvement in the transparency of financial results was supportable given that SOAs would be required to have separate financial statements. In addition to segregating revenue and expenditures specific to the service, an SOA balance sheet would be available to monitor the financial condition of the agency. Under the current departmental structure, financial information is not service-based making it difficult to assess results and make management decisions accordingly. Full-costing, to be implemented under the SOA structure, promised to make the true cost of service delivery more transparent, subject to the limitations arising from the City's application of overhead costs through such means as 'general government charges'.

Increased autonomy and management flexibility were illustrated in SOA operating charters through the

- delegation of procurement authorities to COOs consistent with those of their Host Department Director;
- authorization for COOs to set some or all fees for services provided through their SOA; and
- granting of certain exemptions to City policies, such as city-wide budget reductions.

While expected benefits of changing to an SOA model were evident, there was little recognition in the evaluation documentation that objectives, at times, may be in conflict. It was not evident from the evaluation documentation as to how COOs were to address competing priorities.

Were the expected benefits achievable only under the SOA structure of program delivery?
Since assumptions and projections were not adequately supported, it is unclear why expected financial and operational improvements were considered to be achievable only under the SOA structure. It is also not clear why the enhanced transparency and accountability associated with service-based financial statements and full-costing or the management flexibility provided to promote innovation could not have been achieved under the existing departmental structure.

Were the reviews of feasibility studies and business plans adequate?
The Financial Planning and Review Branch of Corporate Finance asked suitable questions and raised appropriate concerns in their review of feasibility studies and business plans for Winnipeg's five SOAs. In addition to performing detailed analysis, the Financial Planning and Review Branch asked questions such as:

- Why was an SOA needed?
- Why were revenue projections so ambitious?
- Where was the comprehensive baseline financial information?
- What other options have been explored?

Despite asking some good questions, the review was inadequate in that the responses to the questions were not provided. There is no documentation to indicate how questions were addressed, concerns alleviated, or changes to plans substantiated. We were advised that such issues would have been discussed with the relevant COO, Host Department Director and the Administrative ASD Committee. This Committee consists of the City's Senior Administration (CAO, CFO, CIO), ASD Development Officer and, at times, the Chair of the ASD Committee. No record of the discussions and dispositions of these matters are maintained by the Administrative ASD Committee to demonstrate due diligence. We believe that this Committee must be able to support its decisions to ensure objectivity and transparency. The decision-making process and results should be documented.

Were the financial aspects of the transition to SOAs fully documented?
Assets, liabilities, debt and equity related to the services being transferred to SOAs were not documented in transfer agreements. Having such an agreement in place makes the allocation process transparent and minimizes the risk of subsequent disagreements between the two parties. We note that transfer agreements are in place between the Government of Manitoba and the Special Operating Agencies Financing Authority with respect to provincial SOAs.

The rationale as to why assets and liabilities were transferred with corresponding debt or equity was not documented. We observed that land was treated differently for two SOAs. For Golf Services, the golf course property was considered equity but, for Glacial, the gravel pit property was transferred entirely with debt. For debt, we observed that the majority of SOA start-up debt is interest-bearing, but it has either no repayment requirements for the principal (e.g. Fleet's equipment replacement loan and Glacial's gravel pit loan) or provisions for delayed repayment (e.g. Golf). These allocations resulted in Winnipeg's SOAs commencing operations with significantly different financial positions and, therefore, significantly different obligations for interest payments. Without the rationale for these allocations, it is difficult to assess how consistently allocation principles were applied among SOAs or to evaluate the reason for a departure from a consistent application. Documentation of allocation decisions would also support the generation and execution of SOA business plans that are consistent with expectations for the recovery of the City's initial investments.

Was the time required to establish the SOAs reasonable?

It took approximately two years to establish the ASD/SOA initiatives, put the policy and framework in place and identify the initial potential ASD candidates (1997 – 1999). All of the five current SOAs were on the original list of fifteen initiatives identified on the first ASD Agenda in February 1999. It took from one to six years to get each of the five SOAs operational. On average, it took two years from the feasibility study approval date to the selection report approval date. Some delays in the ASD review process were attributable to the internal and external preparation of a variety of studies, the recruiting of COOs, and the resolution of policy issues (e.g. Manitoba Heavy Construction Association challenges for Glacial and Parking's review of Downtown Parking Policies).

The Administration recognized that the time to establish SOAs was excessive and, in response to an Administrative report, Council adopted a revised ASD review process in 2004. The streamlined ASD Development Process was adopted to obtain clear policy direction at the outset and to reduce the number of Council committee approvals required throughout the process.

Was the process conducted to establish the SOAs adequate?

Overall, the process conducted to establish the City's five SOAs was not adequate. All relevant ASD options were not fully considered, and it was not clear that the SOA structure was necessary or the most appropriate in all cases. Feasibility studies and business plans did not include current baseline costs, complete operational performance measures or support for projections and the financial aspects of transition. Documented evidence of comprehensive analysis and corporate due diligence was weak, and the time required to establish the SOAs was excessive.

Audit Recommendations

Recommendation 1

The results of all six tests in the ASD decision process should be thoroughly analyzed and documented at the outset of the evaluation process conducted to establish SOAs.

Management Response

Since 1997, the ASD decision process has been considerably refined. The Administration will apply the revised review process, as set out in the Alternate Service Delivery Policy and Process Review report adopted by Council on February 25, 2004, for evaluating any potential ASD candidates. The revised review process includes submitting a high-level preliminary business case, with quantitative analysis, and any policy considerations for Council's approval at the beginning of the review process. An evaluation of the policy considerations will take into account the six tests of the ASD decision process.

Recommendation 2

When evaluating a change in structure, appropriate consideration must be given to determining why desired benefits and changes were not achievable within the existing organizational structure. The business case for changing the structure by which a service is provided must be complete, balanced and fully documented.

Management Response

The feasibility study for a potential ASD candidate evaluates both the quantitative and qualitative elements of the selected operating options, and compares these options to the status quo. For an existing SOA, a review of its business operation is conducted after a period of time, as specified in its operating charter; an independent review of Glacial Sand and Gravel's and Winnipeg Golf Services' operations is currently being conducted. The review includes analyzing the current business operation, evaluating potential business options and, if appropriate, developing a business case for change.

Recommendation 3

To be able to assess the reasonableness of projections and measure performance, key components must be included in SOA business plans. These components include

- current baseline data;
- support for assumptions;
- an understanding of customer service levels;
- plans to change product mix or method of service delivery;
- capital requirements for infrastructure; and
- quantified operational performance measures.

The description of transfers for tax equivalency charges and return on investment (ROI) should reflect the economic substance of the transaction.

Management Response

Ideally, baseline data would be available for the feasibility study and business plan for establishing an SOA. However, the baseline data from historical departmental operations is not always complete, available or applicable to the new SOA structure. Financial and operating data can come from several different departments (e.g. Winnipeg Golf Services, Winnipeg Parking Authority). Therefore, it makes it difficult to compare past departmental financial and operational performance to the proposed SOA with any degree of accuracy.

The Administration will ensure that, wherever possible, key evaluative components that address projections and performance measures are included in the business plan for any new SOAs, and enhanced for existing SOAs, and that the rationale for the decisions regarding those components is clearly articulated.

Recommendation 4
Potentially conflicting objectives need to be identified in the SOA business plans and guidance provided to the agencies on the process for resolution.

Management Response
The Administration recognizes that, from time to time, there may be conflicts between SOA objectives which focus on the financial bottom line, and public policy objectives which take into consideration the broader public interest and the public good. The revised ASD review process, adopted by Council on February 25, 2004, highlights any prospective conflicting objectives or policies at the beginning of the evaluation process.

Recommendation 5
Transfers of assets, liabilities, debt and equity to SOAs should be documented in transfer agreements. The rationale for debt and equity decisions as well as the corresponding repayment terms should be provided.

Management Response
The Administration will ensure that the transfer agreements include the rationale for any debt and equity decisions and repayment terms.

Recommendation 6
The discussion and disposition of issues arising from the review of feasibility studies and SOA business plans should be fully documented by the Administrative ASD Committee.

Management Response
The Administration will document the rationale for key decisions made during the process of evaluating a potential ASD candidate and establishing an SOA.

Recommendation 7
The revised process for establishing SOAs should be monitored to ensure that realistic deadlines are established and adhered to.

Management Response
The length of time it takes to evaluate a potential ASD candidate, and to establish an SOA, can take two or more years and consume significant resources. In each case, the Administration will develop the feasibility study and (if appropriate) the business plan for an SOA in a timely manner, providing its best estimate of the time required to seek Council approvals.

Report on Performance

In the 1997 *Reshaping Our Civic Government* report that launched alternative service delivery in the City of Winnipeg, Council made a commitment to citizens to *"make civic government more affordable and efficient"*. The SOA initiative was expected to play a key role in meeting this commitment.

In addition to achieving its stated performance results and anticipated benefits, the SOA initiative was seen as a catalyst for changing the City's culture. The focus on improved customer service and bottom-line accountability was expected to change the way City services were delivered. SOAs would continue to deliver services that addressed a public need but through a structure that enabled a more business-like approach. This approach was expected to reap rewards in terms of promoting innovation as well as empowering and motivating staff to achieve new levels of performance.

The focus of this part of our audit report is on measuring the extent to which the SOA initiative has made a difference in delivering civic services. We will look at the results delivered from two perspectives:

- the extent to which the SOAs reviewed have achieved their intended results; and
- the overall benefits that have been realized from implementation of the SOA initiative.

First, we wanted to determine whether the time and dollars invested in changing the organizational structure for delivering municipal services has resulted in real improvements in bottom-line performance. To determine the impact of the SOAs on civic operations, we reviewed the financial and operational performance of the initial four SOAs as well as their overall contribution to the City's bottom line. The Winnipeg Parking Authority was not reviewed since it did not commence operations until 2005.

The financial results have been compiled from the audited annual financial statements of the SOAs. The operational performance results were provided by SOA management and staff and have not been audited. We have also included a brief summary of the goals, targets and specific performance results for each of the SOAs in Appendix 5.

Secondly, we reviewed whether the SOA initiative has enhanced the transparency of performance information from the perspective of both the SOA and the City. In addition, we determined the extent to which increased autonomy and management flexibility provided to the SOAs contributed to real improvements in service delivery and assessed the quality of support provided by other City departments. We also evaluated whether the accountability framework functioned as intended to monitor the SOAs and hold COOs accountable for results.

Finally, we took a look at the costs and benefits of the SOA initiative overall. We wanted to determine whether the City has realized organizational benefits from the initiative that extend beyond the SOAs that have been created to date. We also wanted to assess the value for money realized from the investment in the SOA initiative and the impact the SOAs have had on the City's affordability and efficiency goals. We conclude our review by discussing future directions for the SOA initiative and providing our recommendations for improvement.

Have the SOAs met the financial targets established in their business plans?

As shown below, as at December 31, 2004, three of the first four SOAs had not achieved the financial targets set out in their initially approved business plans. Animal Services, Glacial, and Golf have accumulated deficits and were in poorer financial condition than projected. For Animal Services, the primary reason given was overly optimistic revenue projections. For Glacial, key components of its initial business plan were not carried out.

While we have been advised that the initial business strategy may have resulted in higher losses, the altered course of action still failed to generate the financial returns initially projected. For both Golf and Glacial, adverse weather conditions also directly impacted performance.

Fleet, on the other hand, exceeded the surplus projected in its approved business plans after the first two years of operation. A portion of the profits recorded resulted from the sales of assets incurred through an unanticipated downsizing of the fleet.

SOAs Accumulated Surplus (Deficit) Since Inception

SOA	Actual Results 2000	2001	2002	2003	2004	Initial Projections for 2004	Difference
Animal Services	($156,255)	($328,539)	($418,802)	($562,158)	($603,837)	($302,932)	($300,905)
Glacial Sand & Gravel		31,000	(72,000)	(135,000)	(840,000)	200,000	(1,040,000)
Golf Services^			(144,000)	(167,000)	(601,000)	(182,000)	(419,000)
Fleet Management				2,189,000	2,520,000*	316,000	2,204,000

^During 2004, correction of a prior period error was accounted for retroactively with restatement of all prior periods.
*In 2005, a dividend of $2,250,000 is required to be paid to the City, which will reduce the amount of the accumulated surplus.

Have the SOAs achieved the primary financial goals stated in their approved business plans?

None of the first four SOAs fully attained the primary financial goal stated in their approved business plans, although progress was made towards the goal in some cases:

- The financial goal of Animal Services was to be self-sustaining to the extent possible. In fact, the SOA did reduce its reliance on the grant support it received from the City through the Community Services Department over its five years of operation. At the same time, Animal Services was unable to fully offset the reduction in the grant and accumulated a deficit of $603,837 during this period. This exceeded the original projected deficit by more than $300,000.
- Glacial's financial goal was to be profitable. After four years of operation, Glacial had not achieved this objective. The SOA incurred losses for the last three years and accumulated a deficit of $840,000 ($954,000 excluding recorded tax recoveries). This is a difference of more than $1 million from the surplus projected in its business plans.
- Golf's financial goal was to maximize the return on investment (ROI). Golf was expected to provide the City $1,505,000 (including tax equivalencies) by December 31, 2004. Golf returned $1,332,000 to the General Revenue Fund, for a shortfall of $173,000. Golf also accumulated a deficit of $601,000 which is more than triple the initially projected deficit of $182,000.

- Fleet's financial goal was to move toward being a self-financing operation. While the SOA reported a profit for the first two years of operation, Fleet's long-term debt increased by $5,293,000 over this period. Subsequent to 2004, the City is requiring Fleet to pay a dividend almost equal to its accumulated surplus at December 31, 2004. This will impact Fleet's ability to achieve its primary goal of self-financing its operation to the extent possible.

We observed that SOA goals were not reviewed when there were significant changes in operations, clients or the financial return to the City. Glacial initially operated like a City utility but, after losing its exclusive contract to supply maintenance materials and treated sand to the City, Glacial is now primarily servicing external customers at a loss. In Fleet's case, its goal is to provide efficient and effective services to civic departments and other public organizations. Current and future dividends required by the City may impair Fleet's ability to reinvest profits into capital acquisitions.

Have the SOAs improved their financial performance since the first year of operation?

As at December 31, 2004, three of the first four SOAs had not achieved the expected improvement in financial performance. In fact, Glacial, Golf and Fleet have all experienced deterioration in financial performance since their first year of operation as an SOA:

- Glacial's cost of sales increased 44% from 2001 to 2004 while its revenues decreased by 12% with the result that losses have been incurred in the last three years. Glacial did not carry out key components of its initial business plan and, while we have been advised that following the initial business plans may have resulted in higher losses, the altered course of action failed to generate the financial returns projected at inception. Glacial's financial performance was also affected by adverse weather.
- Partly due to adverse weather conditions, Golf failed to achieve its revenue projections, which resulted in losses in all three years of operation. The requirement to return a pre-determined level of ROI and tax equivalencies to the City's General Revenue Fund each year has created or increased Golf's accumulated deficit since SOA profitability was not considered in calculating the amount to be returned. While Golf was unable to achieve its financial targets or attain its primary financial goal, it did provide a positive return of $731,000 to the City for its three years of operation ($1,332,000 ROI less accumulated deficit of $601,000).
- Fleet's financial performance did not improve from 2003 to 2004. The 2004 profit was significantly less than in 2003. In addition, a large portion of the profit arose from the sales of fleet that were not anticipated in the initial business plan. Excluding the proceeds from these sales, Fleet recorded a profit of $614,000 in 2003 and a loss of $264,000 in 2004. While revenues remained stable, expenses increased by 8.5% over the two years in part due to factors beyond the agency's control.
- Animal Services has improved its financial performance since becoming an SOA in 2000. While the SOA did not achieve its original financial targets (or revised targets) or its primary financial goal, revenues have increased significantly over the period with the result that annual losses have steadily decreased. From the City's perspective, Animal Services has improved its financial performance by $149,095 since inception ($450,000 grant reduction less unanticipated deficit of $300,905).

Have the City's financial results improved with respect to services delivered through SOAs?

We found that baseline financial information was often not available or did not take into account all costs to be borne by the new organizations. Financial information was frequently several years old by the time selection reports were reviewed by the ASD Committee due to delays in the evaluation process. Without complete and relevant baseline financial performance information, we were unable to compare the results of the SOAs to the results of the operations previously delivered through the Host Departments. Therefore, we cannot determine whether the change to an SOA structure resulted in improved financial results or reduced overall costs for the City.

Have the SOAs improved their operational performance?

One of the anticipated benefits of the SOA initiative was improved service delivery through innovation and a client-centred focus. All of the SOAs have introduced programs and initiatives to improve their operations. For example,

- Animal Services has enhanced its adoption and education programs, expanded retail outlets where licenses can be purchased, implemented marketing initiatives and revised its licensing and fine structures.
- Glacial Sand & Gravel has expanded its customer base, made safety upgrades to its equipment and installed a new truck scale.
- Golf Services has enhanced marketing and promotional activities, provided staff training on customer service and implemented golf course improvements.
- Fleet Management Agency has introduced Life Cycle Management, improved fuel sites and implemented environmental initiatives.

To determine whether operational improvements had met initial expectations, we reviewed the SOAs' business plans. We expected that each SOA would have established performance measures for operational results. We found that only Animal Services and Golf had quantified operational targets and results, and only for some of their services. Neither SOA achieved the operational performance targets established at inception; only Animal Services showed improvement in operational performance in relation to its first year of operation as an SOA. Glacial and Fleet did not quantify or report on their operational results.

Furthermore, none of the four SOAs formally monitored customer satisfaction levels. We expected that a baseline measure would have been established at the commencement of operations so that improvements in service delivery could be monitored and assessed.

Is information related to the SOAs' budgets transparent?

The SOAs provide detailed budget information to the ASD Committee and Council each year in their annual selection reports. SOA operations, however, are not transparent within the City's Operating and Capital Budgets:

- SOA budgets are being approved three to six months after the City Budget. We note that Provincial SOA budgets are approved before the Province of Manitoba Budget.
- SOA FTEs (full-time equivalent staff) are not included in the City's FTE figures. A total of 146 FTEs were included in the 2004 Budgets for the four SOAs.
- Detailed SOA revenues and expenditures are not included in the City's Operating Budget. The four SOAs reported total budgeted revenue of \$34,746,116 and total budgeted expenditures of \$34,730,470 in their 2004 Budgets. Only transfers between the City and the SOAs were reflected in the City's Operating Budget.

Such transfers include the tax support/grants provided by a Host Department to its SOA; charges for services between an SOA and its Host Department; charges for services between an SOA and its internal customers; and corporate charges between an SOA and the City.

- The presentation of transfers in the City's Operating Budget was inconsistent among SOAs. Also, SOA-related transfers were not always distinguishable within the City's Operating Budget. For example, the annual grant received by Animal Services through the Community Services Department was included in one amount with all of the Department's other grants. By only reflecting transfers with SOAs, the City's Operating Budget does not reflect all of the City's operations. We note that the Province of Manitoba is moving towards including its provincial SOAs in the Province's summary budget for greater transparency.
- SOA budgeted operating surpluses and deficits are not monitored or addressed in the City's Operating Budget balancing processes. The City's Operating Budget could appear to be balanced, when, in fact, significant operating deficits could exist in the SOAs that would put the Operating Budget in a deficit position.
- SOA infrastructure requirements are not reflected in the City's Capital Budget. This is a concern because required return on investment (ROI) transfers from SOAs to the City may limit the amount of funds SOAs can retain for such purposes.

Are the financial results of SOA operations transparent?

Preparation of separate financial statements for each SOA has improved the transparency of the financial performance and financial condition of SOA operations. Full-costing has also enhanced comprehension of the true cost of service delivery, although some COOs were unclear as to the basis for 'general government charges'. Overall, COOs are equipped with better financial information to make informed business decisions. This is in contrast to the financial information available to date under the departmental structure.

From the City's perspective, however, the net benefit to the City of the SOAs cannot be determined solely by review of the City's consolidated Financial Statements or by the addition of their bottom lines. To determine the net financial contribution to the City's bottom line, the transfers to and from the General Revenue Fund must be taken into account.

What has been the impact of the SOAs on the City's bottom line?

While we cannot compare the 'before and after' financial results of the individual SOAs, we can determine the net financial contribution or cost of each agency to the City since inception.

The chart presented below indicates the net financial impact of each SOA on the City's bottom line as at December 31, 2004. The SOAs' financial results are adjusted by the amounts paid by the City in grants or revenues. Three of the four SOAs were also charged tax equivalencies, which are recorded on the audited financial statements to approximate the amount of taxes that would be payable if the SOAs were subject to taxes. These SOAs are also required to provide an annual return on investment (dividends) to the City to compensate the City for providing an SOA with the infrastructure to operate. Tax equivalencies and return on investment charges are outlined in the SOA selection reports. The net result of these adjustments is the amount that each SOA has contributed or cost from the City's perspective.

SOA and City Bottom Lines

SOA*	Year	SOAs' Audited Net Income (Loss)	Adjustments for Grants and Revenue from City	Adjustments for ROI and Tax Equivalencies	SOAs' *** Net Impact On the City
Animal Services	2000	$(156,255)	$(1,250,000)	$ 0	$(1,406,255)
	2001	(172,284)	(1,250,000)		(1,422,284)
	2002	(90,263)	(1,250,000)		(1,340,263)
	2003	(143,356)	(1,100,000)		(1,243,356)
	2004	(41,679)	(950,000)		(991,679)
	Total	**(603,837)**	**(5,800,000)**	**0**	**(6,403,837)**
Glacial Sand & Gravel	2001	31,000	(784,000)	26,000	(727,000)
	2002	(103,000)	(972,000)	(87,000)	(1,162,000)
	2003	(63,000)	(1,540,000)	(53,000)	(1,656,000)
	2004	(705,000)	(1,146,000)	-	(1,851,000)
	Total	**(840,000)**	**(4,442,000)**	**(114,000)**	**(5,396,000)**
Golf Services	2002**	(144,000)		401,000	257,000
	2003**	(23,000)		450,000	427,000
	2004	(434,000)		481,000	47,000
	Total	**(601,000)**		**1,332,000**	**731,000**
Fleet Management	2003	2,189,000	(19,880,000)	490,000	(17,201,000)
	2004	331,000	(21,573,000)	43,000	(21,199,000)
	Total	**2,520,000**	**(41,453,000)**	**533,000**	**(38,400,000)**

***The Winnipeg Parking Authority did not commence operations until 2005.**
****Glacial's 2002 and 2003 financial results were restated in 2004.**
***** Net impact represents the total benefit (cost) of the SOA to the City, not the incremental cost.**

- Animal Services has accumulated a deficit of $603,837 since inception as an SOA. Taking into account the grant from the City, Animal Services has required $6,403,837 in tax support from the City for the first five years of operation.
- Glacial Sand & Gravel has incurred an accumulated deficit of $840,000 as well as $114,000 in income tax equivalency recoveries from the City after four years of operation. The City has also purchased $4,442,000 in sand and gravel products during this period. The net cost of operating the SOA and providing some sand and gravel products to the City as at December 31, 2004 was $5,396,000.
- Golf Services has incurred an accumulated deficit of $601,000 since it commenced operations. At the same time, Golf has paid the City $1,332,000 in ROI and tax equivalencies and, as a result, has provided a net return to the City of $731,000 since commencing operations in 2002.
- Fleet has accumulated a surplus of $2,520,000 after two of operation. Fleet's main revenue source, however, is the City of Winnipeg. The net financial cost to the City for the first two years of operations was $38, 400,000.

Are the operational performance results of the SOAs transparent?

Annual reports to the ASD Committee and City Council are to include “an analysis of operational and financial results compared to business plan targets, as well as the audited financial statements of the SOA for that fiscal year”. While financial results are transparent, reporting of operational results has been inadequate. Partial results have been provided for Animal and Golf, but there has been no quantification of results compared to targets for Glacial or Fleet.

Were the increased autonomy and management flexibility provided to the SOAs sufficient to enable a more business-like approach to service delivery?

The Task Force report that launched the SOA initiative envisioned that each agency would have a delegation of authority tailored to its unique business circumstances and management challenges. A baseline of authorities would be granted to each SOA, beyond which additional authorities could be negotiated. The SOA policy and framework provided for increased autonomy and management flexibility in certain areas to stimulate innovation, achieve efficiencies and improve service delivery. In return, SOAs were to provide an agreed upon level of performance results.

SOAs were provided with greater autonomy to focus on specific businesses and to interact directly with Senior Administration and the ASD Committee. In addition, SOAs were granted exemptions from some City policies in their operating charters. All SOAs were provided with exemptions from vacancy and expenditure management processes, global budget reductions and standard spending limits for budgetary control purposes. They also received the authority to set fees and to exercise choice in the purchase of services, internal or external to the City of Winnipeg. These provisions are not available under the departmental structure.

In the purchasing/procurement area, the delegated authorities were comprised mainly of an increase in the approval authority of the COO to the level of a Department Director. Parking was given additional approval authority to conduct sole source negotiation for contracts up to $100,000. The COOs were given higher approval authority limits to enable faster decision making.

Although the approval level was increased, the requirements of the City’s Materials Management Policy with respect to procurement remain the same. During our review, it became apparent that not all the COOs were clear about the distinction. Materials Management Branch (MMB) expressed some concerns about how some SOAs are interpreting and exercising their delegated purchasing authority. In particular, MMB and the SOAs have different interpretations regarding

- whether a request-for-proposal or request-for-quotations is needed for every purchase above $5,000 or only above the COO’s delegated authority;
- whether COOs have the authority to contract for multiple years, given that only current year budgets are being approved annually; and
- under what conditions sole-sourcing is permitted.

Other than being able to fast-track decisions without reference to a higher approval authority, the SOAs have no additional authority to by-pass procurement policies that may pose a challenge to competition with the private sector. While MMB’s interpretation of the current policy is correct, the question is whether procurement policy applicable to SOAs should be more flexible.

With respect to human resources management, SOA employees fall under the City of Winnipeg’s Master Collective Agreement. No exemptions or authorities have been granted to the SOAs regarding labour relations with the exception of

Glacial, which has a supplementary agreement with the Canadian Union of Public Employees (CUPE).

The COO of Fleet and the COO of Parking have both indicated that it would be desirable for the SOA to be able to promote from within the SOA and not be subject to the seniority list of their host departments. For example, in the case of Fleet, using the host department's seniority list for promotion could mean that a Foreman position could be filled by an individual who had not worked in a vehicle maintenance shop and who would be required to supervise mechanics without the requisite technical knowledge.

The COO of Parking offered two possible solutions as to how to enable SOA management to promote the best candidate and to allow the development of better career paths for SOA staff. The first one option would be to combine all SOAs into one department. A second option would be to have each SOA considered as its own department. In any case, both options would require a *Letter of Understanding* to be negotiated with the unions involved. Again, this is really no different than any department requesting special treatment under a collective agreement.

On a practical level, the SOAs were provided with very limited additional authorities to use as a lever to change the way they delivered their services. It is possible that this may have been a factor in not achieving some of their business goals. We believe that this may also have contributed to the lack of enthusiasm on the part of some managers for creating new SOAs. The perception is that the expectations for performance are high, but the tools provided to effect real change are minimal.

Did City Departments provide adequate support to SOAs to promote the change to a more business-like culture?

For the most part, the COOs did not express concerns with respect to the services provided by SOA host departments. Some did note, however, that SOAs had to compete with departmental priorities relating to the primary programs for which the host department was accountable. A potentially negative effect of SOA status is that the agency can be seen as peripheral to the larger organization. The COO may have to compete with divisional managers who have their own priorities and constraints.

The COOs did express more concern with respect to the provision of corporate services:

- Although SSU legislation accommodates the approval of multi-year budgets, the practice has been to approve only the current year's budget each year. In addition, budgets were approved three to six months after the City budget. Only the Parking SOA has a specific "continuity of service" clause authorizing expenditures in the current year (prior to budget approval) of up to 30% of their prior year budget. The other SOA operating charters do not have this clause. Given that budgets have generally been approved between June and September of the budget year, Fleet and Animal Services would have spent more than 30% of their prior year budget.
- Although Fleet had the authority in its operating charter to carry forward funds to be used for future operating or capital requirements, it was largely prevented from doing so when the City required a dividend almost equal to its accumulated surplus. This reduced the SOA's ability to implement planned service improvements.

- Fleet's challenge is to provide a level of customer service that meets or exceeds the service provided by the private sector. There are fewer restrictions placed on how the private sector procures goods and services, and the public sector must be more creative and innovative in order to compete. For example, better use could be made of standing offers. In the case of vehicle parts, Fleet and MMB have developed an effective procurement tool (standing offers) but there are still difficulties in some areas such as the purchase of tires. Fleet has also encouraged the inclusion of penalty clauses within contracts to ensure that Fleet will be adequately compensated for the costs borne to meet its customer's requirements when the contractor fails to meet its commitments. For Fleet to be successful in competing with the private sector, changes not only have to occur within Fleet (e.g. use of life cycle methodologies) but in the ability of the SOA to employ processes that enable Fleet to compete successfully. The COO has experienced instances where he has been informed by MMB that he cannot purchase goods or services in the manner he anticipated, yet MMB has failed to provide an acceptable alternative to meet his needs.
- The Materials Management Branch was not involved in developing the delegated authorities provided to the SOAs except for providing the wording for the purchasing section of Parking's Operating Charter. MMB staff were also not involved in establishing the dollar limits included in the charters. The A*greement on Internal Trade* requires that all purchases of goods that exceed $100,000 require a solicitation of offers. The City has set its own limit at $5,000 for both departments and SOAs. The Manager of MMB has informed us that this limit is consistent with other major cities in Canada. The possibility of raising the limit for SOA's was not discussed with MMB. Both Fleet and Parking are considering a business case to increase the current limit of $5,000. Permitting these SOAs to "pilot" a higher procurement level would entail some risk but would be consistent with the notion of the agencies acting as a "test-bed" for changing the way business is conduced in the City.
- The new COO of the Winnipeg Parking Authority identified some of the challenges he had faced in his first year of operations. His understanding was that once Council approved the SOA, administrative processes would be expedited. This did not prove to be the case. A significant amount of time and effort was required in working with Corporate Human Resources to fill critical positions. Delays were also initially encountered in working with Materials Management Branch, although subsequent agreements have been established to alleviate these latter issues.
- The COOs noted that they are not interested in creating their own corporate services. To support the SOAs in their approach to service delivery, they believe that staff in the City's corporate departments must shift their mindset from control and compliance to customer service. To capitalize on the potential benefits of the SOA concept, both the agencies and the supporting departments must think "more like a business". This does not mean that the principles behind public sector management need to be compromised. What it does mean is that there may be better ways to achieve the legitimate business needs of an SOA or, for that matter, a department.

In general, while espousing support for the SOA concept, City departments had not significantly changed their processes or cultures to facilitate a fundamental shift in the way business is conducted in the agencies or to accommodate new challenges provided by the SOAs.

Do SOA operating charters provide sufficient direction to facilitate accountability for results?
One of the goals of the SOA initiative is to improve accountability. The operating charter for each of Winnipeg's five SOAs balances the need for accountability to civic administration, elected officials and the public with a practical degree of autonomy. The operating charters outline the specific responsibilities of the COOs. The COOs

- are accountable for sound management of the Agency in accordance with the highest public sector standards;
- ensure the objectives and targets stated in the business plan are achieved;
- are responsible for managing the Agency planning and reporting processes; and
- are ex-officio members of the Advisory Boards and provide the boards with business plans, activity reports, charter revisions and other proposals and information required for effective management and accountability.

Based on results achieved to date, we believe that operating charters require clarification as to

- how the SOA budgeting process is to be synchronized with the City's;
- what City ROI requirements are and how they may impact SOA operations;
- what the annual report format, review process and timeframes should be; and
- what the transition period means for each SOA and the process to take place at the end of it.

Operating charters are also lacking the following:

- There is no provision that states that all City policies should apply except where the SOA is specifically granted an exemption in its operating charter. Currently, City policies only apply if an SOA is specifically directed to participate.
- More frequent performance reporting should be required under specified circumstances (e.g. increasing losses).

We also noted that, unlike department heads, COOs do not have performance contracts with the City that provide incentives for positive performance.

Have COOs fulfilled their accountability requirements?
While there have been some financial and operational improvements, in general, the COOs have not achieved the expected level of performance results anticipated in their business plans. In some cases, there were factors beyond the control of the SOAs that impacted the performance results.

All COOs produced business plans as required. As noted previously, operational performance measures and targets were not fully developed. The COOs also have provided annual reports to the ASD Committee and City Council which included audited financial statements; however, the reports were not submitted within 120 days of year end as required. In some cases, performance information was not complete. In addition, two of the four SOAs did not establish Advisory Boards on a timely basis as required by their operating agreements.

Has Senior Administration adequately monitored the SOAs and taken action to resolve issues identified?
Host Department Directors are not formally monitoring SOA performance and do not prepare performance evaluations of the COOs. In practice, COOs work directly with members of the Administrative ASD Committee, both individually and collectively, to resolve business issues. The City's Senior Administration has reviewed SOA performance to some extent through its Administrative ASD Committee meetings;

however, as previously noted, no record is maintained of the Committee's actions.

We also believe that Senior Administration has not been adequately responsive to critical issues regarding the SOAs:

- Advisory Boards were intended to provide strategic-level advice to SOAs. Fleet and Golf established their Advisory Boards approximately two and three years after SOA start-up, respectively. These SOAs were not utilizing this resource as intended to address issues such as ongoing financing needs and pricing policies.
- Glacial did not acquire equipment that was considered critical to producing high-margin products. While we have been advised that following the initial business plan may have resulted in higher losses, the altered course of action failed to generate financial returns equivalent to those initially projected. As a result Glacial is selling product at a lower contribution margin. Glacial's deficit and debt had increased and it had operated for a considerable period of time without decisive corrective action being taken.
- The consolidation of City vehicles under the new Fleet Management Agency has not been completed despite the efforts of the COO. Intervention by Senior Administration would be required to compel departments to participate in the new agency.
- Deficiencies in performance measurement and annual reporting have not been identified and resolved. In addition, SOA quarterly reporting requirements were eliminated at a time when three of the first four SOAs were incurring escalating deficits.
- Golf and Glacial's transition periods have expired yet fundamental questions regarding the City's role in these businesses and the most effective method of delivering goods and services remains uncertain.
- Balances due to the City of Winnipeg by SOAs have not been monitored in relation to authorized amounts. Glacial has an authorized line of credit from the Idea Bank but this facility has never been utilized. Although Glacial did not have a specified authorized line of credit from the City of Winnipeg General Fund, at December 31, 2004, it owed the City $1,157,000.
- Utilization of funding from the City of Winnipeg has not been monitored in relation to its approved purpose. Operating funds as well as funding approved for capital purposes for Fleet were included in one general ledger account making it difficult to monitor usage.

Do the current governance structure and reporting relationships facilitate accountability?

The operating charters state that Host Department Directors are responsible for monitoring SOA "management, operations and performance." With COOs having the same delegated authority as Directors and a direct link to the City's Senior Administration, there has been confusion as to the reporting relationships and responsibilities for monitoring performance. Furthermore, having COOs report to their Host Department Director is a conflict-of-interest in some cases. For Fleet and Glacial, for example, the Host Department, Public Works, is also a major customer.

In November 2004, in recognition of these issues, the SOA operating charter roles and responsibilities were amended such that COOs would report directly to the CAO or delegate rather than their Host Department Director. The Administrative report prepared at the direction of the CAO noted that

"SOAs have been given the authority to operate in an entrepreneurial manner unlike line divisions or branches within their host department. While the SOAs all value the level of support that their host departments

provide, an agency's needs may not be the same as a branch or division's needs. The SOAs require a unifying reporting structure that represents their interests at the corporate level, coordinates their activities, provides financial and operational oversight, and champions their cause."

Operationally, no change occurred at that time since the CAO immediately delegated authority back to the Directors pending a review by the Chief Information Officer (CIO). In July 2005, the CIO recommended that the CAO delegate responsibility for Fleet and Parking to the current CIO and that the delegated responsibility for Animal Services, Glacial and Golf remain with the Host Department Directors. We have been advised that responsibility for Fleet and Parking was recently transferred to the CIO.

One of the COOs interviewed during the audit expressed the opinion that "running an SOA like a business is difficult inside an organization that is not run like a business with people who have never run a business before." The original Task Force report that launched the SOA initiative envisioned a senior, corporate-level coordinator who would lead and support the initiative. We believe that there is merit in considering a consolidation of SOAs in so far as it would provide the agencies with an advocate who could address their unique needs. A change in governance structure would also enhance the accountability relationship and clarify responsibility for monitoring performance.

Have the benefits of the SOA initiative been formally identified and reported?

The annual reports on the results and accomplishments of ASD programs have consisted of the annual ASD Review Agenda. In addition, reports have been submitted by the CAO recommending policy amendments, process improvements and changes to the governance and reporting structure. A formal report on the overall benefits of the SOA initiative, however, has not been prepared or presented to the ASD Committee and Council.

Has the City demonstrated that value for money has been received from the SOA initiative?

Despite the SOA initiative arising out of a "commitment to the people of Winnipeg that civic government would be more affordable and efficient", there has been no cost-benefit analysis conducted on the results of the program. The City has not been able to put a price tag on this initiative. One reason for this is the absence of a corporate account to fund and track ASD related activities such as feasibility studies, consultants' reports, etc. Most costs were assumed by the host departments. Although it is difficult to say how the City's ASD/SOA costs compare with other jurisdictions, estimates range upwards from one to three full time equivalents for one year, and $200,000 to $500,000 in non-salary costs to develop SOA start-up documents. *(Special Operating Agencies: Financial Issues* – John Dingwall, 1996; Canadian Centre for Management Development*)*

While we have not been able to acquire the total costs from the ASD Development Officer, it is clear that investment in the SOA initiative has been considerable. We identified three categories of costs:

- ASD/SOA initiative costs – preparation of the SOA Initiative and ASD Framework, and consultations with the Provincial SOA Coordinator;
- SOA Start-Up Costs – feasibility and related studies (marketing, policy, business valuations), recruitment of each COO and additional hirings; initial business plans for each SOA including operating charters and five-year projections, costs associated with name changes (signage, stationery etc.); and
- Incremental SOA operating costs – separate financial statement audits, annual reports, annual business plans

(preparation, review, challenge and approval), mandated post-transition period reviews, COO salary vs. former manager/supervisor, establishment and operation of Advisory Boards, updates to operating charters, duplication of accounting work where systems other than the City's are used, separate accommodation costs.

Consultants were engaged to assist with a number of these processes. There were also varying degrees of involvement in these processes by SOA Host Departments, SOA COOs, Corporate Finance, Corporate Services, Senior Administration, ASD Committee, EPC and Council. Personnel costs related to the time spent performing these ASD/SOA functions has not been monitored.

Of particular note are the twelve internal and external reports we identified that have been produced since 1996 pertaining to either the valuation or business case analysis of Glacial. While we were not provided with the costs related to these reports, the total would clearly be significant. One SOA post-transition period review has been completed to date at a cost of $40,000 while annual audit fees for each SOA are scheduled to increase on average from $5,500 in 2004 to $8,500 in 2005.

As noted, the SOAs did not achieve many of the financial and operational results anticipated in their business plans, and the overall benefits of the SOA initiative have not been formally identified. Furthermore, in the absence of baseline measures, it is not possible to quantify improvements that have been made or to attribute changes to the SOA structure. For these reasons, in our view, the City has been unable to demonstrate value for money from the SOA initiative.

Has the accountability framework governing the SOAs operated as intended?

Accountability is based on a relationship where the parties have obligations. The COOs are accountable for achieving their performance targets and reporting on results. The City's Administration is accountable for reviewing results and directing appropriate action to resolve issues. The CAO is responsible for reporting to the ASD Committee and Council on the overall effectiveness of the *Policy and Framework for ASD* which includes the SOA initiative.

Our review indicated that the accountability framework governing the SOAs has not functioned as intended:

- Performance information provided by the COOs, while transparent with respect to financial results, was deficient with respect to operational performance. Annual reports indicate that the SOAs have not met all of the operational and financial results anticipated in their operating charters.
- Senior Administrators have not monitored or formally evaluated the performance of the COOs. Issues and performance deficiencies that have been identified have not been resolved on a timely basis.
- The CAO has not provided a formal report on the overall costs and benefits of the SOA initiative to ASD Committee and Council.

Have the SOAs delivered the benefits anticipated by the SOA Task Force?
When the SOA Task Force was launched in 1997, the City anticipated that the SOAs would make a significant contribution to the cost reductions, innovations, and alternative methods of service delivery promised in the *Reshaping Our Civic Government* report. Five years after the first SOA was created, it was time to step back and take a look at the benefits the City has realized from the SOAs that have been established. We have used the potential benefits that were identified by the SOA Task Force to summarize the benefits achieved to date:

Clear mandate and purpose
Increased autonomy has provided the SOAs with a clear mandate and accountability for the services described in their operating charters and business plans. The smaller SOAs are no longer a low priority function within a larger department, but are able to achieve a higher profile and focus more attention on their service needs. This has resulted in new marketing strategies and ways of delivering services to customers.

Long range planning capability
Development of multi-year business plans has enabled a more strategic perspective on operations to develop. But in some cases longer term physical asset plans have not been fully incorporated within the business plans. In addition, budgets have only been approved on an annual basis.

Bottom-line accountability
Exemption from corporate constraints has enabled budgets that reflect true costs. All SOAs have produced transparent business plans and financial statements. As a result, the financial 'bottom line' of SOA operations is known and reported annually, and there is a greater awareness of costs, revenue generation, and financial performance. Operational results have not been reported as completely. At the same time, performance contracts have not been developed for the COOs and their performance has not been formally monitored and evaluated.

Operating flexibility
All SOAs have used the delegated authorities with respect to fee setting to charge fees in accordance with their business plans. Additional revenue has allowed the SOAs to introduce some new initiatives. The benefits of increased delegation of purchasing authority have been minimal and, in some cases, have been offset by a corporate culture of resistance to proposed alternatives. This may also be a reason why, with some minor exceptions, SOAs have continued to conduct business using services purchased internally. Services received have not been formally evaluated for value for money.

Cost-savings to government
At inception, a base-line measure of the cost of the SOAs' operations was not developed so that cost-savings could be tracked over time. Since the first year of operation, all SOAs have incurred increases in expenditures. Animal Services, however, has increased its revenues by a greater percentage than its costs, thus reducing its reliance on the grant provided by the City.

Satisfied customers
The SOAs have all increased their focus on client needs and service quality. Most have not surveyed their clients, however, to assess how satisfied they are with the services provided.

Competent, motivated employees
Some SOAs indicated that they have involved staff more closely in decision-making. Performance information is shared. Customer service training or industry specific training has been provided in some cases. At the same time, performance management systems have not been developed as intended, and employees' satisfaction has not been formally measured. As well, SOAs have not reported changes in workplace productivity.

What lessons been learned from the SOA initiative overall?

The SOA initiative was an experiment in trying to conduct City business differently. Fundamentally, it was a change initiative and, as is the case with all significant change initiatives, some plans will succeed and some will fail. The SOAs did not exist in isolation; their establishment and on-going operation involved individuals at both the Administrative and Political levels right across the organization. The impacts of the change did not simply affect the individual SOAs and their staffs; lessons were learned that could be applied to both new SOAs and the operations of the City as a whole.

While the overall benefits of the SOA initiative have not been formally identified and reported, it became clear during our review that managers believe that there have been some lessons learned that extend beyond the immediate benefits realized by the SOAs. During our interviews, senior managers expressed the opinion that the SOA initiative has served as the catalyst to improve performance. One senior manager pointed out that, while the same changes may have been possible through the former departmental structure, the fact remains that this had not happened. He believed that the new SOA model provided the motivation and flexibility to implement changes. One example of this would be changes to a fee structure. While it has always been the prerogative of City Council to increase user fees, the change was facilitated by an independent business case provided by an SOA. Consolidation of services such as Parking and Fleet has provided economies of scale, rationalization of assets, and identification of redundancies. These, in turn, have led to some operational improvements and unanticipated revenues.

Another senior manager suggested that all managers in the host departments learned from the process used to establish and operate the SOAs. They were required to develop business plans and understand the principles of good financial management. These lessons were also useful in managing traditional City services. At the same time, we believe that the City has not yet fully capitalized on the SOAs' potential for experimentation and testing of new ideas. Risk taking has been limited. For example, while the positive benefits of full costing and transparent financial information have been clearly demonstrated at the SOA level, these processes have not yet been required for all departments. There has also been a limited effort to pilot changes to procurement or Human Resources policies to facilitate the needs of the SOAs.

Overall, the City successfully developed an SOA concept, policy and framework. The implementation process was flawed to some extent, however, and performance has not fully met expectations. Where benefits have been realized, the lessons learned have not been formally identified and applied to the organization as a whole.

What does the future hold for the City's SOA initiative?

The City of *Winnipeg's Policy and Framework for ASD* was established in 1998. The first ASD Review Agenda was approved by Council in 1999. All of the five SOAs established since that date were on the original list of potential ASD candidates. ASD options are currently being re-evaluated for Glacial and Golf and, to our knowledge, no new SOAs are currently under consideration. Departments recognized that the ASD process is time-consuming, resource-intensive and cumbersome and that significant tools to provide flexibility in service delivery have not been forthcoming. Departments have been reluctant, therefore, to identify additional potential candidates.

The Administration has taken some recent steps to improve the implementation of the SOA initiative. The establishment process has been streamlined and the governance structure has changed. Recently, both Fleet and Parking changed their reporting relationship from a host department to the CIO. We see this as a positive step which recognizes the need for an SOA Champion to promote the benefits of the structure, identify prospective candidates and ensure formal on-going evaluation of performance results.

There is nothing to suggest that circumstances in the City have made the SOA initiative redundant. The status quo is still not acceptable, and we believe that there are opportunities to capitalize on the current investment in the SOA initiative. Some of the actions that should be undertaken include:

- identify new SOA candidates, particularly those services that would benefit from consolidation and rationalization;
- improve the process for establishing new SOAs by implementing the recommendations provided in this report;
- request clarification of policy issues early on in the process and provide clear direction to the Administration on the desired outcomes;
- consider further delegations of authority and management flexibility where a demonstrated need exists to improve performance and results;
- leverage the opportunity provided to take risk and allow the SOAs to serve more fully as a ‘test-bed’ for new ideas;
- ensure that baseline measures are developed at establishment so that benefits can be tracked and improve operational performance monitoring and reporting; and
- formally identify benefits of the SOA structure and apply lessons learned to City departments.

With respect to the last point, while the future of the SOA initiative is debated, we believe that there is no reason to delay applying the lessons learned to date to the rest of the organization. We urge the Administration to get on with this task.

Audit Recommendations

Recommendation 8
Individual SOA budgets should be approved prior to or concurrently with the City's Operating Budget. As City agencies, the 'continuity of service' clause should apply to all SOAs.

Management Response
The Administration agrees with the Auditor's comments and will submit the SOAs' annual business plans for Council approval no later than the March Council meeting of each year.

Recommendation 9
SOA profitability and accumulated surpluses should be considered when determining ROI transfers to the City.

Management Response
The Administration will develop a dividend policy for the SOAs that outlines the procedures and amounts of the ROI transfers to the City.

Recommendation 10
Budgeted revenue, expenditures and FTEs for SOAs should be included in the City's Operating Budget with any overall surplus or deficit addressed accordingly.

Management Response
While the Administration wishes to avoid instances of 'double counting' which could result from the inclusion of SOA revenue and expenditures in the City's budget, the Administration will ensure that all SOA business plans that are submitted for Council approval contain all relevant financial and operational information.

Recommendation 11
Capital requirements for SOA infrastructure should be included in the City's Capital Budget.

Management Response
Capital improvements initiated by the SOAs are self supporting either through accumulated surplus or debt financing repayable by the SOA. In the case of Winnipeg Golf Services, debt financing is limited to the funds available in the City's Golf Course Reserve Account. The SOA's ability to achieve its financial goals may be impaired if the SOA's capital projects are prioritized along with other City capital projects. It is reasonable, however, to expect transparency in the SOA's capital requirements, and that they be reported along with other City capital projects. The Administration will ensure that these requirements are clearly identified through the SOAs' annual business plans.

Recommendation 12
Budgeting processes, ROI and annual reporting requirements, and transition period protocols should be clarified in the SOA operating charters. Quarterly or semi-annual reporting should be required under specified conditions. City policies should apply to SOAs except where specifically exempted and explained in their operating charters.

Management Response
The formal quarterly reporting requirements for ASD Committee and Council were discontinued as part of the streamlined review process adopted by Council on February 25, 2004. Instead, the SOAs report to the Administration, and provide ASD Committee and Council with annual business plans and annual reports.

Currently, SOA operating charters specify which policies individual agencies are exempt from, and these are reviewed and revised when warranted.

Recommendation 13
Designated responsibility for monitoring the performance of each SOA and COO must be clarified and adhered to in accordance with the operating charter. Senior Administration must be responsive to issues identified through the monitoring and reporting processes.

Management Response
The reporting relationship for the COOs of the SOAs was amended in the Special Operating Agencies Reporting Amendments report adopted by Council on November 24, 2004. The reporting amendment now requires the SOAs to report to the CAO, or delegate, rather than through the Director of the SOA's host department. In a subsequent amendment, the CAO delegated responsibility for the Fleet Management Agency and the Winnipeg Parking Authority to the current CIO. The intention of the reporting amendment is to delegate responsibility to the appropriate authority within the Administration to coordinate their activities, provide financial and operational oversight and champion their cause.

Recommendation 14
All SOAs that utilize lines of credit from the City of Winnipeg should have specified authorized amounts. Balances should be monitored by Corporate Finance in relation to both the authorized amount and approved purpose. Processes should be in place to immediately identify and address exceeded lines of credit and non-compliance with the approved purpose of funding.

Management Response
The Administration will ensure that processes are implemented to provide improved line of credit monitoring and oversight.

Recommendation 15
Initial and incremental costs of operating under an SOA structure must be tracked and quantified to ensure that funds invested are warranted in relation to the benefits received.

Management Response
Because of the scope and objectives of the ASD initiative, and the time required to evaluate and establish an SOA, the benefits associated with investment in an SOA are typically realized in the longer term. The Administration will take these factors into account when each of the SOAs is reviewed.

Recommendation 16
The CAO should prepare an annual report to the ASD Committee and Council that evaluates the overall performance of the SOA initiative including financial and operational results, costs and benefits, and significant issues identified and resolved.

Management Response
The Administration will provide ASD Committee and Council with an annual overview of the SOAs' performance. The SOAs currently provide Council with detailed information, through their annual business plans, and their annual reports.

Recommendation 17
The CAO should report to the ASD Committee and Council on options for the current SOAs, benefits realized from the SOA initiative to date, and an action plan for applying lessons learned to the departmental structure as well as broadening the SOA initiative to include new services in the future.

Management Comments
The Administration will be evaluating each of the SOAs individually. For example, Glacial Sand and Gravel's and Winnipeg Golf Services' operations are currently being evaluated, in order to seek business improvements at these agencies, and, if appropriate, develop a business case for change.

Appendix 1: Chronology of ASD/SOA Initiatives

Chronology of City of Winnipeg ASD/SOA Initiatives

1997

Mar 20, 1997

"Reshaping Our Civic Government" report - commitment to be more affordable and efficient *

Sep 24, 1997

"Special Operating Agencies Initiative" report *

1998

Mar 25, 1998

"Policy and Framework for Alternative Service Delivery in the City of Winnipeg" *

Oct 22, 1998

First Call Letter issued by CAO for the identification of potential ASD initiates

1999

Feb 24, 1999

First ASD Review Agenda approved (consisted of 15 initiatives including Animal Services, Primary Materials (Glacial), Golf Services, Fleet and Parking) *

2000

Jan 1, 2000

Animal Services **

(Feasibility Study adopted by Council Dec 17, 1997; Selection Report adopted by Council Nov 17, 1999)

2001

Jan 1, 2001

Glacial Sand & Gravel **

(Service delivery options were considered as early as 1996; Numerous internal and external reports were prepared or commissioned over the years; Selection Report adopted by Council February 28, 2001)

2002

Jan 1, 2002

Golf Services **

(Feasibility Study adopted by Council Feb 23, 2000; Selection Report adopted by Council April 24, 2002)

2003

Jan 1, 2003

Fleet Management Agency **

(Feasibility Study adopted by Council Oct 10, 2000; Selection Report adopted by Council May 28, 2003)

2005

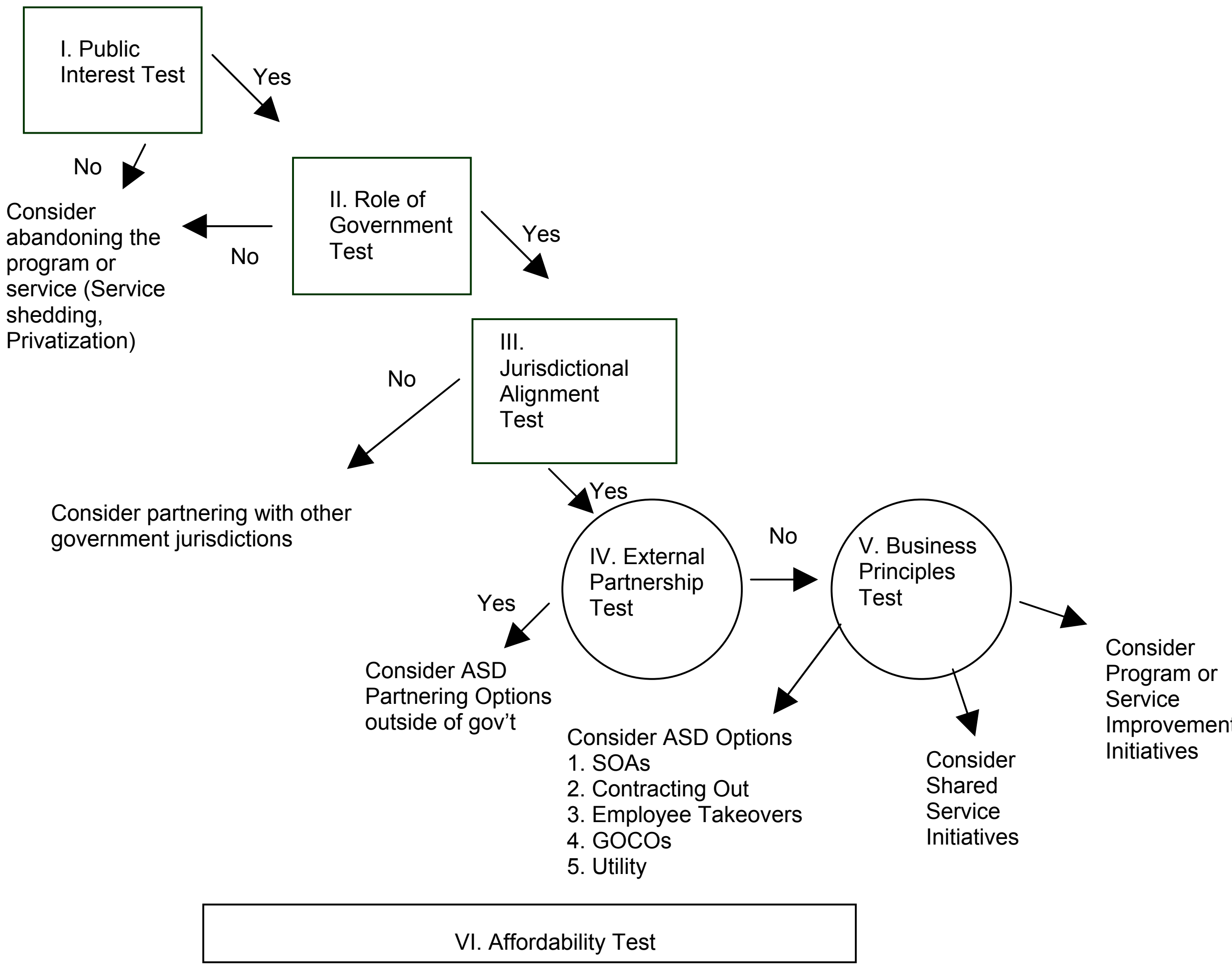
Jan 1, 2005

Winnipeg Parking Authority **

(Feasibility Study adopted by Council Dec 11, 2002; Selection Report adopted by Council Oct 27, 2004)

* Date adopted by Council
** All SOAs to date have had effective start dates of Jan 1; delays in the process may be partially due to the COO recruitment process following approval of the feasibility study

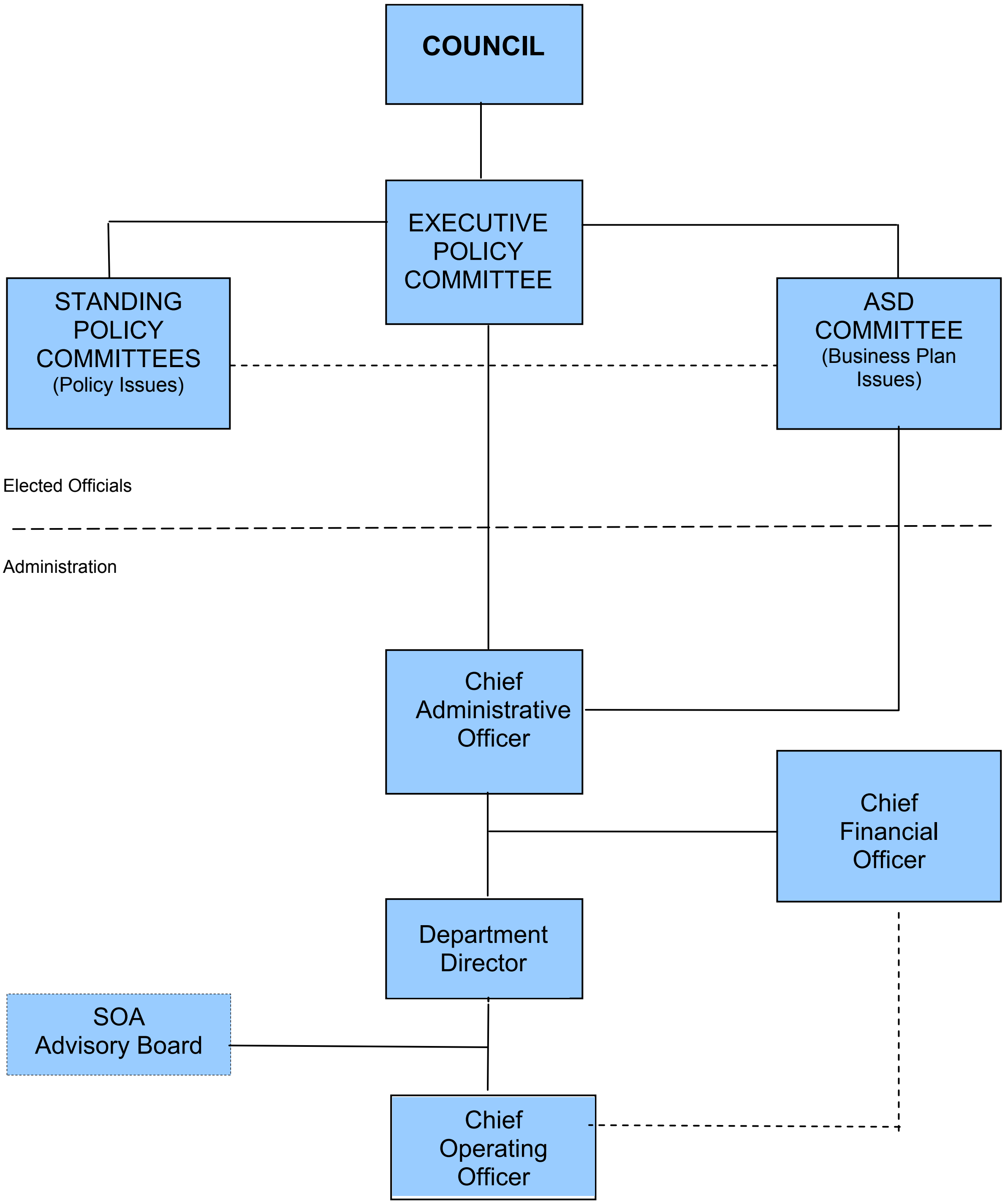
Appendix 2: ASD Decision Process



Tests	Key Questions
I. Public Interest Test	*Does the program/service continue to serve a public interest?*
II. Role of Government Test	*Is there a legitimate and necessary role for government in this program/service?*
III. Jurisdictional Alignment Test	*Is the current role of the municipal government appropriate?*
IV. External Partnership Test	*Could or should this program/service be provided in whole or in part by the private/voluntary sector?*
V. Business Principles Test	*If the program/service continues within the municipal government context, how could its efficiency and effectiveness be improved?*
VI. Affordability Test	*Is the program/service affordable within the current fiscal restraint? (consider lower levels of service, other funding sources and shedding of some or all of the program)*

Source: *Policy and Framework for Alternative Service Delivery in the City of Winnipeg* (Office of the Chief Administrative Officer February, 1998)

Appendix 3: Accountability Structure



Source: *Policy and Framework for Alternative Service Delivery in the City of Winnipeg*

***Note**: In 2004, the operating charters were amended so that SOAs report directly to the CAO or a delegate. Operationally there has been no change in reporting structure as the CAO proposed that existing reporting relationships through the Host Department Directors continue pending a review.*

Appendix 4: Roles and Responsibilities

Position	Roles and Responsibilities
Council	• Under the City of Winnipeg Act, has final decision authority relative to the Agency; includes, but is not restricted to, designation of the Agency and its operating charter, feasibility study and selection report, delegations of authority, and advisory board appointments • Receives annual reports as information to assess the Agency's performance and policy outcomes
Executive Policy Committee (EPC)	• On recommendation of the ASD Committee, reviews the Agency's plans, reports, and proposals • Recommends appropriate decisions by Council • Maintains a strategic oversight role
ASD Committee	• Responsible for providing corporate leadership of ASD initiatives, including SOAs • Has primary responsibility for the process that reviews and leads to the creation and approval of SOA plans, reports, and proposals by EPC and Council • Overriding concern is to assess SOA financial needs and implications • Maintains a broader role in evaluating the corporate benefits delivered by the SOA within the strategic context of the ASD
Standing Policy Committee (SPC)	• Reviews Agency plans, reports, and proposals on referral from or in conjunction with the review process through the ASD Committee (its comments are factored into analyses and recommendations forwarded to EPC and Council)
Chief Administrative Officer (CAO)	• Has executive management responsibility, in concert with Standing Committees, to provide policy advice, program and service direction concerning the effective management, operation, and performance of the Agency • Designates the chairperson of the Advisory Board • Provide an Annual Report to Council through ASD Committee
Chief Financial Officer (CFO)	• Directs Corporate Finance expertise that assists the Agency in its formation and ongoing operations
Department Head	• Monitors the Agency's management, operations, and performance relative to attainment of civic goals and departmental objectives • Assists the Agency COO in establishing effective and efficient working relationships within and outside the organization • Is an ex-officio member of the Advisory Board
Agency Head (COO)	• Accountable for sound management of the Agency in accordance with the highest public sector standards • Ensures the objectives and targets stated in the business plan are achieved • Responsible for managing the Agency planning and reporting processes • Is an ex-officio member of the Advisory Board and provides the board with business plans, activity reports, charter revisions and other proposals and information required for effective management and accountability
Advisory Board	• Provides advice on the Agency's strategic operations and on changes to its mandate, structure, business practices, and finances • Reviews and comments on the Agency's proposed business plans, annual reports and charter revisions

Source: Policy and Framework for Alternative Service Delivery in the City of Winnipeg

***Note**: In 2004, the operating charters were amended so that SOAs report directly to the CAO or a delegate. Operationally there has been no change in reporting structure since the CAO proposed that existing reporting relationships through the Host Department Directors continue pending a review.*

Appendix 5: Overview of Winnipeg's SOAs

	Animal Services	Glacial Sand and Gravel	Golf Services	Fleet Management Agency	Winnipeg Parking Authority*
Commenced Operations	January 1, 2000	January 1, 2001	January 1, 2002	January 1, 2003	January 1, 2005
Host Department	Community Services	Public Works	Planning, Property & Development	Public Works	Planning, Property & Development
Mandate	To promote, protect, and safeguard the health of the community by establishing and maintaining an urban environment which permits the City's human and animal populations to co-exist free of conditions which adversely affect the health, safety, and enjoyment of the community.	To supply users, on a competitive basis, aggregate products in a timely and cost efficient manner, both internal and external to The City of Winnipeg.	To manage and be accountable for maximizing the return on city-owned golf course assets.	To provide efficient and effective fleet, manufacturing and equipment management services to civic departments and other public organizations.	To manage and be accountable for city-owned public parking resources.
Nature of Services	Enforcement of Pound By-Law, Exotic Animal By-Law, Animal Care Act and provision of related services	Supply of granular products to civic departments, SOAs and external users	Supply of golf-related products and services	Supply of fleet and related services to civic departments, SOAs and external users	Enforcement of Winnipeg Parking Meter By-law and provision of off-street parking
2004 Assets	$84,000	$5,645,000	$23,698,000	$36,587,000	$13,255,000*
2004 Revenue including tax support	$1,966,000	$2,352,000	$2,658,000	$27,241,000	$11,217,000*
2004 Staff Complement	FTEs: 2 WAPSO 20 CUPE	FTEs: 1 Wapso Exempt 1 Wapso 9 CUPE 3 CUPE (summer students)	FTEs: 1 WAPSO Exempt 2 CUPE Seasonal: 51 CUPE	FTEs: 13 WAPSO 97 CUPE	FTEs *: 1 WAPSO Exempt 1 WAPSO 2 CUPE (1 vacant) 4 Parkade attendants 40 Commissionaires (under contract)
Transition Period	Five years ending December 31, 2004	Three years ending December 31, 2003	Three years ending December 31, 2004	Four years ending December 31, 2006	Three years ending December 31, 2007

*Winnipeg Parking Authority did not operate as an SOA in 2004. The information presented is for 2005 and is based on projections reported in their 2005 Selection Report.

Animal Services (designated as Winnipeg's first SOA effective January 1, 2000)	
Goals	Animal Services' goals are to • improve health and safety of neighborhoods; • improve customer service; • improve public image; and • be financially self-sustainable to the extent possible (significantly less reliance on mill-rate support).
Programs and Initiatives	Animal Services has introduced programs and initiatives such as • an adoption program to give strays a second chance; • a volunteer program to enhance the adoption program; • multi-year licensing; • expansion in the number of retail outlets that sell licenses; • enhanced education programs; • increased marketing; and • a revised fines schedule.
Financial Performance	• *City's Bottom Line*: Animal Services has cost the City $6,403,837 since inception. • *Financial Target:* Animal Services did not achieve its annual targets. At December 31, 2004, the accumulated deficit was $603,837 ($300,905 higher than the initially projected deficit of $302,932). • *Primary Financial Goal*: The primary financial goal is to be self-sustaining to the extent possible. Animal Services did reduce its reliance on the grant from the City's Community Services Department by $149,095 to December 2004. The SOA was unable to fully absorb the cuts to its support grant and accumulated a deficit of $603,837 over the period. • *Financial Performance*: Animal Services did improve its financial performance over the period by $149,095 ($450,000 grant reduction less the increase in the deficit of $300,905). Revenue (excluding the grant from the City) has more than tripled in five years, increasing from $301,348 in the year 2000 to $995,214 in 2004. Expenditures increased over the five years from $1,724,592 in 2000 to $2,007,680 in 2004 (16.4%). Annual losses from operations (excluding grants) decreased every year except 2001. The annual losses decreased from $1,406,225 in 2000 to $ 991,679 in 2004, a decrease of 29.5%.
Operational Performance	Animal Services is focusing on service enhancements including prevention, education and increased financial self-sufficiency through changes to the licensing fee and fine structure. Animal Services has achieved improvements in certain operational areas such as • number of active licenses sold increased from 16,500 in 2000 to 40,023 in 2004 (initial projections for 2004 were 50,000); • number of dog adoptions increased from 91 in 2000 to 179 in 2004; • number of impounded dogs decreased from 1,487 in 2000 to 1,275 in 2004; and • number of dogs euthanized decreased from 507 in 2000 to 269 in 2004. Animal Services did not, however, adequately monitor its customer satisfaction levels.
Other Observations	• Animal Services' actual expenditures were closer to the initial projections than were actual revenues to the initial projections. Overly optimistic initial revenue projections were reduced annually in subsequent business plans. • Grant from the City's Community Services Department was reduced from $1,250,000 received in each of years 2000 to 2002, to $1,100,000 in year 2003 and $950,000 in year 2004. • Animal Services' transition period expired on December 31, 2004, at which time Animal Services was to formally evaluate the Agency's effectiveness. To date, an evaluation has not been completed.

Glacial Sand & Gravel (designated as Winnipeg's second SOA effective January 1, 2001)	
Goals	Glacial Sand & Gravel's (Glacial) goals are to • be financially profitable; • mine aggregate resources in a responsible and prudent manner; • ensure a constant supply of various aggregate products; and • improve and promote customer service.
Programs and Initiatives	Glacial has introduced programs and initiatives such as • expanding its customer base; • repairing and making safety upgrades to equipment; and • installing a new truck scale.
Financial Performance	• *City's Bottom Line:* Glacial has accumulated a deficit of $954,000 (excluding tax recoveries from the City) from inception to Dec. 31, 2004. For the four years operations the City has purchased $4,442,000 in goods from Glacial. The net impact on the City for the goods purchased from Glacial and operating the SOA to date is $5,396,000. • *Financial Target:* Glacial did not achieve its annual targets, partially due to adverse weather conditions. At December 31, 2004, the accumulated deficit of $840,000 resulted in a ($1,040,000) variance when compared to the initially projected surplus of $200,000. • *Primary Financial Goal*: Glacial's primary financial goal is to be profitable. Glacial has incurred losses for three of its four years and accumulated a deficit of $840,000 ($954,000 less tax recoveries.) • *Financial Performance:* With the exception of 2003 where annual revenue peaked at $2,959,000, annual revenue has decreased from $2,667,000 in 2001 to $2,339,000 in 2004, a decrease of 12%. Annual cost of sales has steadily increased from $1,634,000 in 2001 to $2,351,000 in 2004 for an increase of 44%. Contribution margin is the difference between revenue and cost of sales. The annual contribution margin percentage has substantially decreased from 38.7% in 2001 to -0.5% in 2004; margins on sales, originally projected at 53% to 57% annually, are not being achieved.
Operational Performance	Glacial has achieved improvements in certain operational areas such as • operating modifications to enhance product movement and promote pit safety; and • extending hours of operation to better serve customers. Glacial does not have performance data by product including sales, cost of sales and contribution margins. This information is vital to the SOA in assessing the profitability of each product and in making production decisions. In addition customer satisfaction was not monitored.
Other Observations	• Upon establishing Glacial as an SOA, significant time, money and effort were expended as a result of not anticipating the extent of opposition from the industry at the prospect of Glacial competing directly with private companies. This was not resolved prior to commencing operations. • We found that Glacial did not carry out key elements of its original business plan. A critical success factor in Glacial's initial business plan was the purchase of a replacement high-production crusher necessary for producing higher-margin product which required financing to acquire. Glacial subsequently changed its focus away from crushed products resulting in the purchase of other equipment. This has resulted in significantly lower contribution margins than those expected in Glacial's original business plan. We have been advised that a review of business strategy options completed by Glacial in 2005 supported the early decision to vary from the original business plan. The review concluded that losses likely would have been greater had the original plan been carried out. • Glacial did not have adequate financial and operational information systems to monitor performance. Glacial received monthly general ledger data but the results were inaccurate or incomplete as significant accruals and inventory adjustments were typically only recorded annually. • Glacial does not have a specified authorized line of credit from the City of Winnipeg (General Fund) yet at December 31, 2004, it owed the City $1,157,000. • Glacial's transition period expired on December 31, 2003, at which time it lost its exclusive contract to supply aggregate to the City. The fundamental questions, such as whether or not there is a legitimate and necessary role for government in this business and whether it should be provided in whole or in part by the private sector, are still being considered. Glacial engaged consultants to re-evaluate its ASD options.

Golf Services (designated as Winnipeg's third SOA effective January 1, 2002)	
Goals	Golf Services' (Golf) goals are to • maximize the annual return to the City on golf operations; • ensure the long term sustainability of the City's golf course assets; • maximize revenue from green fees and associated services; • improve golf course playability; • provide high quality customer service; • ensure financial and environmental sustainability; • improve the image of municipal courses; and • administer contracts and leases for non-City operated courses.
Programs and Initiatives	Golf has introduced programs and initiatives such as • promotion of tournaments and special events; • provision of staff training on customer service; • increased marketing and promotion of municipal golf courses; • implementation of new turf maintenance practices; • implementation of natural environment management, preservation and control measures; and • golf course improvements.
Financial Performance	• *City's Bottom Line:* Golf has provided a net return to the City of $731,000 as at Dec. 31, 2004. • *Financial Target*: Golf did not achieve its annual targets. At December 31, 2004, the accumulated deficit of $601,000 was more than $ 400,000 higher than the initially projected deficit of $182,000. • *Primary Financial Goal*: Golf's primary financial goal was to maximize return on investment (ROI). Over three years, Golf returned $1,332,000 in tax equivalencies and ROI to the City, rather than the $1,505,000 expected. At the same time, Golf accumulated a deficit of $601,000. Profitability was not considered in determining the ROI to be paid to the City. • *Financial Performance:* Weather adversely impacted Golf's financial performance. Losses were incurred in all three years of operation. Annual revenue increased from $2,522,000 in 2002 to $3,156,000 in 2003 (+25%). In 2004, revenue decreased to $2,658,000 (-16%). Annual expenditures followed the same pattern, increasing from $2,660,000 in 2002 to $3,179,000 in 2003 (+15%). In 2004, expenditures decreased to $3,092,000(-3%).
Operational Performance	• Golf quantified certain operational targets such as rounds of golf played at their City operated and maintained courses (Kildonan Park, Windsor Park, Crescent Drive) as well as at their joint City/Contractor course (Harbour View). Due to adverse weather conditions, the number of rounds of golf played at these courses decreased from 138,308 in 2002 to 122,040 in 2004. Golf initially projected 172,669 rounds of golf at these courses for 2004. • Other than rounds of golf played, Golf did not adequately quantify or monitor operational targets or results. This includes monitoring customer satisfaction levels.
Other Observations	• Golf's Host Department, Planning Property and Development, advised that only general ledger data would be made available rather than the specialized report Golf has historically received. The COO has expressed concerns that this will cause difficulty in managing the operations. • Golf is setting its own fees through its selection report in contradiction with a City fee-setting by-law that continues to be in effect. We anticipate that this situation will be resolved soon with the assistance of Legal Services. • Golf's transition period expired on December 31, 2004 and the fundamental questions, such as whether or not there is a legitimate and necessary role for government in this business and whether it should be provided in whole or in part by the private sector, are being raised. Golf recently engaged consultants to re-evaluate its ASD options.

Fleet Management Agency (designated as Winnipeg's fourth SOA effective January 1, 2003)	
Goals	Fleet Management Agency's (Fleet) goals are to • increase customer satisfaction; • expand fleet services across internal markets; • increase employee satisfaction; • implement Life Cycle Cost Management; and • move toward a self financing operation.
Programs and Initiatives	Fleet has introduced programs and initiatives such as • introducing Life Cycle Management and methodologies; • making fuel site improvements; and • implementing environmental initiatives.
Financial Performance	• *City's Bottom Line*: Fleet has reported an accumulated surplus of $2,520,000 after two years of operation. Fleet has received $41,453,000 in revenue from the City and paid the City $533,000 in tax equivalencies. The cost of Fleet to the City for the first two years of operations was $38,400,000. • *Financial Target*: Fleet has surpassed its target for accumulated surplus for the first two years of operation. At December 31, 2004, the accumulated surplus of $2,520,000 was $2,204,000 greater than the initially projected surplus of $316,000. The sale of fleet vehicles was a significant factor in the amount of profit reported in both years. Disposal of fleet vehicles is part of the normal lifecycle management of the fleet, and the Agency's on-going operations. During 2003, however, a portion of the proceeds was related to the one-time disposition of surplus fleet vehicles. Fleet recognized proceeds of disposition of $1,575,000 in 2003 and $595,000 in 2004. None of this revenue was anticipated in the initial business plan. Excluding this revenue, Fleet's accumulated surplus at December 31, 2004 was $350,000, $34,000 higher than initially projected. • *Primary Financial Goal*: Fleet's primary financial goal was to move toward a self-financing operation. While reporting a profit, Fleet's long-term debt rose by $5,293,000 as at Dec. 31, 2004. The City is requiring an unplanned dividend to be paid in 2005 of $2,250,000 almost equal to the amount of surplus that was earned above the original projections. • *Financial Performance*: Fleet's financial results did not improve from 2003 to 2004. Excluding the proceeds of disposition from the sale of assets, Fleet recorded a profit of $614,000 in 2003 and a loss of $264,000 in 2004. Over the first two years Fleet revenue has been stable $27.24 million in 2004 compared to $27.4 million in 2003. Expenses have increased by 8.5% ($2.11 million) from $24.88 million in 2003 to $26.99 million in 2004.

Operational Performance	• Fleet has achieved improvements in certain operational areas such as
	  o downsizing the fleet by 29% (from 2,400 to 1,700 vehicles); and
	  o reducing the average age of light fleet vehicles from an average of 6.9 years to approximately 5 years (considered the optimum age of fleet) We have been advised by Fleet (just prior to publication of our report) that the optimum age of the light fleet is 7 years.
	• Fleet implemented a fleet management information system in 2003 and, although we were advised that a number of performance measures have been identified and are being measured in the new system, the performance targets and results have not been communicated in their annual reports.
	• Fleet has not measured the level of customer satisfaction to date.

Other Observations	• One of Fleet's goals was to expand fleet services across internal markets. This consolidation has not occurred and therefore the anticipated efficiencies have not been achieved in terms of minimizing the back-up fleet and taking advantage of economies of scale. Departments that continue their own fleet management service include Winnipeg Fire Paramedic Service (Heavy Fleet), Winnipeg Transit, Winnipeg Police Service and Water and Waste. There is evidence that Fleet has made efforts to consolidate fleet services not previously provided through the Public Works Department, but success to date has been limited. Further consolidation will require direction from Senior Administration. • Progress has been slow with respect to improvements in fuel management and distribution. There are serious concerns with respect to environmental compliance and the potential for theft of fuel because of poor controls in place at some fuel sites. The opportunity to reduce the overall number of fuel sites because of the close proximity of several fuel sites to another City-owned site has not been fully realized. • Fleet is economically dependent on the City of Winnipeg as it derives most of its revenue and all of its financing from or through the City. • The Equipment Replacement Reserve (ERR) consisted of funds contributed by Departments as prepayments for future fleet replacement. The former ERR was transferred to Fleet and recorded as long-term debt. As of December 31, 2004, the balance was $ 22,784,000. These funds are no longer accessible by Departments. Departments no longer make contributions to the former ERR and their funding has been reduced accordingly. The future of the former ERR is under review. Until the status of the ERR funds is determined some departments are concerned that they will have to pay for new vehicles through a leasing arrangement although they had already set aside funds in the reserve for the capital portion of the lease. • Utilization of funding from the City is not being monitored by the City in relation to its approved purpose. Operating funds as well as funding approved for capital purposes for Fleet are included in one general ledger account making it difficult to monitor usage. • Corporate Finance's Materials Management Branch has some concerns about how Fleet is interpreting and exercising its delegated purchasing authority such as o whether a request-for-proposal or request-for-quotations is needed for every purchase above $5,000 or only above the COO's delegated authority; o whether COOs have the authority to contract for multiple years given only current year budgets are being approved annually; and o under what conditions sole-sourcing is permitted. • Fleet does not have lease agreements with their customers. They expect to have them in place by the end of 2005 pending the resolution and approval of a financing arrangement for vehicle replacement. (Just prior to publication or our report Fleet has advised that lease agreements should been in place by the end of March, 2006) • Fleet's transition period was extended from three to four years, expiring on January 1, 2007. Fleet's customers are not permitted to choose other service providers before the end of the transition period.

Winnipeg Parking Authority (designated as Winnipeg's fifth SOA effective January 1, 2005)

Goals	Winnipeg Parking Authority's (Parking) goals are to • provide an efficient, responsive and exemplary on- and off-street, short- mid- and long-term public parking resource; • provide an efficient and responsible off-street, short- mid- and long-term parking resource for municipal employees and vehicles; • provide guidance and advice to City staff, development agencies, and other organizations on parking issues; • cooperate with, and use parking resources in support of client organizations, agencies, partners, and stakeholder associations; • optimize the operational and financial performance of parking facilities so as to deliver service excellence; and • provide exemplary service standards in all customer and client transactions.
Planned Programs and Initiatives	Parking is planning to introduce programs and initiatives such as • working with fees, timing and pricing of services, in association with other packages and promotions as a demand management and supply optimization tool; • improving and expanding services where practical while reconfiguring its off-street operations; • addressing deferred security, maintenance, and equipment obsolescence as part of its annual maintenance budget; • renewing enforcement technologies with resultant reorganization of business practices; and • addressing on-street metering requirements.
Projected Financial Performance	• Parking is projecting a deficit of $89,190 at December 31, 2005. • Total revenue for 2005 is projected to be $11,217,410. • Total expenditures for 2005 are projected to be $11,306,600.
Operational Performance	• Parking conducted a limited customer survey in its first two months of operation as an SOA (February 2005).
Other Observations	The COO of Parking has received additional delegated authority with respect to the City of Winnipeg's Materials Management Policy. While the COO has the authority to award contracts up the $150,000 (this is consistent with the Director of the Host Department and the other SOA COOs). The COO has also been delegated the authority to approve single source purchases up to $100,000 and award multi-year contracts that do not exceed $150,000 and 5 years. At December 31, 2005, Parking's recorded accumulated deficit is projected to be $89,190 after charges for departmental support services, general government services, interest, accommodations, tax equivalencies and a return on investment (dividends). Tax equivalencies recorded on the audited financial statement are to approximate the amount of taxes payable if Parking was subject to taxes. In 2005, Parking is projecting to return $5,182,000 in tax equivalencies and dividends, resulting in a net benefit of $5,092,810 to the City.

Appendix 6: Summary of Audit Recommendations

As a result of our audit work, we are making seventeen recommendations that we believe, once implemented, will enhance the value received from the City of Winnipeg's SOA initiative:

Recommendation 1
The results of all six tests in the ASD decision process should be thoroughly analyzed and documented at the outset of the evaluation process conducted to establish SOAs.

Recommendation 2
When evaluating a change in structure, appropriate consideration must be given to determining why desired benefits and changes were not achievable within the existing organizational structure. The business case for changing the structure by which a service is provided must be complete, balanced and fully documented.

Recommendation 3
To be able to assess the reasonableness of projections and measure performance, key components must be included in SOA business plans. These components include

- current baseline data;
- support for assumptions;
- an understanding of customer service levels;
- plans to change product mix or method of service delivery;
- capital requirements for infrastructure; and
- quantified operational performance measures.

The description of transfers for tax equivalency charges and return on investment (ROI) should reflect the economic substance of the transaction.

Recommendation 4
Potentially conflicting objectives need to be identified in the SOA business plans and guidance provided to the agencies on the process for resolution.

Recommendation 5
Transfers of assets, liabilities, debt and equity to SOAs should be documented in transfer agreements. The rationale for debt and equity decisions as well as the corresponding repayment terms should be provided.

Recommendation 6
The discussion and disposition of issues arising from the review of feasibility studies and SOA business plans should be fully documented by the Administrative ASD Committee.

Recommendation 7
The revised process for establishing SOAs should be monitored to ensure that realistic deadlines are established and adhered to.

Recommendation 8
Individual SOA budgets should be approved prior to or concurrently with the City's Operating Budget. As City agencies, the 'continuity of service' clause should apply to all SOAs.

Recommendation 9
SOA profitability and accumulated surpluses should be considered when determining ROI transfers to the City.

Recommendation 10
Budgeted revenue, expenditures and FTEs for SOAs should be included in the City's Operating Budget with any overall surplus or deficit addressed accordingly.

Recommendation 11
Capital requirements for SOA infrastructure should be included in the City's Capital Budget.

Recommendation 12
Budgeting processes, ROI and annual reporting requirements, and transition period protocols should be clarified in the SOA operating charters. Quarterly or semi-annual reporting should be required under specified conditions. City policies should apply to SOAs except where specifically exempted and explained in their operating charters.

Recommendation 13
Designated responsibility for monitoring the performance of each SOA and COO must be clarified and adhered to in accordance with the operating charter. Senior Administration must be responsive to issues identified through the monitoring and reporting processes.

Recommendation 14
All SOAs that utilize lines of credit from the City of Winnipeg should have specified authorized amounts. Balances should be monitored by Corporate Finance in relation to both the authorized amount and approved purpose. Processes should be in place to immediately identify and address exceeded lines of credit and non-compliance with the approved purpose of funding.

Recommendation 15
Initial and incremental costs of operating under an SOA structure must be tracked and quantified to ensure that funds invested are warranted in relation to the benefits received.

Recommendation 16
The CAO should prepare an annual report to the ASD Committee and Council that evaluates the overall performance of the SOA initiative including financial and operational results, costs and benefits, and significant issues identified and resolved.

Recommendation 17
The CAO should report to the ASD Committee and Council on options for the current SOAs, benefits realized from the SOA initiative to date and an action plan for applying lessons learned to the departmental structure as well as broadening the SOA initiative to include new services in the future.