

**Community Planning and Economic Development
November 14, 2013**

TO: Chair and Members of Community Planning and Economic Development

SUBMITTED BY: Original signed by
Jennifer Church, Government Relations and External Affairs

DATE: November 14, 2013

SUBJECT: Economic Development Governance Structure

ORIGIN

April 20, 2010, Halifax Regional Council directed staff to consider the optimal governance structure for agencies within Halifax Regional Municipality who are performing an economic development function, with respect to the new Economic Strategy that was being undertaken. The goal being an organizational and governance model best suited to the strategies described in the Economic Strategy, and that information be brought back to Council for consideration pending the Council endorsement of a 2011-2016 Economic Strategy.

April 9, 2013, Halifax Regional Council requested staff to:

1. Review the Auditor General's Report and its recommendations;
2. Meet with the Greater Halifax Partnership, Destination Halifax and others involved in Economic development to consider the report and its recommendations in detail; and
3. Determine an effective review process for the Auditor General's Report beginning with the involvement of the Community Planning and Economic Development Standing Committee and making recommendations and setting priorities for further action.

LEGISLATIVE AUTHORITY

Pursuant to sections 71(1) and 79(1) of the Halifax Charter, Council has legislative authority to expend money in support of economic development in the municipality.

RECOMMENDATIONS

It is recommended that the Community Planning and Economic Development standing committee recommend that Regional Council:

1. Endorse the remaining responses to the Auditor General's report on economic development as articulated in attachment 11;
2. Accept the Statement on Economic Development in attachment 2,
3. Endorse the current arms-length development model approach to agencies performing economic development and tourism functions in HRM;
4. Endorse the current configuration of economic development and tourism agencies in HRM, assigning Destination Marketing Organization (DMO) functions to Destination Halifax and Economic Development Organization (EDO) functions to Greater Halifax Partnership;
5. Direct closer collaboration between the Greater Halifax Partnership and Destination Halifax as described in the discussion section of this report;
6. Endorse the continued oversight and governance of the Greater Halifax Partnership, Destination Halifax, and the Business Improvement Districts by means of Service Agreements, supplemented where appropriate by Memoranda of Understanding; and
7. Endorse the continued development of outcome measures, tied to the 2011-2016 Economic Strategy, where appropriate, for agencies performing an economic development and tourism function on behalf of HRM.

BACKGROUND

The intent of this report is to:

- Articulate HRM's economic development mandate to provide appropriate focus, scope and direction to HRM's economic development approach;
- Identify programs, services and activities associated with economic development that are funded or otherwise supported by municipal resources;
- Review how programs and activities are currently delivered in relation to established mandate, policy and economic development direction; and
- Recommend appropriate governance and delivery models that facilitate alignment of programs, services and activities with HRM's economic strategy and corporate priorities.

This report examines HRM's existing economic development framework in order to better understand what is working well, what needs improvement and if there are opportunities to better position the municipality to capture new investment and foster growth. It speaks to the governance structures and processes that are in place to govern HRM's economic development activities.

A review of the existing framework was undertaken to identify the main stakeholders actively involved in the promotion of economic prosperity. This review included gathering information on each organization's origins, mandate, organizational structure and governance, legal relationships with HRM and sources of funding. This review was informed by multiple consultations with senior staff members of these organizations. Extensive research into economic development in other jurisdictions was also undertaken to understand the economic development structures of other municipalities, identify trends in economic development across Canada and help discern whether other models might better serve HRM's economic development objectives. This report is also informed by extensive consultation with Community Planning and Economic Development (CPED) Standing Committee regarding the nature of economic development and HRM's role in facilitating economic development. Finally, the Auditor General's report "Economic Development through Partnerships – A Performance Evaluation" and its recommendations and reflections were considered in the development of this report.

The process of governance review originated in April 2010 with a motion of Council directing staff to consider the optimal governance structure for agencies performing an economic development function. The Auditor General's report was released in February 2013. The CPED review of HRM's role in economic development took place over the spring and summer of 2013.

DISCUSSION

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1.0 Executive Summary

Task – At meetings in 2010 and 2013, Regional Council directed staff to

- consider the optimal governance structure for the economic development strategy for agencies within HRM performing an economic development function, and
- develop a process, with CPED, to review the Auditor General’s report on economic development and in conjunction with GHP and DH consider the report in detail.

Findings – What is working? What needs improvement? To answer these questions, staff:

- gathered information on HRM’s economic development organizations,
- researched how other jurisdictions support economic development,
- identified trends in economic development support practice across Canada,
- consulted CPED on the nature of economic development and HRM’s role,
- considered the AG’s report on Economic Development and its recommendations.

Purpose of Economic Development Activities

- HRM does economic development work to increase the economic & social well-being of citizens.
- HRM’s economic growth objectives include growth in population, employment & income levels and business tax base.

HRM’s Role in Economic Development

- Successful economic development requires an integrated and collaborative approach.
- HRM can support economic development work by acting itself, facilitating the work of others or collaborating with others.

Current Activities and Structures

- HRM has significant legislative latitude regarding economic development.
- The Council approved 2011-2016 economic strategy guides HRM’s economic development work.
- HRM’s economic development activities are carried out by HRM itself and its partners.
- Council’s economic development objectives and the activities of HRM’s partners are well aligned.
- HRM’s economic development agencies need clear roles, expectations and links with HRM priorities.
- service agreements can provide the direction needed by arms-length agencies.
- Continuing work on economic development outcome measures will continue to improve alignment between the objectives in the economic strategy and the activities of the organizations HRM supports, GHP, DH, and the BIDs.

Jurisdictional Review

- Staff reviewed how 10 other municipalities deliver economic development services.
- HRM uses arm's length agencies for economic development like many other municipalities and works with separate DMO and EDO agencies as do most other municipalities. HRM's approach is a common and effective one.

AG's Report

- Staff have reviewed and begun to implement the report's recommendations.
- The report highlights the need for HRM to focus its economic development activities better.
- Staff suggest that GHP and DH would benefit from closer collaboration but would gain little from merging.

CPED Discussion

- CPED discussed 5 economic development questions, including what is economic development, how should it be supported, led, worked on collaboratively and measured.
- CPED's responses to the questions have helped shape this report

Analysis

- The report analyzes delivery models for economic development support, a possible GHP/DH merger, accountability frameworks, implementation of the economic development strategy and outcome measures.
- The report contains recommendations on the foregoing issues.

2.0 Purpose of Economic Development Activities

The municipality undertakes economic development activities in order to increase the economic and social well-being of its citizens. Economic development activities include particularly those activities that aim to realize the economic growth objectives of population growth, employment and income level growth and growth in the business tax base.

3.0 HRM's Economic Development Role

Nova Scotia municipalities do not have the authority to carry out all the actions which could be part of an overall economic development program. Successful economic development requires an integrated and collaborative approach.

HRM can support economic development in three broad ways, by acting, facilitating and collaborating:

Act: HRM has over 3700 employees and an annual budget of almost \$1 billion. HRM is governed by the Halifax Regional Municipality Charter which permits HRM to undertake a variety of actions in support of economic development (described in Attachment 3) and which permits HRM to undertake a wide variety actions that affect economic development.

The following municipal activities facilitate economic development:

- provide the infrastructure, services and amenities needed for development
- engage and include residents in development support activities
- plan and regulate for best use of HRM's assets, both natural and manmade, including through land use planning and a municipal planning strategy
- ensure that residents are safe and secure
- look after the environment so that HRM is a good place for people to live
- link economic development support activities to social development ones
- promote the municipality as a destination for doing business (business attraction)
- connect businesses to available programs and services within or outside the municipal government
- support labour market development
- preserve and make available land for industrial uses e.g. business parks
- promote the municipality as a tourist destination

Facilitate: HRM can also facilitate, or hinder, economic development. Finding the right balance between regulating, to keep residents safe and healthy, and minimizing red tape is key to creating a business climate that encourages development. The climate created by HRM's legislative and regulatory frame work (the Regional Plan and land use planning bylaws, other bylaws, administrative orders or policies) impacts our capacity to attract businesses and residents. Likewise, our effectiveness in governing the municipality impacts HRM's attractiveness to site selectors and potential immigrants. How HRM works will impact how well HRM develops.

Collaborate: Some aspects of responsibility for economic development lie outside HRM's direct scope of authority – they instead lie with either the Province of Nova Scotia or the Government of Canada. Reaching HRM's economic development goals requires intergovernmental collaboration. Activities of local public sector partners such as the Atlantic Canada Opportunities Agency, Nova Scotia Business Inc., and the Nova Scotia Department of Economic and Rural Development and Tourism can drive economic development priorities. Likewise, national and provincial economic growth agendas such as the Government of Canada Economic Action Plan, Gateways and Trade Corridors, the National Shipbuilding Strategy, and provincial economic development strategies can impact intergovernmental cooperation on economic development.

Collaboration is also imperative in the context of community partners such as non-governmental organizations (NGOs), the Chamber of Commerce, community associations and growth leaders such as the Halifax International Airport Authority, Halifax Port Authority, post-secondary institutions, and hospitals. Collaboration with HRM's semi-autonomous economic development partner agencies will also be critical to municipal economic development.

4.0 Current Activities and Structures

HRM has significant legislative latitude regarding economic development. HRM's economic

development work is guided by the Council approved Economic Development Strategy which assigns economic strategy action plan implementation to HRM business units and to GHP. Council impacts the economic strategy through focus areas and priority setting exercises, community policy implementation (i.e. Regional Plan, Cultural Plan, Economic Strategy), and development of the annual budget and fiscal policy. HRM administration implements economic strategy through business plans, service delivery, and operational outcomes.

4.1 Economic Strategy

HRM's 2011-2016 Economic Development Strategy was developed by the GHP on behalf of HRM and endorsed by Regional Council in March of 2011. Over 330 stakeholders participated in two rounds of consultations. The result is a document that provides a blueprint for economic development in the municipality.

The economic strategy proposes action on multiple fronts. Each of the economic strategy's overarching goals includes actions to support the goals and outcomes against which progress may be measured. The strategy's four strategic goals are: (1) Regional Centre; (2) Business Climate; (3) International Brand; and (4) Growth Maximization.

4.2 Economic Development Partners

HRM's economic development activities, including implementation of economic strategy actions, are carried out both by HRM itself and by a number of partner organizations. HRM's current economic development landscape has evolved over the past 29 years. Economic development in HRM mostly follows an arms-length development model with delivery of economic development activities resting largely with autonomous organizations. Management of business parks and some coordination of those HRM activities which most affect economic development are conducted 'in-house'. Destination Halifax (DH), Greater Halifax Partnership (GHP) and the Business Improvement Districts (BIDs) all operate as arms-length entities.

Staff developed organization profiles for the following key economic development partners:

- Greater Halifax Partnership (GHP)
- Destination Halifax (DH)
- Business Improvement Districts (BIDs)

These organizations were profiled because of their close alignment with the municipality. The organizations are autonomous, but most have contractual agreements with HRM and all receive financial support from HRM. The agencies chosen for detailed profiling were identified in the original Council motion directing staff to review agencies' governance structures.

Each organizational profile includes details on origins, mandate, structure and governance, legal relationship, and financial status.

4.3 Partners' Alignment to Strategy

Table B (see Attachment 5) summarizes the alignment of GHP, TCL, DH and BID activities with HRM's economic strategy outcomes. Although HRM Regional Council is responsible for setting policy for the municipality and responsible for delivering municipal services, these arms-length economic development organizations inform the discussion and help to shape the municipality's approach.

As the table suggests, there is a relatively high degree of alignment between Council articulated economic development objectives and the mandates and activities of these organizations. To the extent that there is disconnect, that disconnect can partially be attributed to scope of operations.

A narrowly defined mandate could suggest misalignment between the organization's activities and economic development objectives identified by Council. It would be more accurate to say that the entity is aligned, but only in so far as its mandate maps onto the objectives articulated. While this is a fine distinction, it is an important one to make. Neither TCL nor DH is operating at odds with the municipal mandate – rather their operations are restricted to a narrow segment of the range of activities that support HRM's economic development objectives.

Of the four entities, GHP currently has the highest degree of alignment with HRM's economic strategy outcomes. This is due not only to GHP's status as the primary delivery agent of economic development activity for HRM but also to the breadth of activities GHP undertakes. GHP is a generalist organization and has multiple focuses. By contrast, DH and TCL have much more restrictive focuses. They are effectively specialists in their realms of economic development.

4.4 Gaps

Expanding the scope of operation for HRM's arms-length economic development organizations is valuable only in so far as it is necessary to address gaps. Where there are no appreciable gaps, expanding scope may be of questionable value. A review of Table B suggests that the "gaps" in coverage relate mostly to areas of concern that are inward focused and within the purview of HRM itself (e.g. development of Strategic Infrastructure Investment Plan, update of Transit Plan, issuance of building permits, construction approval speed and mayoral advisory committee). These are matters internal to HRM, and thus not really amenable to the involvement of arms-length entities like GHP, TCL and DH.

4.5 Partners' Roles

HRM's relationship with its arms-length economic development agencies is best served by clearly defined roles, expectations and points of integration with HRM priorities. Although progress has been made in regards to role clarity, additional progress can be

made in terms of implementing an integrated strategy for leveraging the capacity of its external economic development partners.

The priorities and activities of each partner agency are driven by their respective mandates, individual Boards and business plans. Arms-length economic development entities are independent and loyal to their respective stakeholder interests – interests which may or may not coincide with HRM’s development interests. While this independence is a strength, it may also presents challenges for HRM in achieving its economic development mandate.

4.6 Accountability Framework

Greater Halifax Partnership: GHP has recently entered into a renewed Service Agreement with HRM. Under the terms of the contractual relationship, GHP is responsible for clearly articulated deliverables. These deliverables correspond directly to the development objectives set out in the 2011-2016 Economic Strategy. HRM funding is linked to measures defined in the agreement. Ongoing reporting to Council is mandated and the agreement is subject to renewal on an annual basis. This contractual arrangement has evolved over the past three years and will continue to evolve as the municipality develops greater familiarity with this governance approach. HRM’s 2013-2014 contribution to GHP is budgeted at \$1.57 million.

As noted above, GHP is closely aligned with the municipal economic development objectives endorsed by Council. This has been achieved using the current configuration of economic development entities.

GHP has become a recognized leader in developing a private/public economic development organization, with cities from across the country and around the world seeking advice on building a similar model. GHP has been the recipient of numerous national and international economic development awards and recently achieved standing as an accredited economic development organization by the International Economic Development Council member organization. This recognition reinforces the conclusion that the current configuration is working well.

Business Improvement Districts: HRM’s Business Improvement Districts are governed by service agreements that define the parameters of BID operations, but allow the BIDs considerable latitude in terms of mandate and operations. In light of the fiduciary relationship between area rate levy rate payers and the municipality, a measure of BID accountability is necessary. Per the terms of a Service Agreement, BIDs report annually on their activities and submit budgets to Council for approval. BID area rate levies for 2013/2014 are budgeted at \$2,047,400 for all BIDs. These levies range from a high of \$267,300 (Downtown Halifax Business Commission) to a low of \$73,200 (Spryfield and District Business Commission). In addition, \$106,000 is budgeted in 2013/2014 for discretionary grants from HRM to BIDs.

Despite the latitude afforded to the BIDs, Table B (attachment 5) reveals significant alignment of BID activities with HRM's development objectives. BIDs can and do play an advocacy role on behalf of the business community. In this regard, they may not always align with municipal interests. This, however, is in and of itself a valuable asset. BIDs act as an independent touchstone for gauging business climate.

Destination Halifax: Destination Halifax (DH) was created in April 2002 through a merger of the Greater Halifax Conventions & Meetings Bureau and the tourism marketing arm of the Halifax Regional Municipality Tourism, Culture & Heritage Department. A 60% share of the hotel marketing levy forms the majority of Destination Halifax's funding. The levy is collected by HRM under the authority granted it to do so by the province through the Halifax Regional Municipality Marketing Levy Act. Destination Halifax currently operates independently of HRM and has no formalized accountability to the municipality. The DH-HRM working relationship is loosely governed by an MOU with a third party, the Hotel Association of Nova Scotia (HANS). The 2001 MOU defines broad parameters of a partnership which led to the creation of DH as a destination marketing organization. This scenario is problematic given the fact that the Hotel Association is the signatory to the MOU (as opposed to Destination Halifax itself being the signatory). Destination Halifax has submitted business plans and budgets. In 2013/2014 DH's portion of the marketing levy was budgeted at \$1,985,600. HRM also provides DH with an annual operating grant which in 2013-2014 was budgeted at \$386,000.

As articulated previously, DH's activities do generally align with HRM's stated development objectives, but they do so, on a narrow basis.

DH itself has indicated that HRM's service delivery expectations are unclear. This may, in some measure, be due to HRM's lack of an articulated position on tourism and destination marketing. Brand development is an economic strategy objective. The extent of DH's role in that branding exercise is not yet clear. It is also not clear to what extent that economic-strategy-brand is distinct from a tourism and destination marketing brand. A Service Agreement similar in scope and intent to that entered into with GHP could introduce much needed clarity. A service agreement is in advanced stages of development is expected to be brought forward to CPED in December 2013.

Trade Centre Limited: A 1982 MOU between City of Halifax and the Province established HRM's payment of an annual operating subsidy toward WTCC operations and stipulated that TCL would manage the Metro Centre. Economic development objectives are not articulated in the MOU and the MOU is not subject to renewal or periodic review. Given the recent developments regarding Ticket Atlantic operations, recommendations of the Auditor General and directives of the Audit and Finance Standing Committee, HRM and TCL have negotiated an interim management agreement for the operation of Metro Centre. This interim management agreement has been

approved by both Council and the TCL Board. HRM is working with the Province of Nova Scotia on governance issues related to the new convention centre. The 2013/14 budgeted operating subsidy from HRM to TCL was \$626,000.

4.7 Outcome Measures

Greater Halifax Partnership Outcome Measures: In the development and updating of HRM's economic strategy, efforts were made to align GHP's business plan with the strategy. Updated outcome measures, tied directly to the 2011-2016 Economic Strategy, have already been introduced into the GHP-HRM Service Agreement. While this approach is relatively new, the experience to date has been positive. Although not all deliverables may be achieved, HRM's relationship with GHP, has benefitted from the role clarity introduced by integrating performance metrics into the Service Agreement. GHP has also developed the Halifax Index as a means of tracking HRM's economic development progress, using a range of indicators, many of which map onto the list of metrics used by other Consider Canada City Alliance¹ economic development organizations. These outcome measures will continue to be refined over time.

Destination Halifax Outcome Measures: HRM currently lacks performance metrics for Destination Halifax. These outcome measures are being developed in tandem with the drafting and signing of a Service Agreement. Staff have drafted a Service Agreement for Destination Halifax. Pending Council's endorsement of staff's recommendation to not merge DH and GHP, the DH Service Agreement will be put forward for Council's consideration. The draft Destination Halifax Service Agreement incorporates outcome measures that can be adjusted on an annual basis as required. This model maps onto the approach taken with GHP.

Business Improvement Districts Outcome Measures: Where Business Improvement Districts are concerned, per the terms of a Council approved Service Agreement, BIDs report annually on their activities and submit budgets to Council for its approval. BIDs are also accountable to their membership (i.e. area-rate--paying commercial property owners within each respective BID and their commercial tenants). This combination of area rate payer and Council scrutiny of outcomes will help to ensure that BIDs, despite being arms-length entities, are acting to further economic development as articulated in the enabling legislation that permits their formation. Given the autonomy of BIDs a fluid, self-directed approach to outcomes is appropriate.

5.0 Jurisdictional Review

5.1 Role Definition

¹Formerly called the C11, the Consider Canada City Alliance represent the economic development agencies of Canada's largest cities; Toronto, Montréal, Vancouver, Ottawa, Calgary, Edmonton, Halifax, Québec City, Winnipeg, Waterloo Region and Saskatoon.

A review of Consider Canada City Alliance jurisdictions is instructive regarding economic development services delivered by economic development entities on behalf of municipalities (see Table A, attachment 4). Business and investment attraction, business retention and expansion, economic development marketing, and cluster/sector development were heavily represented in the survey. Marketing is more ambiguous. Although seven (7) of the eleven (11) agencies were involved in attracting international events, only two (2) show tourism as within the economic development mandate. Differentiation is common in the case of tourism and destination marketing activities.

5.2 Economic Development Trends

Municipalities are increasingly looking at their economic development frameworks to improve the effectiveness of their services. One of the questions being considered is how to achieve better coordination between economic development and planning functions.

A number of nation-wide municipal economic development trends emerged in the review:

- While municipalities may not have a direct mandate for economic development they are, nevertheless, frequently involved in either an enabling or a coordinating role across many economic development functions.
- Municipalities are highly involved in business attraction, business expansion and retention, employment, land and community development. They also play a role in labour market development, marketing, infrastructure, quality of life initiatives, data collection and dissemination, research, policy development, policy review and accessing funding from upper levels of government.
- Business associations and business improvement districts are active in economic development and focus primarily on business expansion, business retention and marketing. In some instances they play an active role in research and policy.
- Post-secondary institutions play a key role in labour market development as well as research, data collection, policy development and review as well as improving the quality of life in the region. It is recognized that they play a very important supportive (and sometime direct) role in the economic development of the community. Some municipalities are active in cluster development with a specific focus on small & medium sized businesses. Activities generally focus on either practical assistance for these groups or research and contributions to site selection initiatives.

5.3 Delivery Models

Canadian municipalities use a variety of economic development models to achieve their economic development objectives. These can be broadly classified into three (3) economic development models:

In-House: Some municipalities employ a municipal development model (essentially doing all or most economic development “in house”). It ensures strong connections between the associated planning, public works/ infrastructure and other municipal departments. As part of their economic development portfolio, the team may also deal with Council directed priorities such as brownfield redevelopment, industrial land development and small business supports.

While some jurisdictions have created business units internal to the municipality to deal directly with economic development, they are the exception rather than the rule. Of the eleven (11) Consider Canada City Alliance group of municipalities reviewed for this report, only one (2) municipalities configured its economic development entity as an internal unit (see Table C, attachment 6) and even these two municipalities organized some of their economic development activity through external agencies.

Advantages of this approach include better integration of economic development activities into other aspects of municipal operations such as planning and transportation. On the other hand, this approach may increase susceptibility that economic development priorities be subsumed by other municipal priorities. It may be more difficult to engage the private sector with such a model of economic development.

Arms-Length: While significantly supported by government, arms-length development agencies remain semi-autonomous and employ a corporate management structure. Funding is typically received from the area municipality, potentially other levels of government and contributions from the private sector.

Six (6) of the eleven (11) Consider Canada City Alliance municipalities reviewed use arms-length relationships (see Table C, attachment 6). This is by far the most prevalent delivery model used in major Canadian cities.

By virtue of their having a degree of separation from administrative/political matters generally associated with the public sector, the nimbleness and ability of these organizations to mobilize membership, raise awareness of key issues and to move swiftly in the pursuit of opportunities or to address perceived threats is an asset. Having a high degree of private sector participation and leadership in developing and executing economic strategies adds credibility and influence to the overall approach.

Hybrid: This model combines elements of both the purely arms-length and public models. The private sector is engaged through an advisory board usually comprised of senior elected officials as well as business leaders. The purpose of the board is to provide strategic direction on economic development matters and to assist in the marketing and attraction activities. Public servants remain responsible for day-to-day management. Given that the economic development function remains within the municipality, it enjoys

the advantage of being integrated within the other supporting departments.

Hybrid arms-length/public models are marginally more prevalent than in-house configurations, with three (3) out of eleven (11) Consider Canada City Alliance municipalities opting for this delivery model (see Table C, attachment 6). While this model has the advantage of private sector input, it lacks some of the flexibility that a full autonomous agency generally enjoys, including a higher degree of responsiveness to private sector interests.

The classification above helps to understand the overall picture of economic development models across comparator cities. There is some nuance to and variation on the models in different jurisdictions (e.g. cities with arms-length economic development organizations may have some economic development expertise in-house and vice versa) but these classifications indicate the predominant model. Pros and cons of these models are highlighted in Attachment 7.

5.4 Outcome Measures

A review of Consider Canada City Alliance municipalities' development agencies provides insight into performance metrics usage. There is a fair degree of diversity among metrics used by the Consider Canada City Alliance agencies (see Table D, Attachment 9). Job retention figures, dollars leveraged, data information/assistance requests processed, and investment leads facilitated top the list. Each of these metrics garnered a response rate of between eight (8) and nine (9). Beyond these metrics, however, the commonality is lost. Other metrics used garner only a response rate of six (6) or fewer – or roughly half of the respondents. Undoubtedly this is related to differences in terms of operational mandates.

These data suggest highly individuated performance measures tailored to the respective agencies. No universal performance measure is being used to gauge economic development agency performance. HRM, in developing its own performance measurement framework should apply metrics unique to the agencies in question and the objectives articulated in individual Service Agreements.

6.0 Auditor General's Report

The Auditor General report, "Economic Development through Partnerships – A Performance Evaluation", released in February 2013 is a high level analysis of the development, various funding levels, execution and achieved economic outcomes of HRM's economic strategies, with a primary focus on GHP and DH. The report contains 21 recommendations on economic development issues, approaches, and governance. A detailed accounting of the status of the HRM response to these recommendations can be found in Attachment 11. As of the writing of this report, 13 of the 21 AG recommendations have been implemented. The 8 outstanding AG recommendations are currently under consideration or actively being implemented. A number of

the recommendations and more general considerations from the AG's report, such as the possible merger of GHP and DH, are explored in this report.

❖ ***Recommendation One***

Endorse the responses to the Auditor General's report on economic development as articulated in attachment 11.

7.0 Community Planning and Economic Development Discussions

In December of 2012 Regional Council set "economic development" as one of its four priorities. In February 2013, the Municipal Auditor General's report titled Economic Development through Partnerships – A Performance Evaluation was released. The AG's report underscored the importance of economic development to HRM's future prosperity. In light of these developments, Government Relations & External Affairs undertook a comprehensive review of HRM's approach to economic development. GREA staff proposed that the Community Planning and Economic Development (CPED) Standing Committee consider five questions related to economic development:

- What is economic development?
- How can HRM best support economic development?
- Who should lead HRM's economic development activities?
- How should HRM work with others on economic development issues?
- How will HRM know if its economic development activities are successful?

In the spring and summer of 2013, CPED discussed these five questions. Highlights of that discussion are attached in Attachment 2. The Standing Committee's feedback and commentary has been incorporated into this governance review.

❖ ***Recommendation Two***

Endorse the Statement on Economic Development in Attachment 2

8.0 Analysis

8.1 Delivery

Model

Of the Consider Canada City Alliance municipalities reviewed by HRM staff, most use an arm's length configuration for their primary economic development organization (see Table C, attachment 6). In general, arms-length economic development organizations provide a municipality with more flexibility regarding economic development activities and an improved ability to leverage funds from other partners. An arms-length configuration also allows for better engagement of the private sector. The drawbacks to an arms-length configuration can be mitigated through active collaboration, open dialogue and clearly articulated "outcomes" or "deliverables" set out in formal service agreements.

Given the comparative pros and cons of the three configuration options (in-house, arms-length, hybrid) and given the preponderance of arms-length configurations in other jurisdictions, staff support maintaining the current arms-length development model.

❖ ***Recommendation Three***

Endorse the current arms-length development model approach to agencies performing economic development and tourism functions in HRM.

8.2 Merger

The question of whether HRM's economic development interests are better served by a single primary economic development organization or by the current structure with the general economic development function performed by GHP and tourism marketing performed by DH has been raised by Council and by the AG. Specifically, should GHP and DH be merged into one entity?

Three governance options have been identified by staff in regards to DH and GHP. They are as follows:

- Status quo
- Merger
- Integration

A more detailed exploration of the options related to a merger of DH and GHP can be found in attachment 8.

Key merger considerations include the following:

- HRM has a limited capacity to compel changes in regards to these independently constituted entities. Certainly the suggestion of a cut to funding could be used to motivate a merger. Given the high percentage of HRM funding, relative to their respective overall operating budgets, both DH and GHP would be at significant risk if HRM funding were withdrawn.
- A merger may or may not be viewed favorably by current private supporters. To what extent support is contingent on the current configuration is difficult to gauge. In the case of DH, merger may be seen as dilution of focus and undermine sector-specific support currently enjoyed by DH. At the same time, it may be seen as placing undue focus on a single sector and precipitate a loss of the private sector support currently enjoyed by GHP. To the extent that both advisory input and financial backing from the private sector are valuable assets to HRM, merger should be approached with caution.
- While there may well be administrative and oversight cost savings realized through a merger, the extent to which those cost savings would be realized is not

well understood. No attempt to quantify costs savings was made by the AG in his report. In the absence of this analysis, the savings are unquantified. Whatever dollar value could be associated with merger cost savings would have to be weighed against potential loss of private sector and governmental financial support and against the costs associated with realigning the two organizations.

- A lack of integrated focus is, perhaps, the most significant drawback of the status quo. With limited funding available to advance HRM's economic development agenda, inefficiencies must be limited as far as practicable. Clearly articulated outcomes for economic development partner organizations can mitigate this drawback, but will do so only in the context of duplication of efforts and overlap in economic development activities. Service Agreements (discussed more fully later in the report) can help to maintain distinctiveness and reduce overlap in organizational mandates.
- Authority to apply a marketing levy comes from the Halifax Regional Municipality Marketing Levy Act. This enabling legislation specifies that the marketing levy may only be used to fund an organization "formed to promote the Municipality as a tourist destination". Thus only tourism marketing activities can be funded by the levy. While a DH-GHP merger is not strictly speaking prohibited by the enabling legislation, organizational distinctiveness/separation is useful.

❖ Recommendation Four

Endorse the current configuration of economic development and tourism agencies in HRM, assigning Destination Marketing Organization (DMO) functions to Destination Halifax and Economic Development Organization (EDO) functions to Greater Halifax Partnership.

In order to ensure the activities of the GHP and DH are aligned as best as they are reasonably able to be and each organization leverages the activities of the other where possible a number of activities to be taken:

- Regular meeting between the Executive Directors/CEOs and Chairpersons of GHP and DH
- GHP to assist DH with respect to identification of priority sectors
- Generation by DH to GHP of potential business attraction leads
- Continued joint participation on Halifax Gateway Council
- Continued collaboration on Halifax's brand development

❖ Recommendation Five

Direct closer collaboration between the Greater Halifax Partnership and Destination Halifax wherever appropriate.

8.3 Accountability Framework

Formalizing the business relationships between HRM and its economic development partners through organization-specific service agreements will enable the Municipality to articulate clear expectations, deliverables and measures, in order to ensure that municipal taxpayers receive value for investment.

- From an oversight and management perspective, the execution of a formal service agreement between HRM and economic development partners introduces a number of accountability measures. For example, service agreements can:
- Articulate clearly defined outcomes and measures;
- Require the preparation and presentation to Regional Council an annual business plan and budget to ensure alignment between the service agreement and HRM corporate outcomes;
- Mandate an annual report on activities and outcomes of the service agreement and key performance indicators;
- Stipulate that audited financial statements be produced in accordance with accounting principles established by the Canadian Institute of Chartered Accountants and be provided to HRM
- Confer on HRM an ability to audit partner organization financial records, if an audit was warranted;
- Require collaboration between and among organizations;
- Provide an accountability framework for work done on behalf of HRM by organizations.

❖ Recommendation Six

Endorse the continued oversight and governance of the Greater Halifax Partnership, Destination Halifax, and the Business Improvement Districts by means of Service Agreements, supplemented where appropriate by Memoranda of Understanding.

8.4 Economic Strategy

HRM's economic development generates a lot of activity. That activity can become an end in itself. In the plans HRM makes, like the economic strategy or annual operational plans, HRM spells out deliverables. A good set of deliverables, carefully monitored, will keep Council and staff aware of progress, or lack of it. Given the breadth of the economic strategy and HRM's other activities in support of economic development, the number of annual deliverables can be formidable. Working to achieve those deliverables disciplines the activities that HRM and others do to achieve a better state of economic development.

Regarding the implementation plan for the economic strategy, the AG has recommended that HRM should articulate "expected outcomes". He also noted that GHP and DH's engagement in the implementation plan for the economic strategy should include "...expected goals or outcomes to ensure roles and accountabilities are absolutely clear."

The Community Planning and Economic Development Standing Committee has expressed a clear interest in seeing more focus on outcomes, using the economic strategy as a driver for economic development activities. The 2011-2016 economic strategy initially included 5 goals, 17 five-year objectives and 57 short-term actions for the first two years. The AG has suggested shortening the list. In a February presentation to CPED, GHP highlighted the need to grow the economy, grow the number of good paying jobs, and grow the commercial tax base. These three objectives help to provide the focus that the AG has recommended. Additionally, in June 2013, Regional Council approved mid-term updates to the economic strategy which reduced the number of strategy actions in order to focus in line with the Auditor General's recommendation.

8.5 Outcome measures

What HRM does, however, is not always the actual cause of the results being measured. Forces external to HRM are also at work. The impossibility of attributing economic development outcomes to a single organization limits the extent to which outcome measures can be used to hold economic development organizations accountable. A mix of outcome and activity measures will always be necessary for the governance of economic development organizations.

Given the challenges of measurement in the field of economic development, best practices in other jurisdictions suggest that in addition to measuring results, it is important to consider the activities being done and the processes being used as we track progress. Qualitative as well as quantitative measures matter in government, perhaps more so than in the private sector. Part of this measurement challenge is due to the fact that economic development is not and cannot be performed by any single organization.

Staff will continue to work towards improved outcome and accountability measures for HRM's economic development organizations. This includes on-going improvement of measures in Service Agreements, work with GHP on the on-going refinement of the Halifax Index, continuation of the citizens' survey and work towards improved measures to take into account appropriate measures for different parts of HRM (e.g. rural areas) and to consider broader measures of community health such as quality of life measures.

❖ Recommendation Seven

Endorse the continued development of outcome measures, tied to the 2011-2016 Economic Strategy, where appropriate, for agencies performing an economic development and tourism function on behalf of HRM.

FINANCIAL IMPLICATIONS

There are no financial implications.

COMMUNITY ENGAGEMENT

Stakeholder discussions took place in the early stages of the governance review.

The Auditor General had discussions with stakeholders in the course of his report preparation.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications.

ALTERNATIVE

Committee may direct staff to propose a different governance structure than recommended.

ATTACHMENTS

1. Detailed timeline
2. An HRM Statement on Economic Development
3. HRM Charter - Sections Relating to Economic Development
4. Economic Development Role Definition – A Cross-Jurisdictional Comparison
5. Alignment of Economic Development Partners with 2011-2016 Economic Strategy
6. C11 – Economic Development Delivery Models
7. Pros and Cons of Economic Development Delivery Models
8. Merger of Destination Halifax and Greater Halifax Partnership
9. Cross-Jurisdictional Outcome Measures
10. Economic Development Organization Partner Profiles (Origins, Mandate, Structure and Governance, Legal Relationship, Financial Contributions)
 - a. Business Improvement Districts (BIDs)
 - b. Destination Halifax (DH)
 - c. Greater Halifax Partnership (GHP)
11. Response to Auditor General Recommendations
12. Per Capita Funding of Economic Development and Destination Marketing Organizations

A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/cc.html> by choosing the appropriate Community Council and meeting date or by contacting the Office of the Municipal Clerk at 490-4210 or by Fax at 490-4208.

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