

**Community Planning &
Economic Development Standing Committee
January 23, 2014**

TO: Chair and Members of Community Planning & Economic Development

SUBMITTED BY: Original Signed by
Brad Anguish, Director, Community and Recreation Services

DATE: November 1, 2013

SUBJECT: Multi-District Facility Project Phase 2 - Governance

ORIGIN

- In a November 8, 2011 motion, Regional Council approved:
 1. That until accountability and reporting processes are updated (as a result of the work in Phase 1 of the proposed project charter) that no new additional major capital expansion, with the exception of the Dartmouth Sportsplex, would be approved in any HRM owned recreation facility. Further, that no new subsidies or significant changes to existing subsidies be approved with a term of more than one year;
 2. The proposed two phased approach, focusing on accountability and reporting work in Phase 1 as the necessary preparation for the alignment work in Phase 2;
 3. That HRM staff be directed to complete the Indicators (Appendix 6 of the Consultant's Report) for the remaining Category 3 and 4 facilities to determine whether they should be included in the Phase 1 project plan; and
 4. That as part of Phase 2 (alignment), HRM repayment plans be developed for any outstanding capital or operating amounts owing from Multi-District Facilities where no repayment plans exist at that time. Repayment plans should be in place by no later than November 2013, within one year of the proposed start of Phase 2. This does not preclude repayment plans being developed earlier.
- In a March 19, 2013 motion, Regional Council:
 1. Declare Phase 1 of the Multi-District Facility Project (Accountability and Reporting) as complete with the implementation of effective accountability and reporting processes;
 2. Lift the restrictions on major capital expansions for all HRM Multi-District Facility recreation facilities since the accountability and reporting processes are in place as required in the Regional Council motion of November 8, 2011;
 3. Direct staff to undertake completion of Phase 2 (Alignment) of the Multi-District Facility Project which includes community and HRM program expectations, facility

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mandates and facility program funding as it relates to the MDFs and expand the scope of Phase 2 to include governance;

4. As part of the phase 2 (alignment), adjust the schedule for the development of repayment plans for any outstanding capital or operating amounts owing from the Multi-District Facilities to no later than June 2014 for the reasons outlined in the report; and
5. Extend the requirements that no new subsidies or significant changes to existing subsidies be approved with a term of more than one year until completion of Phase 2 of the MDF Project.

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter; Section 79 1 (k)), Council may expend money required by the Municipality for recreational programs.

RECOMMENDATIONS

Whereas Halifax Regional Council seeks to establish an efficient and effective regional network of recreation infrastructure that embraces its Healthy Community priorities of inclusion, accessibility and meeting the needs of all HRM citizens, it is recommended that Community Planning and Economic Standing Committee recommend that Regional Council direct staff to:

1. Consult with the current volunteer Boards of the Multi-District Facilities (MDFs) to explore options for the establishment of a Regional Advisory Committee(s) structure that would provide advice regarding the provision and programming of all HRM recreation infrastructure;
2. Develop a transition plan for Regional Council's consideration that transfers direct operational oversight of HRM's MDFs to Halifax Regional Council and addresses the following objectives:
 - a. Creates a regional advisory committee(s);
 - b. Establishes a regional funding model;
 - c. Initiates the absorption of the outstanding operating and capital debts of the facilities;
 - d. Restores appropriate and legally defined employer relationships for the operation of the facilities;
 - e. Addresses the Auditor General recommendations related to the administrative functions of the Agencies, Boards and Commissions; and
 - f. Creates cost efficiencies for rate payers for the delivery of recreations services;
3. Maintain and support the current MDF Boards and direct that no new boards be created for HRM owned recreation facilities until the transition plan and governance options are considered by Regional Council; and
4. Return to Regional Council with the transition plan and advisory board governance options to complete Phase 2 of the MDF Project no later than the fall of 2014.

BACKGROUND

In the fall of 2011, staff undertook an analysis on challenges facing HRM's MDFs. The resulting report, *'Multi-District & Event Facilities – A Case for Action'* identified key issues facing the Multi-District & Event Facilities portfolio. Subsequently, at the November 8, 2011 meeting, Regional Council directed staff to undertake a two-phased priority project to address the issues outlined in the report.

The following facilities were included in the scope of the MDF project:

- Alderney Landing;
- Canada Games Centre;
- Centennial Pool;
- Cole Harbour Place;
- Dartmouth Sportsplex;
- Halifax Forum;
- Sackville Sports Stadium; and
- St. Margaret's Centre.

In response to the direction of Regional Council, on February 20, 2013, an Information Report entitled Financial Performance of HRM's Regional Facilities (2011/12) was submitted to the Audit & Finance Standing Committee. Further, on March 19, 2013, Regional Council declared Phase 1 of the MDF Project (Accountability and Reporting) as complete.

Based on work in Phase 1, it was determined that work on community alignment and HRM's mandate were significantly impacted by the governance model. Therefore, at the March 19, 2013 meeting, Regional Council directed staff to undertake completion of Phase 2 of the Multi-District Facility Project and expanded the scope of the phase to include governance.

This report primarily addresses the governance review of the MDFs, as the future governance model ultimately determines the appropriate methods to resolve the remainder of the issues identified for completion in Phase 2.

DISCUSSION

Currently, HRM provides recreation services in much the same way it was delivered by the four municipal units prior to amalgamation. Service delivery is provided through a variety of facilities (HRM owned, leased or booked space and outdoor venues), program offerings and governance structures. Eight different governance models are utilized for the operation of the HRM owned facilities including HRM operated, HRM leased, community board operated, community board leased and third party contracted. In fact, based on an analysis of total operational expenditures for HRM recreational facilities, 70% of HRM's total recreation service is delivered through distributed/delegated governance and is outside of Council's direct operational control. The HRM owned facilities range in size and complexity from small one room buildings to large multi-use centres. The MDFs are only one component of the recreation

system and tend to be the largest buildings within the system. Regionally located, the MDFs are expected to serve a large number of residents within their commuter shed and beyond, addressing a significant portion of citizens' recreational needs. As a result of all of the variety of facilities, operating models, and governance structures, recreation service delivery in HRM is complex and, at times, confusing for user groups, residents and staff.

Upon completion of Phase 1 of the MDF project, it became clear that an understanding of the current governance models is an important component to moving the facilities forward and being able to effectively impact the alignment of the facilities to HRM's mandate and community needs. The history of the current governance models, understanding of the benefits and challenges of the models, relationship of governance to program alignment, and facility mandates, are critical in order to ensure that recreational service delivery requirements for HRM are being offered and delivered in the most cost effective and efficient manner. To properly complete the governance review, multiple tasks and components of analysis were undertaken. The components analysed included:

- Legal status of employees of the existing facilities;
- Best practice review of governance models;
- Determination of current HRM indirect costs and staff time;
- HST tax status impact by governance models and analysis of financial impact;
- Volunteer capacity including competency and liability;
- Review of safety and maintenance issues;
- Current insurance requirements and appropriate risk management for volunteer boards;
- Assessment of adequacy of current management controls;
- Debt capacity for relevant facilities;
- Facility Condition Assessments, annual capital and preventative maintenance costs;
- Compatibility of systems with HRM systems (scheduling, payroll, etc.); and
- Current subsidization of HRM operated facilities.

A thorough analysis of these components is provided in Attachment 1 – Multi-District Facility Project Phase 2 – Governance. The analysis has enabled staff to make recommendations regarding a future governance model for the MDFs as well the overall service delivery approach for recreation in HRM. The analysis clearly indicated that for HRM to improve its ability to provide residents with cost effective and appropriate recreation opportunities, changes to both the current financial cost recovery model and tiered recreation service delivery need to be considered. Further, under Regional Council's Healthy Communities focus area, those changes are needed to ensure that citizens can be provided the best "...access to facilities and natural assets that enable a range of choices for structured and unstructured leisure and recreation activities".

It is very important to note here that HRM has been very fortunate to have benefitted from, and continues to benefit from, the hard work and dedication of the many volunteers who have served, and continue to serve, on the boards of the MDFs. Volunteer boards continue to strive for excellence in providing services to residents and embrace the challenges posed by numerous

external factors beyond their control. The findings within this report should not be perceived as diminishing these extraordinary efforts.

The balance of this report will provide a summary of the current situation and analysis as provided in the attached comprehensive report.

Current Situation

While the current governance system has not changed substantially since the former municipal units were amalgamated into HRM, operating environments and external conditions have changed significantly. There are now an abundance of external competitors offering private sector fitness and recreation services. In addition to competition from private competitors, HRM has also expanded recreation offerings with the opening of new facilities, resulting in internal competition. Along with increased competition, societal changes have impacted some of the historical revenue streams. In particular, bingo revenue, which previously had resulted in a significant portion of income for some facilities, has declined dramatically in recent years due to smoking restrictions and new gambling opportunities such as VLTs. Other regulation changes related to privacy, health and safety, labour, and procurement have impacted the operation of recreation facilities and also increased administrative costs. These along with other operational cost increases, such as utilities, insurance, and minimum wages, have made the operation of recreation facilities more complex and expensive. This is particularly challenging at the larger multi-purpose facilities and results in increased demands, fiduciary and management responsibilities for the volunteer boards. These increased expectations on volunteers comes at a time when the number of volunteers and their overall commitment availability is in decline due to aging demographics and changes to family dynamics with more two working parents.

The eight subject MDFs together represent 39% of the total square footage, 42% of the estimated replacement value, and 51% of the annual operating budgets of the HRM recreation facility portfolio. The total replacement value of HRM's entire recreation portfolio is estimated to be \$553 million (2011 dollars). The subject facilities represent a replacement value estimated over \$230 million. As a result, they play a key role in HRM's recreation service delivery. Where the MDFs are operated by volunteer boards, the majority of HRM's recreation footprint is beyond Regional Council's direct control over taxpayer's investment. With the challenges noted, collectively, these facilities struggle to meet full cost recovery of operating expenditures and, as a result, their current combined annual operating deficit is \$1.5 million and trending upwards. In addition, the combined operating and capital debt owing to HRM is \$13.4 million. All of these factors have created a challenging situation under which the current complex model for recreation service delivery is no longer efficient and sustainable.

Summary of Analysis - Service Delivery

As noted, in addition to the MDFs, recreation programming is also offered at smaller recreation centres across the municipality. Many of these are owned by HRM while others are privately or community owned. As noted in recent years, private sector companies have also begun to offer fitness and other recreation programming. As a result, residents are provided with numerous

options; not necessarily as a result of assessment of overall community needs but rather due to a competitive market place. While not all facilities offer the same recreation opportunities, there is significant competition within the overall system and duplication of similar offerings.

In 2008, Regional Council approved the Community Facility Master Plan (CFMP) which outlined a “hub and spoke” concept for HRM recreation facilities. This concept essentially outlined an approach that would envision the MDFs as the hub for their geographical areas and supporting the smaller recreation facilities as spokes in a regional delivery model. This concept would reduce the competition between HRM owned facilities and allow for a more complete delivery of recreation services across the municipality. This regional approach has yet to be fully implemented.

The benefits of a regional focus on recreation service delivery generally fall into three categories: financial, program delivery and administration.

Financial Benefits

Under the current cost recovery requirements for the MDFs, a two tiered delivery model has been created. Due to the requirement for 100% cost recovery of operational expenses, MDFs are often required to charge more for services than similar offerings at HRM operated facilities. Since the 100% cost recovery model is not in place for HRM operated facilities, lower user costs and smaller programs can be provided. As a result, competition not only occurs with external private and not-for profit service providers, it also occurs internally between the HRM operated and board operated facilities. This is also problematic in that it creates a sense that HRM programming is only intended for those that cannot afford the MDFs. This perception is in direct conflict with Regional Council’s Healthy Community priorities of inclusion and accessibility. A regional focus on programming offerings and removal of the 100% cost recovery model would reduce this competition and enable a more balanced approach to pricing and access for municipal recreation programs.

Another financial component which is impacted by the governance of the recreation facilities is the capital requirements for the network of facilities. As the owner of the buildings, HRM is responsible for their capital upkeep. HRM takes a regional focus to the capital budget funding required to ensure the facilities remain in a state of good repair. As a result, the recent condition facility assessments completed on the MDFs indicates that overall, the buildings are generally in good shape.

So while state of good repair requirements are being met regionally, ensuring a regional focus on service improvements and new capability requests for the MDFs is more challenging under the current governance. HRM has taken steps to improve the regional focus for capital investments by requiring business cases for any new service improvements. Further implementation of third party assessments for those business cases has been implemented consistent with recommendations from HRM’s Auditor General to ensure that there is appropriate return on the municipality’s investment. That said, adopting a regional focus to the recreation network would allow for better overall assessment of community needs and ensure funding is allocated for

service improvements and future capabilities in areas that best serve the needs of the overall municipality. This is currently very challenging under the variety of governance models.

As well, the current cost recovery model requires each board to undertake improvements to their facility to position it to be competitive. Remaining competitive can cause the facilities to look for ways to expand revenue rather than finding efficiencies in operating costs, leading to increasing deficits and significant capital demands. While this approach may assist individual facilities to attract and retain clients, it does not ensure that HRM is allocating tax payer's investment in a way to achieve the most cost effective and efficient recreation service delivery.

Regional recreation service delivery would also allow for a regional funding approach which recognizes that surpluses belong to the regional network thereby offsetting losses in other facilities. A balanced funding approach would reduce the demand for more corporate support from HRM and increase available funding for other Council initiatives.

A regional approach to recreation would also improve the integration of HRM and MDF staff resources and business processes, thereby improving role clarity, access to shared resources, facility utilization, and program delivery. While the full financial benefit of a regionalized approach would require completion of transition plans, initial projections indicate that annual savings in excess of \$1 million may be possible, potentially eliminating the current collective revenue shortfall. The ability to optimize facility utilization and program delivery would also allow HRM to review and rationalize existing assets, potentially further reducing operating and capital costs across entire operations network and providing additional revenue from the sale of land and assets.

Program Delivery Benefits

Consistent with the findings in the CFMP, the "hub and spoke" concept for recreation would allow for more robust programming opportunities and more effective usage of HRM's overall recreation space. This would mean that recreation programming would be able to be appropriately distributed across the region with optimized scheduling. Currently, due to the competition which exists, duplication of programming options often means that no facility is maximizing its program revenue opportunities. The current cost recovery model also creates pressure to increase program pricing in order to improve revenue, thereby increasing expectations on HRM and not for profit service providers to fill the 'access gaps' in recreation programming.

In order to offset increasing operational expenditure pressures, commercial leases and business opportunities are increasingly explored as revenue streams and, as a result, often take priority over recreation usage and programming. With larger portions of the facilities being leased, there is increased pressure on HRM to find or offer alternate facilities for not for profit and community groups as well as HRM direct programming. With a removal of the current 100% cost recovery model, facilities will be able to return to a focus on recreation programming rather than commercial leasing and business opportunities. This will allow for both space and schedules to be maximized for recreation and leisure programs.

Along with centralized scheduling opportunities, a regional approach to programming would also allow for optimized pricing and membership mobility. These improvements are currently not possible within the MDF portfolio due to inconsistent pricing, data collection limitations and technology challenges. However, a single membership for all HRM facilities is a routine expectation of users as it is regularly offered by other service providers.

Administration Benefits

In order to ensure HRM is able to provide its citizens with recreation opportunities which meet and adapt to the community needs, a variety of data and information is required, ranging from key performance indicators to participation numbers. Currently, the type and capabilities of the information technology across the facilities is not integrated, meaning the collection of necessary data is very onerous and not verifiable. A regional network would enable all HRM facilities to use compatible/integrated technologies with consistent data collection. Integrated technology is critical for HRM to fully implement centralized scheduling across the asset base and would also allow for single membership capabilities for all regional facilities. Both of these initiatives are routinely offered in private sector companies and some other municipalities.

As HRM undertakes further work to ensure the state of good repair of its assets is sufficient, consistency across both maintenance standards and schedules is essential. As part of the ongoing upkeep of the facilities, replacement and upgrading of many building systems have been required. Technology improvements in mechanical, air handling and electrical systems means that standard and enhanced maintenance of the systems is necessary in order to ensure proper and safe operation. Due to complex new systems and warranty requirements, HRM has assumed the maintenance of the mechanical systems at some of the MDFs. An integrated regional network would further ensure that HRM is meeting its responsibility to ensure the safety and well-being of both staff and users in its facilities. Standardization of safety practices and maintenance requirements is critical to meet HRM's regulatory requirements.

HRM's Office of the Auditor General (OAG) recently presented a report, *Review of the Administrative Functions within HRM's Entities which are Governed by an Agency, Board or Commission (ABC)*, which outlines several recommendations related to the administrative functions at some recreation facilities and their relationship to related HRM administrative functions. The OAG noted several areas of concerns including the fact that the current design of the ABC's administrative functions results in "silos" in which there is little or no communication among the ABC with regards to leading practices, shared services or opportunities for efficiencies within the functions. In order to effectively implement the OAG recommendations, changes in the current governance approach and HRM's role in the operation of the ABCs is necessary. In particular, the OAG recommended that "HRM and its entities investigate re-aligning the reporting relationships for the administrative functions (particularly at senior levels) so they potentially report functionally through HRM and operationally through the specific entity".

Regional Council has previously directed that changes be undertaken in HRM's accountability structure with respect to the MDFs; however, implementation of this direction is challenging

under the current hybrid of governance models. In most of the MDFs, the facility staff are not HRM employees. HRM must ensure its administrative actions when dealing with the facilities are such that it does not create a lack of clarity or confusion of responsibilities relative to the employer/employee relationships. Without a regional network and adjustments to the governance model, HRM is limited in its ability to oversee and ensure proper accountability for its facilities.

Based on these benefits and to put HRM in the best position to be able to respond to the OAG recommendations, as well as meet Council's goals associated with its Healthy Community focus area, staff feel it is necessary to fully transition to a regional 'hub and spoke' approach for HRM's recreation service delivery.

Summary of Analysis - Governance

In order to best implement a regional approach to HRM's recreation service delivery, an analysis of governance options was necessary to determine whether changes to the existing governance approach are required.

At present, there are two general models of facility management within HRM's network of recreation facilities. They are "direct provider" (HRM directly provides the programming and services) and "enabler" (community board-run/private organization operated). Based on an analysis of total operational expenditures for HRM recreational facilities, 70% of HRM's total recreation service is delivered through "enablers" and is outside of Council's direct operational control. This is often referred to as "distributed governance".

Within the HRM network, there are hybrids of these general models. As a result, HRM currently has eight governance models for the delivery of recreation programs and services. These models include:

1. HRM staff operated, HRM owned facility, based on Council direction;
2. Volunteer board operated, HRM owned facility, based on Council direction and with HRM staff;
3. Volunteer board operated, HRM owned facility, based on Council direction with non-HRM staff;
4. Crown corporation operated, HRM owned facility, based on Council direction with non-HRM staff;
5. Volunteer board leased, HRM owned facility, based on Council direction and operated with non-HRM staff;
6. Third party contractor, HRM owned facility, based on Council direction with non-HRM staff;
7. HRM staff operated, provincially owned facility, based on Council direction; and
8. Volunteer board operated, provincially owned facility, based on Council direction.

Within the regional facilities included in the MDF project alone, four of these models exist. These variations create complexities and confusions for user groups, staff and the public. The

complexities also create additional challenges in the implementation of a regional focus on the delivery of recreation and the implementation of Regional Council's strategic direction. Therefore, a simplification of overall governance structure is necessary in order to be able to achieve the overall benefits and provide the best recreation service delivery to HRM residents.

The variation and complexity in the hybrid governance model for HRM recreation service delivery makes HRM unique when compared to similar cities reviewed as part of a jurisdictional review of governance models completed by Greater Halifax Partnership. While the full summary is outlined in Appendix 1, the jurisdictional review revealed that of the seven municipalities noted, only two examples of the enabler model with management boards exist. For the others, the strategic direction and administration of recreation facilities determined and executed by the City. It was found that this allowed for standardization of programming, maintenance and operating standards. Allocation of resources is determined by the needs of the community centre and ultimate accountability rests with the municipality and Council. These cities utilize advisory boards and committees to gain community input, while maintaining administrative control.

There are four common governance models that have been analyzed for HRM's regional facilities. While hybrids of these models can exist, the following four are the base models:

1. Community Board operated with Council policy direction;
2. Outsource operation of facilities to private sector with Council policy direction;
3. HRM operated with Council direction; and
4. HRM operated with Council direction and community advisory committee input.

In order to recommend the most appropriate governance model to be able to realize the benefits of a regional approach to recreation service delivery, each model and related impacts were reviewed. This analysis is outlined in the attached document "Multi-District Facility Project Phase 2 – Governance" (Attachment 1). Overall, the analysis shows that HRM's network of regional facilities currently operates with each formulating different strategies and programs, without alignment to HRM strategic direction, policies and recreational program service delivery. There are opportunities to increase the efficiency, effectiveness and consistency of many operational aspects of the facilities; however the current governance model makes it difficult to realize efficiencies on a broad municipal scale. It must be noted that this is not a criticism of the current operators of the facilities, as they are operating within the current governance model and management agreements approved by Regional Council. However, the analysis has determined that in order to improve the efficiency of the network of facilities and ensure recreation needs of the community are being met, the facilities should be operated in an integrated regional network with consistent policies, procedures and governance. Staff is therefore recommending that Regional Council direct staff to develop a transition plan for Regional Council's consideration that transfers direct operational oversight of HRM's MDFs to Halifax Regional Council.

The current complex hybrid governance model presents significant challenges to establishing an effective Regional network of facilities. These challenges are outlined in detail in the attached

report. However, bringing the MDFs within Council's direct operational control will overcome the predominant challenges which fall into three main categories: facility mandates, employee status, and financial impacts.

Facility Mandates

Under the current hybrid governance structure, each facility and governing board has separate, individual mandates. As a result, each board is working to achieve objectives and outcomes for their individual facility without a mandate to consider the facility within an integrated regional network. Further, this mandate is understandably influenced directly by the board representation and composition. As a result, duplication of program and services exists in some areas while other areas are faced with gaps. As well, depending on the board composition, boards may be challenged to balance the needs of the overall community against requests from user and special interest groups.

An integrated regional focus to recreation service delivery would improve HRM's ability to offer residents enhanced access to recreation opportunities which is a significant measure in Regional Council's focus area on Healthy Communities. An integrated regional network would provide the opportunity to ensure that the right programs, at the right times, in the right place and for the right price, are provided to HRM citizens.

The original rationale for the creation of community boards for these facilities related to the ability to integrate community needs and insights into the programming and operation of the facilities. With the significant changes and expectations impacting these facilities, the level of stress and expectations on the community volunteers has increased dramatically since the inception of the facilities. The age and financial challenges of the facilities requires primary focus to be on the building operation with less opportunity to focus on community needs and programming. Community input is vital to the ongoing efficiency and effectiveness of the recreation facility network. Staff is therefore recommending that a regional advisory committee (or committees) be retained as a necessary component of the new governance structure. This would effectively remove all of the risks associated with the current board structure, yet retain and restore the original rationale of focusing on community needs. Staff further recommends that the advisory committee(s) provide advice on all HRM recreation programming and assets, not just the MDFs. This expanded focus will serve to ensure all recreation assets are meeting their full potential. Preliminary options for an advisory committee structure might include:

- a. alignment within current MDF hubs;
- b. alignment with Community Councils;
- c. one regional advisory committee.

Should Council approve establishment of an advisory committee(s), it is further recommended that staff consult with the current facility boards/staff in determining the optimum advisory committee structure.

Employee Status

A critical component of the analysis required to make a recommendation on governance was an assessment of the employees at the facilities. The employees at most of the facilities included in the MDF project are not HRM employees, however, some facilities have staff which include HRM employees. Table 3 in the Attachment reflects how widely the employment structures vary across the MDFs. Where community associations operating the facilities employ their own staff, HRM's ability to effectively influence the administrative functions, assess staffing requirements and create operational efficiencies as outlined in recent Auditor General recommendations is limited. HRM needs to consider the potential impact on the relationship between the operators of the facility and their employees when outlining any direction and oversight related to the operation of the facilities, so as to not to alter employer/employee relationship. The current governance structure impacts the ability of HRM to oversee the maintenance of its assets and delivery of its programs by operators of the facilities.

By bringing the MDFs within direct control of HRM, the employer/employee relationship will be simplified, with common pay scales, thereby enabling sharing of resources and achieving economies of scale. Current problems associated with competition for skilled employees should be resolved. There may be positive or negative cost implications associated with a transition of employees to HRM. These costs will be estimated during development of the transition plan for Council's consideration.

Financial Impacts

As indicated, the analysis clearly showed that the existing 100% cost recovery model is not sustainable nor does it allow for optimal recreation service delivery. The cost recovery model has created an environment where programs and services are being provided at the facilities to help offset operational costs but do not always align with HRM strategic direction, recreational outcomes and community needs. With continued increasing operational costs such as minimum wages and utilities, this situation is not expected to change.

To assist with the financial challenges of the facilities, HRM funding support is required. This support is provided in a variety of ways, including subsidies, payroll support, leasing and booking of space. It is intended to reduce the significant financial strains experienced at the facilities. However, the inconsistencies in the methods and amounts of support further support a sense of competition across the network of facilities.

Based on all operational factors, it is highly unlikely that the financial situation will improve under the current funding and governance model. Debt repayments will not be able to be made by some facilities under the current state, increasing fiduciary concerns for the boards and individual members. Further, HRM will have to continue to remain responsible for offsetting all debts. Therefore, a regional funding model is needed to ensure that consistent and appropriate support is provided that ensures that the financial health of the overall recreation network is sustainable.

Based on all of the analysis contained within Attachment 1, the current segmented structure of the regional facilities is not as collectively efficient or effective, and does not provide equitable access to recreational facilities for residents, as would an integrated regional system. Further, the current model places undue risk on both HRM and individual community boards and volunteers.

Conclusion

Bringing the MDFs within Council's direct operational control, and implementing the regional approach to recreation service delivery as originally outlined in the Community Facility Master Plan and further confirmed through the analysis "Multi-District Facility Project Phase 2 – Governance" (Attachment 1), would provide significant benefits to HRM and its residents, as follows:

Service Delivery:

- Recognize the MDFs as the "Hubs" of the regional network of recreation facilities
- Less focus on special interest groups requests only
- Reduced competition between HRM facilities
- Reduced competition with private sector and not-for-profit organizations
- Increased footprint for recreation and community programming
- Improved ability to meet Regional Council's Healthy Community objectives of inclusion, accessibility, and meeting the needs of residents through consistent implementation of HRM strategic direction
- Less confusing improved communications
- Opportunities for optimized pricing, centralized scheduling and membership mobility
- Consistent policies

Financial:

- Integration of HRM and MDF staff resources and business processes – reduced staffing costs
- Projected annual savings in excess of \$1M, potentially eliminating current collective revenue shortfall
- Ability to optimize facility utilization and program delivery, rationalize existing assets – further reduced operating and capital costs across entire operations network
- Regional funding approach recognizes surpluses belong to the Regional network and offsets losses in other facilities
- Reduced costs through shared services and purchasing economies of scale
- Improved sustainability of HRM's recreation service delivery and assets

Administration:

- Reduce confusion and complexity through the transition to a single regional recreation governance approach for all HRM recreation facilities
- Ability to legally undertake more oversight of HRM facilities

- Reduced pressure and risks to volunteers
- Employer status – appropriate relationship, clarity and remove risks
- Common and compliant HRM processes - procurement, ICT, legal, HR
- Ability to integrate information technology
- Improved ability to collect data and benchmark against best in class
- Implementation of OAG recommendations – efficient staffing levels and roles
- Consistent maintenance of HRM assets
- Consistent safety plans and requirements

Adoption of staff's recommendations would serve to bring approximately 80% of HRM's total recreation operational expenditures within Council's direct operational control. This model is more consistent with the current recreation governance models across Canada.

Next Steps

Due to the variety and complexities of current governance structures and facility operations, evolution to an integrated regional network of facilities will require a detailed transition plan to minimize impacts on the clients, staff and overall service delivery. Therefore, it is recommended that staff be directed to create a transition plan based on the principles outlined in the recommendation in order to capture any required changes and impacts for each individual facility and return to Regional Council no later than fall of 2014.

As outlined, community input into the programming and operation of the facilities is an important component to ensure that the recreation service delivery meets community needs and Regional Council's Healthy Communities outcomes. Therefore, as part of the determination of an optimal recreation advisory committee, consultation with the current facility boards and staff is recommended. The current boards and staff have in depth knowledge of the facilities and relationships with their communities and as such will provide valuable input to assist in the transition to an integrated regional network. In addition, collaboration with Council's ongoing Governance Review Project is important to ensure an optimal advisory committee structure is determined.

Further, it is recommended that the current board structure is maintained and supported under the existing management agreements while the transition plan is prepared. This will also minimize any adverse impact to clients, staff and facility budgets. Staff is also recommending that no additional boards for recreation facilities be created during this time until Council makes their final decision on the way forward with the MDFs. Interim stability within the current structure is critical in order to effectively transition to a regional network with the least impact to the users, staff and the public.

FINANCIAL IMPLICATIONS

Development of the transition plan is proposed to be undertaken by HRM staff and is recommended as a specific objective in Community & Recreation Services' proposed 14/15 business plan.

The transition plan will outline the potential financial implications of moving to a regional network approach based on any changes and impacts determined in its preparation. Those financial implications will be clearly defined when the plan is brought back to Regional Council.

COMMUNITY ENGAGEMENT

Consultation of the facility boards and staff has been recommended to inform the determination of an optimal recreation advisory model.

ENVIRONMENTAL IMPLICATIONS

No environmental implications.

ALTERNATIVES

1. Regional Council could choose to direct that the current hybrid recreation service delivery model be maintained and direct staff to return to Council with updated management agreements and debt repayment plans. This is not recommended as operational efficiencies and integrated service delivery would continue to be significant challenges. In addition, financial analysis has shown that overall debt repayment is not achievable under the current structure.
2. Regional Council could choose to remove/amend/add to any of the principles for which the transition plan is intended to achieve.
3. Regional Council could choose to not maintain and support the current boards or to allow the creation of new boards. This is not recommended due to the variety and complexities in HRM's current governance structure. Stability within the current structure is critical in order to effectively transition to a regional network with less impact to the users, staff and general public.

ATTACHMENTS

Attachment 1: Multi-District Facility Project Phase 2 – Governance

**Multi-District Facility (MDF) Project
Phase 2 - Governance
CPED Committee Report**

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January 23, 2014

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/agenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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Attachment 1

Halifax Regional Municipality

Multi-District Facility Project - Phase 2

Governance

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Origin

The Multi District Facility Project was initiated by Regional Council in November of 2011, to ensure accountability, reporting and alignment associated with the multi-district facilities (MDFs). It was implemented within current management agreements and HRM administrative processes to identify and manage future budget implications for HRM.

Three key issues were outlined in the report. These included:

Issue #1: The absence of effective accountability within HRM Multi-District facilities.

Issue #2: The absence of adequate reporting and management processes to support informed decision-making and HRM oversight requirements related to Multi-District Facilities.

Issue #3: Lack of alignment between the community and HRM program expectations; facility mandates; and facility and program funding as it relates to Multi-District Facilities.

The following facilities were included in the scope of the MDF project:

- Alderney Landing;
- Canada Games Centre;
- Centennial Pool;
- Cole Harbour Place;
- Dartmouth Sportsplex;
- Halifax Forum;
- Sackville Sports Stadium; and
- St. Margaret's Centre.

Regional Council outlined a two phase strategy to address the MDF deficiencies. Phase 1 focused on accountability and reporting processes and was declared complete by Council on March 19, 2013 with the implementation of effective accountability and reporting processes. Phase 2 included a broad review of alignment issues but was expanded to include a review of governance by Regional Council during the March meeting.

History

In March of 1996, a report surrounding major recreation facilities was presented to the newly formed Halifax Regional Council. The former cities of Halifax, Dartmouth, and the former County each operated recreational facilities independent of each other prior to amalgamation. This fragmented structure was transitioned into the newly amalgamated Halifax Regional Municipality. As a result, upon amalgamation, the existing facilities continued to be operated with no region-wide coordination of recreational service delivery, but rather focused on their individual communities. The current structure in place today can be traced to the transition of these recreation facilities and the decisions made in 1996. The report submitted to Council in 1996 was an attempt to initiate some integration to ensure equitable service delivery of recreational services.

The 1996 report recommended that HRM negotiate management agreements with Cole Harbour Place (CHP), Dartmouth Sportsplex (DSP), Sackville Sports Stadium (SSS) and Centennial Arena. These agreements were intended to permit recreation facilities to be operated by arm's length community groups, assuming corresponding community input and representation. Life cycle planning was also expected in these agreements, in conjunction with HRM's Regional Operations. Participation of General Managers (GMs) and HRM staff was also expected on a regional facilities committee. It further recommended that there be direct HRM operation with advisory board models for Captain William Spry and Halifax Forum. Council deferred the management arrangement regarding Sackville Sports Stadium and the Halifax Forum until meetings could be held between the representatives of the then current management boards and HRM. While the rationale is not clearly outlined, subsequent to that Council direction, slightly different actions were implemented. A lease agreement was negotiated with Community Builders Inc for the operation of Cole Harbour Place. The Halifax Forum governance model was not changed and remains the same as the originating direction with a community board to be in place, however, with HRM staff. Sackville Sports Stadium was subsequently managed under a volunteer board until August 2003, when Regional Council directed HRM to assume operating responsibility. That direction further outlined that the HRM operating responsibility remain until work was completed on a financial stabilization plan.

The model outlined in 1996 was thought to allow for complete integration of recreation and leisure services regionally (or in a given community) and applied only to certain facilities whose financial difficulties would make them undue burdens on their communities. It was intended that the facilities' revenues and expenses would become the sole responsibility of HRM.

A summary of the 1996 report indicated some the following:

- The facilities were said to share one characteristic, a sense of being a community facility and not just a recreation facility. During this time, these facilities served a given community. They were a source of pride and identity for these communities. As such, these facilities generally served a local population rather than a regional population.
- Their arms-length position was thought to offer more funding options and make them less reliant on HRM funds, citing bingo and fund-raising as alternate sources of revenue. They were also thought to have sound financial planning.
- Volunteer board members were regarded as making substantial contributions, being extremely committed, having diverse skills and ensuring community input.
- Performance measures were inconsistent, as was life cycle and maintenance planning.
- There was little communication or cooperation between the facilities. Each was said to have different budget and accounting processes and little coordination in programming, maintenance, purchasing, training, etc.

In reviewing the above history, there are a number of challenges which existed then which are still relevant in today's environment. In addition, there are new additional challenges that require that the overall focus of the regional facilities needs to be adjusted to an integrated system recognizing larger catchment areas with more diverse and complex recreation offerings.

The volunteer board model has not resulted in stronger financial positions as was envisioned with financial viability becoming the prominent success indicator of MDF programming. Rather, the financial position of the facilities generally remains a state of growing concern. More concerning, the financial state of the facilities creates fiduciary concerns and potential risks for the volunteer boards, which is the opposite of the rationale for the community board model.

Then, as now, HRM mandates were often not the primary focus. Similarities still exist in that performance measures are inconsistent (or simply not present) and communication while improved is still limited between all the facilities. As a result, there have been minimal economies achieved in purchasing, procurement, business processes or programming. HRM and the facilities are working on these various issues, however, the current arms-length structure continues to pose challenges to progress.

Operational conditions surrounding these facilities have changed significantly since their inception and continue to change. There is now the presence of 24-hour private sector fitness providers and an abundance of external competitors that simply were not present in 1996. In addition to external competitors, a key aspect that cannot be overlooked is that HRM has increased its own number of recreation facilities. As well, census data shows that HRM's overall population is aging and, as a result, the needs of HRM's population are evolving. This along with other demographics, such as increases in two working parent or single parent households, has increased and changed citizen's expectations of these facilities and their programming. Societal changes in regards to smoking have significantly reduced revenue from bingo operations. The introduction of gambling through VLTs has had a further decline of bingo revenues, which were a significant component of some facilities' revenue streams in earlier years.

In addition to these changes there are increased insurance, health and safety issues, labour laws, privacy legislation in regards to freedom of information requests, and maintenance requirements in today's operational environment. The impact of the *Patriot Act* as a result of 911 terrorism act has resulted in administrative challenges surrounding information technology, insurance requirements and procurement requirements. Coupled with the changing business environment as a result of entrepreneurial involvement in the recreation fields, there have been significant changes since the original agreements and governance models were implemented.

Commuting greater distances to participate in recreational activity such as aquatics lessons and ice programming is a norm today. Regional centers as outlined in the Community Facilities Master Plan were to be integrated with the program offerings of the entire recreational network. This would enable not only more efficient and effective service delivery, but equally important it would ensure recreational programming was offered where the majority of citizens could access the particular programs. Some travel is to be expected for more elite levels however group exercise or children's programming expectations are that all facilities will offer similar access and levels of service.

Volunteer involvement has also changed since the inception of the community boards in terms of expectations, capacity, participation, working families, available free time and the age demographic. The trends suggest that today's volunteers are looking for shorter-term specific

commitments. With fewer volunteers interested in longer term board commitments, turnover is not happening as often, so fresh input is received at a much slower rate. Another challenge for volunteers is that under the current governance model, expectations, responsibilities and required skill sets are substantial. HRM requires volunteers to be accountable for infrastructure, finances and overall facility operation, meaning less attention is able to be spent on community programming and initiatives, which was a main part of their original intended mandate. As well, based on the complex operations of these large facilities, community board and their individual volunteers are required to assume significant fiduciary and management responsibilities which may be beyond their expectations and comfort levels.

Current Situation

These eight facilities included in the review represent 39% of the total square footage, 42% of the estimated replacement value, and 51% of the annual operating budgets of HRM's recreation facility portfolio. The MDF facilities range in size from 10,000 to 12,000 square meters. These multi-district facilities typically serve populations of 60,000 to 80,000 citizens. Based on the overall replacement value of HRM's recreation portfolio which was determined to be \$553 million (2011 dollars), these facilities represent a replacement value of over \$230 million. Based on this, the MDF facilities are a significant component of HRM's recreation service and need to play a pivotal role in service delivery.

Overall, recreation service in HRM is delivered through a hybrid system. This system currently uses eight governance models to provide recreation programs and services. These models include:

1. HRM staff operated based on Council direction;
2. Volunteer board operated based on Council direction and with HRM staff ;
3. Volunteer board operated based on Council direction with non-HRM staff;
4. Crown corporation operated based on Council direction with non-HRM staff;
5. Volunteer board leased building operated with non-HRM staff;
6. Third party contractor based on Council direction with non-HRM staff;
7. HRM staff operated, provincially owned facilities based on Council direction; and
8. Volunteer board operated, provincially owned facilities based on Council direction.

Within the regional facilities outlined in the MDF project alone, four of these models exist. Within those four models, three include the operation of the facility on HRM's behalf by a community group, through a legal agreement. The agreements are generally outdated and as a result do not reflect current changes in societal and HRM expectations. Further, as the agreements outline the responsibility for community groups to operate the facilities, Regional Council and therefore HRM staff do not have direct ability to influence or oversee the operations to ensure HRM requirements and strategic direction are met.

The requirements for cost recovery have created a culture of competition between HRM, not-for-profit service providers, private sector businesses in addition to the other MDF facilities. This culture of competition further creates a focus on increasing revenues, rather than cost efficiencies

to balance budgets. This increased focus on revenue creates additional pressure on capital demands for new service expansions and capital improvements to attract new users in order to further supplement revenue. As well, the increased focus on revenue has resulted in many commercial leases within the facilities, rather than using the space for recreation programming. This practice has driven HRM to have to find alternate space for programming in order to meet recreation needs for residents and has changed some of the facilities to more commercial uses rather than recreation or other public uses. In addition to operating pressures, the competition results in increased pricing for user groups. Not only impacting users, these price increases also creates additional pressures on HRM and the not-for-profit service providers to fill the gap, often requiring expectations for new or enhanced facilities.

Even with the revenue and commercial focus, the network of the facilities has not been financially stable. Currently, the network is operating with an annual deficit of approximately \$1.5M and a consolidated debt owing to HRM of \$13.4M. The overall financial health of the network will continue to be a concern as there is no mechanism to ensure a regional approach to funding within the current governance structure. With individual mandates and budgets, there is no ability to ensure funding is allocated and shared appropriately and in the most effective areas. As well, due to the concerns associated with the current financial state, the facilities look to HRM for additional administrative and financial support in order to offset costs. Under the current governance model, how HRM provides this support has the potential to impact the relationship between the operators of the facilities and their employees. This challenge is outlined in more detail in the Staffing section later in this document.

In addition to financial challenges, operational challenges exist in the current structure. In recent reports, HRM's Office of Auditor General provided recommendations for provision of administrative functions that speak to 'providing a consistent delivery model', 'leveraging HRM services', and 'sharing leading practices to increase efficiencies within the overall group'. These recommendations cannot be implemented under the current governance structure.

The numerous variations in governance, as well as these operational challenges, create complexities and confusions for user groups, staff and the public. The complexities also create additional challenges in the implementation of a regional focus in the delivery of recreation and create a departure from Regional Council's Healthy Communities focus area requirements of inclusion, accessibility and unstructured play. Therefore, a simplification of overall governance structure is necessary in order to be able to achieve the overall benefits and provide the best recreation service delivery to HRM residents.

Operational Analysis

Numerous operational components affect decision making and overall operations, both of which impact recreation service delivery. In order for determination of a recommended governance model which is effective and well managed in the interest of the public, these operational components have been reviewed with respect to the existing and potential governance models.

Board Management

Relationships

Table 1 summarizes aspects of the existing relationships, between HRM and the facility boards, and some governance structure information. Some board relationships with the facilities were created at a time when the four separate municipalities existed prior to amalgamation. The current management agreements were put in place to set out operational parameters expected of the boards, related to HRM and its assets. At the time, as is the case today, each board had their own goals, objectives and outcomes to measure regarding citizen expectations. All of the agreements are outdated. They are vague and not reflective of today's operational, legal, and citizen expectations.

Table 1: Relationship Data

FACILITY	Alderney Landing	Canada Games Centre	Centennial Pool	Cole Harbour Place	Dartmouth Sportsplex	Halifax Forum	Sackville Sports Stadium	St. Margaret's Centre
Facility Type*	Event	MDF	Indoor Sport	MDF	MDF	Event	MDF	MDF
Type of Agreement	MA	IA	MA	LA	MA	MA	N/A	MA
Agreement made with	Alderney Landing Association	Canada Games Centre Society (Halifax)	Centennial Pool Association	Community Builders Inc.	Dartmouth Sportsplex Community Association	Halifax Forum Community Association	N/A	St. Margaret's Arena Association
Commenced	19-Sep-02	31-May-13	01-Apr-99	13-Nov-01	10-Nov-98	01-Jun-98	N/A	10-Aug-01
Original term end	5 years	-	1 year	1 year	1 year	5 years	N/A	10 years
Renewal terms	written 1 year	-	auto 1 year	auto 5 year	auto 1 year	auto 1 year	N/A	auto 1 year
Termination by either party	6 months written notice	6 months written notice	90 days written notice	6 months written notice	90 days written notice	90 days written notice	N/A	30 days written notice if failure to perform
Total Board Members	12	12	9	13	12	13	N/A	20
Regional Councillors (member/ex-officio)	1	1	0	1	2	1	N/A	0

*As defined in the Council approved 2008 Community Facility Master Plan

Sackville Sports Stadium is directly governed by Regional Council

MA = Management Agreement

IA = Interim Agreement

LA = Lease Agreement

Structure

A key area of concern from a governance perspective is that board composition is not currently within HRM's control or influence. HRM is not involved in the selection process of the members, is not always advised of changes, and yet is ultimately responsible for the decisions made by boards and any potential associated risks.

Without a measure of control or influence over composition, HRM cannot ensure the boards represent the broader community. Some boards may not fully represent the broader community therefore cannot fully recognize or meet its needs. In some cases, representation is limited to very specific user or special interest groups. Ideally, boards should be reflective of the community and its requirements, input, concerns and support. In one case, membership has not changed substantially for many years, with the Board Chair and a large number of members in place since 1996. Lack of board turnover can prevent the influx of fresh and new ideas and different perspectives. Five of the current boards have Regional Councillors as members and two do not have any elected officials. HRM's Auditor General has raised concerns related to the inclusion of elected officials on boards and the potential conflicts that could arise for the elected officials. This is being addressed in the current Governance Project that is assessing the overall governance structure and models associated with Council committees and boards.

Management

Board administrations are mandated to govern and operate the facilities on HRM's behalf through respective agreements. However, too many examples exist where this relationship has not been working. As noted, societal norms, the economy, and technology have changed since the inception of the agreements leaving the multiple-board model not as effective as it was originally in smaller separate municipal units.

Boards are responsible for programming and, in most cases, all operations at the facilities. Approvals regarding staffing and operating budgets are made through votes of the boards, and the level of autonomy within each facility varies. The GMs implement the decisions made by the various boards.

The existing boards provide a vehicle for the GMs to express ideas, initiatives and issues. The GMs report that their boards are easily accessible and supportive. That being said, the boards create work for them by the very nature of their structure. To the extent that the volunteer board competency and capacity allows, boards serve to keep the GM accountable for their actions, goals and objectives and help ensure community needs are being met. Although it is argued that a quicker decision model is present within the current governance model, this is not necessarily the case as some boards are more effective than others.

It is challenging for HRM to ensure the facilities' operations align with the recreational programming needs of the community. In fact, past practice has shown that the requirement to achieve the required 100% cost recovery has shifted the focus away from community needs and towards commercial interests and other programming to generate revenues. In tougher financial times, this also encourages the boards to be member-focused rather than community-focused. This is often in opposition to recreation service delivery objectives which are to provide the most comprehensive and relevant services reaching as many citizens as possible. This challenge

requires ongoing administrative oversight to ensure mandate alignment compliance. However, without a significant shift from the existing cost recovery model, it will continue to be a challenge.

Oversight

HRM has been invited to provide a liaison on a number of the boards, however, the liaison has been requested to leave meetings during certain discussions. Even with a presence, HRM is not always fully informed as to the discussions and decisions taking place. With the boards holding the management responsibility and decision making authority, HRM is left in a vulnerable position with little control, yet bearing the majority of the associated risk. Decisions are being made by the administrative boards, but any negative consequences are often realized by HRM. Decisions made at board levels could put Council members in a position of conflict when representing their communities at Regional Council. There have been occasions when board decisions are in conflict with HRM policies and Regional Council's strategic direction. It should also be noted that most of the boards do not function with the same degree of procedural rigour or transparency as Regional Council in terms of meeting conduct, minutes and reports.

Some experience has shown the skill sets required to make informed decisions that impact operation and management of the facility in areas such as finances, technology, staffing, programming, maintenance, and leasing may not be present or developed on the volunteer boards. A well established and informed board will, in some specific cases, provide a benefit to HRM and the community. However, developing and maintaining the necessary skills and level of expertise does require ongoing training and support for the boards from both HRM and, at times, external sources.

The current management agreements state HRM's ownership of the facilities, yet there have been issues related to ultimate ownership and related authority of HRM. HRM has experienced issues around oversight and ambiguity of authority, even times when boards have continued with initiatives after being advised otherwise by HRM. Compounding this issue is that in the facilities, the GMs are employees of the Board and take their direction accordingly. This is not to imply the GMs do not work with HRM staff but to highlight that they are required to take direction from the boards even when contrary to HRM strategic direction.

This has resulted in various instances where necessary actions or decisions are delayed, including direction from Regional Council. Specific examples include agreements and contracts taking much longer than necessary to develop and approve, major renovations delayed, public initiatives released without HRM approval and knowledge, and leasing arrangements being entered into without the necessary approvals. In each of these cases, a better integrated and appropriate execution would have been possible if HRM had been fully apprised of intentions and previous directions had been followed.

Operations Management

Operational Effectiveness

In 2008, Regional Council approved the *Community Facilities Master Plan* (CFMP) which regards multi-districts as hubs of recreation activity (p.47), likening them to the hub of a wheel,

and the smaller less complex recreation facilities as the spokes. These larger facilities were meant to offer infrastructure and programming support to various smaller centres and perhaps offer a level of service, or uniqueness that could not be provided by their smaller partners. Alignment should be "...encouraged to develop mutually beneficial relationships that enhance operations at each facility." (CFMP recommendation #29, p.52) Alignment means the recreation programming offered throughout the entire HRM recreation portfolio can be streamlined to reduce duplication, redirect resources, and improve citizen experience.

A review of operations, policies and practices within the regional facilities network indicates that the expected model outlined in the CFMP has not been achieved. Rather, there continues to be inconsistency throughout and a need for comprehensive, consistent policies and practices to eliminate inefficient operations, improve programs and initiatives, and to better meet public service delivery expectations.

Many of these regional facilities operate in a silo, meaning they do not openly share initiatives and resources with each other and HRM. All programs and services are operationalized independent of each other, and often in competition with each other. These silos limit the ability to share information, ideas, expertise, and experience to provide the public with programming and other services that are effectively and efficiently managed for both the facilities and HRM. Private fitness facility operators motivate the facility staff to re-evaluate their program offerings in order to keep pace with expectations, but which can sometimes lead to ineffective practices. Further, focus on the fitness program offerings can be such that other areas of recreation programming are overlooked or disregarded, adversely impacting overall recreation service delivery across HRM. HRM should not be competing directly with private fitness facilities, but rather recognize that the marketplace is now providing citizens with a range of recreational programming, which should be incorporated into strategic planning along with all areas of recreation service delivery.

Opportunities exist for operational effectiveness and consistency in many areas. As an example, in the Auditor General's May 2013 report *'Review of the Administrative Functions within HRM's Entities which are Governed by an Agency, Board or Commission (ABC)'*, the OAG identified indicators of potential inefficiencies. A few are listed below:

- lack of collaboration, or "silos", in which there was little or no communication among the agencies, boards, and commissions (ABCs) with regards to leading practices, shared services or opportunities for efficiency of administrative functions
- design of the ABCs administrative functions does not promote efficiency as they operate in a decentralized model
- corporate culture does not stress the need for efficiency

The OAG's report also provided recommendations for provision of administrative functions that speak to 'providing a consistent delivery model', 'leveraging HRM services', and 'sharing leading practices to increase efficiencies within the overall group'. These themes can be relevant and applied across many facets of operations. An integrated regional approach to the facilities can yield efficiencies and consistencies in such areas as management, planning, programming, administration, and maintenance, and will help sustain service delivery into the future for HRM. Centralized ice scheduling and pricing are examples where HRM could achieve consistency and

equitable access, but this can only be done effectively with a common approach and technology. HRM already takes a collective approach to state of good repair through the capital budget process and subsequent projects, thereby enabling prioritized investment of the budget capacity within the overall network.

The regional facilities are typically responsible for the maintenance of their respective building systems and equipment. While this is in line with management agreements which dictate operational matters be handled by the boards, there are inconsistencies in the level of expertise and care that is being applied to this function through the network. Observations have shown that some HRM facilities have systems so complex that they have to be under HRM's direct control to ensure consistent maintenance in line with warranty and system requirements. Centennial Pool is an example of this where HRM has assumed operation of the recently upgraded systems. Further, HRM has also assumed operation of some mechanical systems in Alderney Landing. Boards have done their best to maintain the facilities, but their standards are not always consistent with HRM expectations to ensure proper maintenance of these centres.

A uniform set of standards would be beneficial from an efficiency perspective, for public safety, and to extend the life of the systems and equipment. For example, there have been instances where a centre has been maintaining the systems at a level they expected was sufficient but through HRM inspection the maintenance was found to be insufficient. Without a consistent set of standards and expectations, the systems maintenance is subjective in nature, in which case safety cannot always be reasonably assured. This is attainable under the current model, but has its challenges in terms of agreement among the Boards in the setting of standards and assigning ultimate responsibility.

Capacity Planning

The cost recovery expectation has resulted in non-recreational activities taking place in facilities such as bingo, auctions, concerts, leased office space, private sector business, etc., to achieve additional revenue. If these non-recreational activities were reduced, existing space could then be used for recreation programming thereby increasing HRM's core service delivery and potentially reducing the requirement for new or existing recreation space. Recreation service delivery requirements should dictate the best use of each facility. Space is currently being leased in other buildings for HRM direct programming that could be potentially located within these regional facilities. This consolidation of programming would impact available leased space at facilities but overall would result in a more effective and efficient service delivery of recreational programming for the same or less cost.

To achieve maximum value from resources used, recreational service delivery must be viewed as one entity. An integrated regional network would ensure a balance of rentals and appropriate use of public space. This would ensure the right event/rental is held in the most appropriate location and reduce the inherent competition between the facilities.

At present, the individual boards make the operational and programming decisions regarding the usage of these HRM-owned facilities and as stated previously, there is often no correlation to HRM expectations and programs. With the current cost recovery model, the facility is utilized in some cases with the intention to maximize the revenue that can be earned, not what services are

best to offer HRM citizens and members. Further, at times, facilities are choosing program offerings that do not align with Regional Council's expectations or HRM's culture. Mechanisms must be in place for HRM to provide necessary input and oversight into regional facility usage. While this can be achieved under the current governance model through updated management agreements, HRM can still be exposed to reputational or financial risk if the facility and HRM interpretations do not align.

Communication

Open and comprehensive communication with facility staff and boards must exist with HRM staff to ensure:

- accountability;
- transparency; and
- effective oversight of public assets.

Considering the joint responsibility for these important recreational service delivery hubs, timely and consistent communication is vital for the continued safety and upkeep of the facilities. As well, open communication will help ensure appropriate programming is provided with HRM's ongoing input, following the expectations and utilizing the resources approved by Regional Council.

Overall communication between HRM, the facilities, and the public has been improving, however, it still remains an area of concern within the current governance model and management agreements. There are instances where information is not being shared or only being partially provided to HRM by the various facilities, including a work stoppage, significant human resources issues, tenancy issues involving improperly classified leases and payment arrears. HRM has faced challenges in not only ensuring leasing agreements flow through the proper channels but also found situations in which leasehold improvements did not have proper permits and approvals. There are also challenges with leasing arrangements not following proper HRM processes and classifications, or committing HRM to terms beyond those allowable, without HRM approvals and outside the mandate of the management agreement. As a result, HRM has been placed at potential and unknown risk that could result in financial loss or reputational impact.

HRM has also experienced various initiatives and announcements after they are made public. More troubling are situations which may put HRM at risk, in terms of policy and/or Charter violations, such as binding HRM to specific leasing conditions and approvals without the necessary authority, registered board membership and voting procedures, proper receipt of permits for renovations, board supervision of HRM staff, and corporate initiatives. The OAG report on ABC administrative functions clearly notes "...there seems to be little or no communication among the ABCs or between the ABC and HRM with regards to leading practices, possible shared services or opportunities for efficiencies with regards to the provision of administrative functions."

Even within HRM, there is ambiguity around corporate initiatives and the degree to which they are implemented at the regional facilities. The current governance model causes confusion as to when to include these facilities in HRM initiatives and when, by the nature of the agreements,

they must be excluded. Staff struggle when identifying which ones should or will be included; resulting in some getting included while others do not, without clear rationale. Because the technology and systems at the facilities are not integrated amongst themselves or with HRM, support is problematic. With inconsistent operating systems and procedures, even if it was in the best interest to include all facilities, they often cannot be included. An example of this is the 2013 Print Smart program initiated by HRM. Only the Halifax Forum and Dartmouth Sportsplex were included in the original scope of work, presumably because both facilities were already utilizing HRM systems to some degree.

Communications must flow through the required administrative channels in a timely and appropriate method. This would ensure all parties are well informed; and adherence to contractual obligations by both HRM and the boards would ensure risk is mitigated.

Corporate Safety

HRM has identified the importance of this operational area. In working with the regional facilities, a number of safety concerns have been highlighted such as continued parking in fire lanes, unsafe use and transportation of chemicals, and performance of mechanical systems. Noted differences exist in facility safety policies and traffic concerns in some of the facility parking lots. Overall, there is a lack of documented operational procedures and staff training. While in each instance the GM is working to address the issues, the nature of activities taking place in these facilities dictates the need for comprehensive and consistent safety policies and procedures to protect not only citizens, but staff as well.

A corporate review of existing policies and procedures at the regional facilities indicate the safety culture needs to be elevated to a much higher level to mitigate risk. The review has also highlighted the lack of consistency in regards to staff training, documentation, and adherence to Nova Scotia Occupational Health and Safety Policies and Procedures. Currently, not all facilities have been completed, however, the review conducted to date can be determined to be indicative of the current situation at many of the facilities.

Procurement

Under the current governance model, there is ambiguity surrounding the legal agency relationship between HRM and the facilities, and this leads to confusion regarding the types and level of help that Procurement can offer these facilities. Within the current governance model and with the current agreements, the language surrounding the relationship status in regards to agent versus non agent of HRM is further complicating the procurement process. Any efficiencies and economy of scale via standardized purchasing or procurement processes are therefore problematic to achieve or direct.

The facilities are encouraged to take the opportunity to utilize HRM's procurement services for administering tenders on their behalf; however under the current governance model they are not compelled to utilize this process. HRM's standing offers are made available to the facilities to achieve economies of scale and consistency across HRM in relation to purchasing specific components, but issues have arisen regarding this information and the opportunity to utilize it. Vendors have expressed concerns that this information is provided to HRM only, and the fact

that the regional facilities are operated by a non-HRM entity could expose the vendors to potentially having this information provided to competitors.

This is causing issues in relation to HRM's compliance with the Nova Scotia Public Procurement Act, which is standardizing practices to ensure taxpayers receive the best value for their dollar and that vendor's have an easier understanding and opportunity to compete in the procurement process. Consultations with the Province indicate the intent of this legislation envisioned all HRM's entities utilizing this procurement process and the challenges created by the operation of public facilities by non-government entities are more extensive than originally expected.

Performance Measurements

As noted in the February 2013 report to Regional Council '*Financial Performance of HRM's Regional Facilities*', cost recovery has been the key performance measurement for these facilities. In reviewing the financial reporting information from the regional facilities, it has become apparent that some of the facilities are experiencing difficulties compiling information beyond financial indicators, both from a staffing resource perspective and technology limitations. Non-financial performance measures and data are not readily available and a majority of the facilities indicate it would be very problematic and time consuming to produce the information. As a result, critical information that is fundamental to accurately determining the recreation needs of the municipality is not available. This information includes data related to facility bookings, program registrations and membership numbers. Even financial data, which is typically automated, requires significant manual work for some facilities. This gap in relevant information places HRM at a disadvantage when trying to benchmark analysis on service delivery with other municipalities. It should be noted that under the current governance structure, HRM does not have sufficient authority to require the data collection. While HRM is not able to compel the collection of relevant data, due to the current inconsistent state of technology in the facilities, the data cannot be effectively collected.

An ICT Opportunity Assessment has been initiated to determine the scope required to investigate the centralization and streamlining of procedures between facilities, allowing for the ability to gather data on facility programs and users and provide better citizen outcomes. This would provide the tools to make more informed decisions regarding funding, programming, and future planning for all the facilities. An initiative of this nature would require full cooperation of all the individual facility management teams and integration of the various applications that form the facility operating systems, which themselves are not integrated or up to date; making this initiative challenging under the current model.

Risk Management

Table 2 below represents the total HRM insurance cost allocation for the facilities including the corresponding cost for Director's insurance, which is additional coverage required for board members. The \$13K Director's insurance (Table 2) would be the only cost savings in insurance coverage for a HRM operated facility versus a volunteer board operated facility. The HRM allocated insurance costs are based on many factors specific to each facility and would be applicable regardless of the governance model. The allocation takes into account the type of operations at the facility and the complexity of the facility.

Of the risks present for these regional facilities, most can be regarded as liability for decisions being made by the volunteer boards. Under the current governance model, the primary operational decision makers are the volunteer boards which have been provided this authority by Regional Council. The decisions/policies approved and implemented by the boards affect HRM directly, although HRM has limited, if any, direct involvement. Ultimately, however HRM is legally responsible for all activities which occur in these facilities based on the decisions made by the volunteer boards.

In addition to the liability risk, there are also public relations risks. Any dissatisfaction felt by citizens as a result of any decisions or actions by these facilities, or any injury sustained will not only result in possible legal action being taken against HRM, but also the possibility of the HRM's reputation being adversely impacted. The public makes no distinction between HRM operated facilities or a volunteer board operated HRM facility. It is vital for HRM to have a governance model that ensures decisions that impact HRM and potentially increases risk for HRM, are within HRM's ability to directly mediate.

Table 2: Insurance Costs for Regional Facilities

Regional Facility	Directors & Officers Coverage	Total HRM Allocated Insurance Cost
Alderney Landing	1,350	9,480
Canada Games Centre	2,000	28,860
Centennial Pool	1,000	8,164
Cole Harbour Place	2,000	27,389
Dartmouth Sportsplex	3,620	24,131
Halifax Forum	2,170	21,184
Sackville Sports Stadium	N/A	24,910
St. Margaret's Centre	1,400	14,418
Total Cost	13,540	158,536

Human Resources

Staffing

The OAG review of administrative functions within the ABC's dealt with the issue of administrative efficiency associated with the management of the facilities. The overarching recommendation from that report was "HRM and its entities investigate re-aligning the reporting relationships for the administrative functions (particularly at senior levels) so they potentially report functionally through HRM and operationally through the specific entity". Several other relevant OAG findings and recommendations are highlighted below:

- HRM in conjunction with the boards should work together to review and more fully understand the various models used in providing administrative services.
- HRM should develop a strategy and policy supporting the development of a consistent

delivery model(s) to be used for the provision of administrative functions.

- A re-alignment would serve to make the varied skills and talents available to all of these entities (“HRM family”) and have an overall effect of more efficient and economically sound use of HRM resources.
- The OAG questions what analysis has been completed by HRM regarding an optimal structure for administrative functions of the ABCs, particularly in light of similar resource functions existing within HRM.
- The OAG has concerns with the lack of a strategic approach and focus in utilizing HRM’s resources in supporting the ABCs and questions if the current models are the most efficient use of resources.

While most of the facilities included in the analysis are staffed with non-HRM employees, some facilities have staff which includes HRM employees. The employees of the facility look to the board of directors to set the expectations and monitor their performance. There is little or no accountability or compliance to HRM with respect to the actions and activities of these employees under the current governance model.

Under the current governance model, HRM must exercise caution with respect to administrative oversight and support as these things can impact the relationship of the facility operators to their employees. If the current governance model stays in place, HRM may not be able to effect significant change in administrative support processes and level of oversight without impacting these relationships, which in turn may also impact HRM’s interests. Under the current model, HRM has made efforts to avoid involvement in the day-to-day operation of the facilities. This reduces the ability to obtain efficiencies in the overall operation of the facilities, creates challenges to implementation of the directives of Regional Council and makes it difficult to address recommendations coming from the OAG relative to administrative functions.

Table 3 shows the count by employee type at each facility. Operational efficiencies and effective resource management could be achieved from the centralization of administrative and support staff functions; however there will be minimal efficiencies realized in the short term. Regional centralization of staff would require a functional review of current staffing, in order to determine appropriate levels for the required functions. Based on the analysis completed by the OAG and existing experiences, it is clear that efficiencies and flexibility in the operations could be achieved through a centralized model. Under the current model, not only is there competition related to programming, but also with staffing. Especially in hard to fill positions, movement of staff between facilities can be a problem. A regional approach would help to stabilize the staffing levels and also allow for flexibility for staff to work across the network.

As an example, the Captain William Spry Community Centre, an HRM owned facility providing a pool, programs, and community rental spaces, has been operated by HRM staff since 1996. It has three full-time staff and approximately 111 casual staff who are directly involved in the daily management, programming, and administrative functions at the facility. Maintenance (equivalent to five FTEs), accounting, and payroll are done internally within current HRM structure and processes. While Captain William Spry is a much smaller recreation facility at 4,459 square meters, it does have a similar mix of programs and facility offerings compared to those included in the review and it is indicative of the economies of scale that can be realized by

centralization of administrative and other support.

Table 3: Regional Facilities Staffing Complements

Facility	FT	PT	Casual	PT/Casual	Union*
Alderney Landing	5	4	47	-	No
Canada Games Centre	41	-	-	150	No
Centennial Pool	2	16			No
Cole Harbour Place	36	138	8	-	Yes
Dartmouth Sportsplex	19	7	-	175	No
Halifax Forum	16	2	35	-	Yes
Sackville Sports Stadium	9	-	-	175	Yes
St. Margaret's Centre	16	12	40	-	No

*CHP-28 Union Positions-NSUPE Local 22

*Halifax Forum-10 Union Positions-CUPE Local 108

*Sackville Sports Stadium-5 Union Positions-CUPE Local 108

Payroll

In August 2013, the OAG released a report on HRM's payroll system '*HRM Payroll System – A Performance (Process) Review*'. This review outlined several findings including inconsistent payroll processes, highly manual processes for gathering and inputting employee time information, corporate information being recorded in external applications, and too many independent payroll functions. These inconsistencies create a lack of economies of scale and efficiency.

The OAG recommends (1.3.1) the realignment of reporting relationships for entity staff with payroll responsibilities to the Manager of Payroll within the Finance and Information & Communication & Technology (FICT) business unit. The rationale is to present a more unified approach to the delivery of payroll services and to allow for flexibility as individual, or entity needs change. This may involve transferring functions and possibly staff to the FICT business unit; a difficult task with the current governance model and employer status.

As noted, since the employees of the regional facilities report to the corresponding boards, it is complicated to enact these recommendations. The OAG also recommends exception reporting, where possible, and increased use of technology to reduce hours spent on inputting and to minimize errors. Overall it would be a challenge with the current administrative and reporting model to implement the OAG's recommendations. HRM currently provides payroll services to some of the facilities, on a fee for service model. Under the current model, there is rationale for HRM to reduce or discontinue provision of payroll services to the facilities. Any such changes would likely increase costs to the facilities. If alternative service providers were to provide the payroll service, this could limit the ability of HRM to receive information and reporting relative to staffing costs. Distancing HRM from access to information about the facilities is, however, contrary to the OAG recommendation.

Financial Management

Overall, the combined operating expenditures of these facilities is \$24M. Under the current management agreements, operating revenues generated from such activities as memberships, programs, and rentals are expected to be sufficient to cover 100% of those costs. This expectation is not achievable for the regional facilities. As a result, HRM is providing subsidies in the amount of \$718K annually along with other financial support, such as deferred repayments of funds advanced for payroll costs and leased space for municipal services. However, as noted in Table 4, the facilities collectively operated with an annual deficit of \$1.5M.

Framework

For the most part, volunteer boards are expected to operate on a 100% cost recovery basis, meaning revenues are sufficient to cover all operating expenses. The majority of costs are covered with revenues generated by the facility; however, to alleviate the financial strain, HRM provides funding support through various forms of subsidization (leasing space, direct subsidy funding, HRM payment of capital debts, or advances of funds to cover facility payroll costs). Over the last five years, the standard MDF type facilities (Canada Games Centre, Cole Harbour Place, Dartmouth Sportsplex, Sackville Sports Stadium, and St. Margaret's Centre) have averaged a cost recovery rate of 91% before any HRM subsidy funding is received. The other facilities (Alderney Landing, Centennial Pool, and Halifax Forum) averaged 87%. Where HRM subsidy funding is not included, other financial support such as lease revenue, deferred payments, etc., are included. As a result, without all HRM funding support, only Cole Harbour Place, Halifax Forum and Canada Games Centre operated in a positive financial state. However, it should be noted that all three facilities have current external impacts that assist with their financial state – Halifax Forum now houses both Saint Mary's and Dalhousie universities, Cole Harbour Place houses a HRM library and leases space to Province of NS and, as a result of the 2011 Canada Games, the Canada Games Centre is a Canadian sport centre of excellence.

As indicated in the information report included in the February 20, 2013 meeting of the Audit & Finance Standing Committee '*Financial Performance at HRM's Regional Facilities*', in recent years there has been a struggle for these boards to cover current operating costs and obligations, address outstanding debts, build financial capacity for future operations, and contribute to capital reserves that should be covered under the current operating model. The full cost recovery expectation is difficult to achieve for many facilities given several environmental and operational factors including some that are beyond the facilities' control, such as increased number of private and public recreational facilities, increased operational expenses, changing demographics, complexity of technology, and community expectations. Minimum wage alone increased four times since 2010, from \$8.60 to \$10.30 (20%). This has impacted costs for minimum wage employees as well as others to prevent wage compression. Utility costs, in particular energy rates, increased on average 7% in 2012, 3% in 2013 and are approved for another 3% next year. Facilities have been able to manage increases through efficiency programs and savings in other areas but are still unable to cover all costs without some type of HRM support.

Regardless of the governance model in place, there should be a change in the cost recovery expectation as it is clear that even after many operational improvements are put in place at the facility level, 100% cost recovery for this public service is challenging and not realistic for many

of the facilities to achieve individually without impacting service delivery.

Performance

Five year trend analysis indicates that annual results vary significantly across the facilities and from year to year. It is challenging for HRM to impact operating results, as HRM does not have control or input over operating decisions made by the Boards and facility staff. Therefore, HRM does not have the ability to proactively address any financial concerns. Financial reporting, including annual projections, is being provided to HRM on a quarterly basis, however, it only allows HRM to be aware of major financial concerns but not address them. A snap-shot of the 2012/13 financial performance and positions of the eight operations included in this review is included in Table 4.

Table 4: Financial Performance 2012/13 and Financial Position

In '(\$000)

FACILITY	Alderney Landing	Canada Games Centre	Centennial Pool	Cole Harbour Place	Dartmouth Sportsplex	Halifax Forum	Sackville Sports Stadium	St. Margaret's Centre	TOTAL
Operating Revenues	1,100	4,615	409	3,544	4,645	4,094	2,959	1,500	22,866
Operating Expenditures	(1,269)	(4,505)	(565)	(3,134)	(4,858)	(3,887)	(3,442)	(1,916)	(23,576)
Debt (Loan) Repayment	-	-	-	(203)	(75)	(147)	(281)	-	(706)
Net Capital Expenditures (funded by facility)	-	-	-	(7)	(155)	-	-	-	(162)
Annual Operating Surplus (Deficit) before HRM subsidy	(169)	110	(156)	200	(443)	60	(764)	(416)	(1,578)
Cost Recovery Rate (before HRM subsidy)	87%	102%	72%	106%	91%	101%	79%	78%	94%
Operating Subsidy (approved by Regional Council)	175	300	140	-	-	103	-	-	718
Net Annual Surplus (Deficit) after HRM subsidy	6	410	(16)	200	(443)	163	(764)	(416)	(860)
Cost Recovery Rate (after HRM subsidy)	100%	109%	97%	106%	91%	104%	79%	78%	96%
Accumulated Net Assets (Deficit) from balance sheet	(23)	374	(3)	481	(2,275)	(292)	(4,187)	(451)	(6,376) *
Operating Debt Past Due	-	-	-	-	1,534	-	0	187	1,721
Capital Debt Past Due	1,051	-	-	-	-	-	3,678	-	4,729
Operating Debt Due in Future	40	-	-	134	318	-	158	198	848
Capital Debt Due in Future	-	-	-	725	77	1,131	2,045	2,167	6,145
TOTAL DEBT	1,091	0	0	859	1,929	1,131	5,881	2,552	13,443

*This is the Financial Position of each entity

Highlights of Table 4 are included below:

- The cost recovery rate before subsidy (excluding expenditures absorbed by HRM for capital and support costs) was an average 94%. This does not include past due operating and capital debt amounts of \$6.5M.
- HRM provided \$718K in Council approved subsidies to four of these facilities. Canada Games Centre and Halifax Forum would have realized a surplus in the year even without this funding. The SSS is directly operated by HRM; therefore, the operating deficit realized of (\$764K) is a general rate subsidy to this operation.

- Not reflected in the financial results are the average annual capital expenditures of \$1.7M spent by HRM for state of good repair work for the facilities.
- The Cole Harbour Place receives annual leasing revenue of \$158K from the HRM library and \$314K from the Province of Nova Scotia.
- The operating past due debt of \$1.7M is for costs that could not be covered by Dartmouth Sportsplex (payroll) and St. Margaret's Centre (operating loans & payroll). This is a rolling balance that will continue to be outstanding as facility funds are not sufficient to bring the accounts up to date.
- The capital debt past due of \$1.0M from Alderney Landing is still unrecovered. This funding was to come from fundraising efforts. Based on previous direction, this amount should have been paid in full by 2005. Operating results do not indicate capacity for payment to be made.
- The Canada Games Centre (CGC) capital debt of \$6M is not included above. It is being paid solely by HRM. As well, \$2M of capital fundraising remains unfunded.
- The St. Margaret's Centre capital debt is funded by an area rate that is to be collected until 2019/20.

Operating expenditures

Financial statements show that the combined annual operating expenditures for these facilities are approximately \$24M. The two main expenditures are compensation and benefits (49.6%), followed by utilities (14.3%). As noted in the OAG reports recommendations, elimination of duplicate/unnecessary administrative functions may provide substantial cost efficiencies related to compensation and benefits.

In addition to the funding support and subsidization, HRM incurs other costs for these operations, in the form of administrative support provided by HRM resources. A rough estimate of the indirect staff support provided is around \$495K with the main areas being maintenance, legal, human resources, finance, and capital planning. The actual costs are likely higher since the support time provided by HRM staff to these facilities is not tracked in a manner that allows true support costs to be identified. The facilities would be challenged to operate without HRM assistance, in that if the support services were obtained externally, expenses would increase.

Operating revenues

One argument for the current operations model within the regional facilities is the ability to drive their own revenues, independent of HRM funding and support, based on operations and external partnerships. Regional facilities generate revenues from a variety of program and services to offset costs, some are recreation based, and others are not. Some of the revenue sources include fitness memberships, ice rentals, swimming programs, facility and gymnasium rentals, bingo, concerts and events, commercial leases, and others.

Of the combined \$23M facility revenues generated, three of the largest sources are fitness memberships, arena rentals, and bingo (\$12.2M combined). Memberships have declined significantly over the years at some of the facilities as private operators have emerged and some aging facilities are not able to provide the experience and services desired by the members. Further, memberships are not flexible to allow members to purchase at one facility and use at another at their convenience, similar to the service offered at some of the private facilities.

Currently, there is no way under the current governance model to readily adopt such a system as the mandates, technology, operating systems and prices all vary.

Most of the facilities receive some leasing revenue in the amount of \$1.4M from various tenants such as the HRM Library, Province of Nova Scotia, various commercial tenants, etc. Leases provide an alternative revenue source to typical recreation services, but they do not always align with recreation services. They do, however, help to close the revenue gap towards cost recovery. Of the 26 current leases, 19 are with commercial tenants each with varying degrees of success. Some leases are not being paid as per the agreement terms, which create cash flow issues, and some have been developed without the required Council approval. There was some confusion related to HRM's ultimate responsibility for these leases at some facilities, but staff has been able to work through these issues. However, there is still the challenge of HRM having input early into the leasing process with the regional facilities to ensure necessary questions are asked, processes are followed and approvals given. HRM staff has had to assist in resolving leasing issues that have resulted from independent negotiations by either a Board or a GM.

There is no requirement for consistent pricing of ice, memberships, programs and spaces, so the fees and policies for recreation services vary within the regional network. Pricing and policies are reflective of the individual facilities' strategic goals, capacity, and operational needs. User fees are higher in comparison to HRM operated facilities which creates an inappropriate barrier for many citizens to participate in a variety of recreation services. The pricing differences have led to a sense of inequality for some citizens, many of whom cannot afford some of the more expensive membership fees and unique programming that these facilities can offer because of their financial position. Arena rental fees do not reflect consistent pricing within the network, which again creates an inequality and competition. Regional Council has directed implementation of a centralized scheduling initiative. The first components of this initiative have been implemented and further improvements could be realized with optimized pricing arrangement. However, as indicated, achieving this outcome is challenging under the current governance model and without standard operating technologies.

Capital Investment & Debt

HRM provides funding for all capital needs related to code compliance, health, and safety of its facilities as they are important to maintain HRM's recreation service delivery. The 2013/14 annual project budget includes HRM funding for 'state of good repair' initiatives at the regional facilities of \$3.2M. The annual budget allotment for state of good repair requirements would not change as a result of a changed governance model or a regional approach to recreation service delivery. Each budget cycle, requests for project funding for each facility is made to HRM based on the assessment of the work required. The amount budgeted and spent at each facility in any given year varies, and depends on the overall priorities and available funding. As a result of the Facility Condition Assessments completed in 2012, required capital investment to maintain asset conditions can be prioritized for each facility. Prior to the completion of these assessments, HRM did not have comprehensive information to validate the work requested. The assessment reports indicate that there is a total of \$22M in deferred maintenance required for these facilities.

Prior to 2010, facility improvements beyond state of good repair work were partially covered by facility operating funds, with the exception of St. Margaret's Centre, where a capital area rate is

in place. Debt repayments range between \$50K and \$260K annually and would continue anywhere from 1 to 13 years. For some facilities, outstanding debts are repaid to HRM if and when operating funds are available. Council has requested that staff return with debt repayment plans before June 2014; however the analysis has highlighted that under the existing models, as some of the facilities continue to struggle with financial health, it will be increasingly challenging, if not impossible, to effectively implement and collect on repayment plans.

In March 2013, Regional Council approved the establishment of the Regional Facility Expansion Reserve to be used to fund future service improvement projects. Use of the reserve funding requires a business case be approved for each request prior to funding being committed. This approach is intended to ensure service improvements are fiscally responsible and necessary to meet community needs. However, ensuring a regional focus on service improvements and new capacity requests for the MDF facilities is more challenging under the current governance. Under the current individual mandates and requirement for full cost recovery, facilities look for facility specific improvements to improve the state of their individual facility and revenue recovery. While these service improvements can improve the state of one facility, it is often to the detriment of others and potentially to the overall recreation network, as there are limited new users to the recreation facilities but rather a transfer of users from other facilities. As well, this segregated approach further increases the competition between facilities and may result in HRM undertaking service improvements that are not the most effective for improving the overall recreation service for residents. A regional focus to the recreation network would allow for better overall assessment of community needs and ensure funding is allocated for service improvements and future capabilities in areas that best serve the needs of the overall municipality.

Outlook

If Regional Council determines these facilities should remain independent of HRM under the current governance model and operated in a segregated approach, it is unlikely that the overall financial situation will improve. HRM will continue to subsidize these operations in one way or another, both in financial and administrative support.. Further, HRM could not easily address, on a regional level, concerns with respect to the various operating models, inequity in terms of cost to participate, operational effectiveness, staffing levels, program mix, and community access.

Moving to a regional focused operational model will facilitate a review of the types of programs and services being offered, categorized by recreation versus non-recreation, and inform the development of a regional financial model that can be applied for all HRM recreation facilities. It would be premature to indicate a required level of funding until a transition plan is prepared that takes into account all aspects of the operations. While it is expected that in the short term, minimal savings could be realized and potential additional transition costs may be incurred, long term efficiencies would realize significant savings and likely offset the annual deficits experienced by the facilities.

Governance Analysis

As outlined in the Regional Council approved Community Facilities Master Plan (CFMP), HRM

has two primary methods for facility management. These are:

- Direct Provider - HRM provides direct programs and services through the facilities it operates
- Enabler - HRM enables others by contracting out the delivery of programs and services to community board run organizations or private sector

Based on an analysis of total operational expenditures for HRM recreational facilities, 70% of total HRM's recreation service is delivered through "Enablers" and is outside of Council's direct control. This is often referred to as "distributed governance".

In order to recommend the most appropriate governance model for HRM's regional facilities, it was important to review potential models under these and their resulting relationships. That review further indicated that the appropriate governance model must ensure HRM is able to deliver recreation services that:

- 1) Promotes community involvement
- 2) Meets community needs
- 3) Provides safe environments
- 4) Provides affordable and equitable access
- 5) Are efficiently and effectively operated
- 6) Are managed in a financially responsible manner

As well, in order to be effective and efficient in meeting Regional Council's Healthy Communities focus area objectives, recreation service delivery and programming needs to be similar with the same objectives whether provided directly by HRM or through an enabler at a HRM-owned facility. Some key objectives to ensure municipal recreation services meet community needs and achieve HRM's outcomes are:

- Community is engaged and involved in planning and delivering recreation programming
- Access is provided for all citizens
- Affordable services are offered
- Effective financial and operations management
- Best use and value from resources employed
- Efficiencies and economies in operations
- Facility capacity well used and managed
- Safe environments exist
- Consistent policies and practices
- Collaborative short and long-term infrastructure planning
- Capital investment is based on need, supported by strong business cases
- Adequately managed risk

HRM's Recreation Blueprint, the guiding document for service delivery, outlines that HRM service delivery is undertaken to "enrich the lives of HRM residents and communities by facilitating and/or providing quality inclusive leisure services, facilities, and programs". This principle continues to be the Council approved cornerstone of service delivery for HRM

municipally-operated facilities and small community facilities. To effectively meet the needs of residents, it needs to be the cornerstone for all HRM facilities, regardless of their operating model.

GHP Jurisdictional Review

As part of this analysis, Greater Halifax Partnership (GHP) conducted a jurisdictional review of seven Canadian municipalities in relation to governance and operations of their multi-district facilities (Appendix 1). The municipalities chosen were those consistently utilized as benchmark locations in numerous HRM initiatives.

Examination of the data reveals that of the seven municipalities studied, only two examples of the enabler model with management boards exist. For the others, the strategic direction and administration are determined and executed by the City. It was found that this allowed for standardization of programming, maintenance and operating standards. Allocation of resources is determined by the needs of the community centre and ultimate accountability rests with the municipality and Council. These cities utilize advisory boards and committees to gain community input while maintaining administrative control.

As outlined in Appendix 1, Winnipeg and Vancouver are unique in their approach. In Winnipeg's multi-level board model, each facility has a community board; however these individual boards are linked to the General Council on Winnipeg Community Centres (GCWCC), which is a larger, management board that also has representatives from the City, the Community Services Department and Minor Hockey. The GCWCC was formed in 1971 after amalgamation of 13 municipalities into the City of Winnipeg. The GCWCC promotes and encourages cooperation among the various community centres and city administration. It provides a central council for the exchange of ideas and resolution of common issues and is responsible for policy and programming and oversees the operation of all the community centres. Vancouver operates strategically through a single, elected board. This board determines strategy, policy and programming for community centres in each of Vancouver's 23 neighbourhoods in partnership with multiple community-based associations.

In terms of funding models, all the facilities in the GHP scan charge program and service fees as part of their revenue stream. Four are imbedded as part of the City's budget; two receive subsidies while one has an independent budget which is a recent switch from City subsidization. The findings showed that the cities work in partnership with their major facilities while maintaining oversight. They also show the inherent inability for such major facilities to experience 100% cost recovery or be fiscally independent.

The GHP review shows that HRM could choose to fully centralize (HRM owned and operated), fully decentralize (HRM owned but not operated) or diffuse both in their operations. In a diffused model, a structure would be created similar to a crown corporation to provide direct oversight for the facilities.

With centralization, the strengths include standardizing and streamlining all operations across the facilities as well as the absence of additional boards and agreements to manage. The challenge

would be to ensure appropriate human and financial resources are available to properly manage the facilities.

With decentralization, the advantages are that municipalities share the responsibility for the facilities' operations and the associated risks by empowering another body to operate a facility on its behalf. The challenges are the loss of oversight and accountability over the operation.

Diffusion could mean creation of an arm's length body to operate the facilities with the municipality maintaining oversight of the body. In a diffused model, HRM would also be responsible for staffing and finances. The challenges would be the need for the arm's length body to enter into agreements with sub-contractors for services, and manage these services on behalf of HRM. HRM would also hold accountability for the operation of the facility but not hold direct responsibility.

An important consideration of the GHP review is management control which is critical to ensure standardization of procedures, policies and strategic direction. Through a centralized system, HRM would have the ability to direct the necessary partnerships and control the relevant operational areas in the facilities to ensure compliance and best practices for financial stewardship and service excellence. Under the decentralized and diffused systems, those aspects would be more challenging.

Analysis

Consistent with the findings in the GHP scan, four common facility management models have been analyzed for HRM's regional facilities. While hybrids of these models can exist, the following four are the base models.

- 1) Community board run with Council policy direction
- 2) Outsource operation of facilities to private sector with Council policy direction
- 3) HRM staff operated based on Council direction
- 4) HRM staff operated with Council direction and community advisory committee input

This analysis identified the advantages and disadvantages of each model for HRM through the analysis of several aspects. All of the models impact the ability to ensure Regional Council's strategic direction and priorities are implemented, with some making it easier than others. Each model would need to include the accountability and administrative processes required to ensure appropriate program and service delivery to the citizens of HRM, as well as financial, administrative and strategic oversight of each operation.

Community board operated with Council policy direction

Under this decentralized model, HRM would remain the asset owner responsible for the state of the facilities' infrastructure and Regional Council would set overall strategic direction, but strategic planning, daily management, and operation of the facility would be the responsibility of the volunteer boards. The relationship would be defined and administered based on an operating agreement. This model is currently in place at Cole Harbour Place, St. Margaret's Centre, Canada Games Centre, Centennial Pool, Alderney Landing and Dartmouth Sportsplex. The

governance model at the Halifax Forum is similar with the exception that the facility staff are HRM employees.

Under this model, volunteer boards are tasked, on HRM's behalf, with strategic planning and decision making, ensuring community involvement, service delivery focus, financial stewardship, operational efficiency and effectiveness, and facility maintenance. HRM would have the ability, through specific terms, to ensure there are administrative processes for accountability and oversight, as well as consequences to non-compliance with the agreements. Volunteer boards, while still independent from HRM, should operate based on the strategic objectives and direction of Regional Council. However, the strategic planning of the individual boards may not necessarily mirror the strategic objectives of Regional Council in practice. Therefore, it would be critical to include mechanisms for HRM to ensure strategic direction is aligned.

A decentralized model offers potential benefits for the individual regional facilities as follows:

- Arms-length relationships can provide a good deal of autonomy and freedom for the individual centres, in programming, operational processes and initiatives
- Quicker adaptation to new ideas and initiatives may be possible
- Management ability to respond to the community needs as they see appropriate
- Opportunities could be available, such as funding from other levels of government, partners, and donors or other supports, to the operating bodies that may not be available if HRM directly operated these facilities

Challenges to this model are:

- Ensuring user and community engagement in overall recreation programming
- Developing and administering the management agreements
- Ability to control expenditures and deficits
- Enforcement of consequences when expectations are not being met or acceptable processes are not being followed
- Decisions may not be made with Regional Council strategic objectives in mind
- Regional focus to programming and infrastructure needs
- HRM bears the inherent risk with respect to the facility but is not directly responsible for its operation
- Alignment of desired outcomes on a regional scale can be difficult
- Lack of control in that boards have the ability to act contrary to HRM/Council direction
- Defining HRM's role in board development and ensuring HRM input into training and skill sets
- HRM's oversight role needs to be appropriately defined and maintained
- Communication struggles may continue to persist
- HRM's ability to influence rentals/event content is limited
- Community boards and volunteers accept fiduciary and management risks

Outsource operation of facilities to private sector with Council policy direction

A relatively new facility management model has evolved in HRM, which is partnership with private sector operators (CFMP p.31). Under this model, HRM would enter into a management

contract with a private entity to operate and manage the facilities. Management staff at the facility would take direction from a single entity that would have the direct reporting relationship with HRM. The private entity would have autonomy to operate, providing strategic direction, management, operations, programming, and administration support to HRM for an annual fee. A facility advisory committee could be in place consisting of the operator, HRM staff and community members to ensure compliance with the agreement and stated deliverables.

These partnerships can be beneficial in that:

- The private entity should have expertise in recreation facility management
- Programming could be enhanced through best practice approaches
- Pooling of assets can realize economies in operations
- Business mindset would drive effectiveness and efficiencies

Alternatively, this model could be challenging as follows:

- Be complex, requiring a strong advisory committee
- Require consistent monitoring to ensure business needs don't override community needs
- Require a long-term financial commitment
- Finding the right partner, given the mix of facility offerings
- Ensuring user and community engagement in overall recreation programming
- Developing and administering the management agreements
- Enforcement of consequences when expectations are not being met or acceptable processes are not being followed
- Decisions may not be made with Regional Council strategic objectives in mind
- HRM bears the inherent risk with respect to the facility but is not directly responsible for its operation
- Alignment of desired outcomes on a regional scale can be difficult
- HRM's ability to influence rentals/event content may be limited

Identification of expectations on the part of HRM and the partner would have to be clearly defined and outlined in a contractual agreement. Further, this agreement would need to be closely monitored to ensure that Council's strategic direction and HRM requirements are met.

HRM staff operated based on Council direction

Under a centralized model, HRM would assume control and be responsible for direct management and service delivery at its facilities. This is the case with the existing municipally-owned and operated facilities, including Captain William Spry, Sackville Sports Stadium, St. Andrew's Centre, etc. In order for a centralized structure to be implemented successfully, HRM must determine the internal accountability structure that would be necessary to provide an optimized approach to recreation service delivery. A centralized model would provide HRM with the opportunity to be able to implement consistent processes and explore areas for operational savings and efficiencies.

A centralized model would provide the following opportunities:

- Common approaches to program delivery based on Council's direction and expectations
- Regional approach to program and infrastructure provision

- Consistent operational policies and practices
- Economies of scale with more effective use of HRM resources
- Efficient processes and service delivery
- More direct control of decisions
- Tighter fiscal management
- Increased knowledge of program, administrative and operational activities and initiatives across HRM
- Improved short and long term planning aligned with HRM strategic direction

On the other hand, a centralized approach may present some challenges including:

- Risk of less community involvement without volunteer board participation
- Sense of disconnect to community needs
- Possible lost 'sense of ownership' and engagement by communities
- Identifying, managing, and transitioning staffing requirements

HRM staff operated with Council direction and community advisory committee input

Great value is achieved by having community involved with the programming needs in their areas. Over the years, the current board model has become an onerous task on volunteers for many reasons. One of which is the enormous responsibility and expectations placed on the volunteers to be strategic planners, facility managers, programmers, communication experts, problem solvers, and financial managers of these facilities. At the same time, the financial performance expectation has led to operating decisions that have helped achieve financial results but may not have met community need. The community advisory model may provide a better opportunity for involvement with less risk of volunteer burnout and disengagement as it allows volunteers to focus on community input and programming recommendations rather than overall facility operation.

Under an advisory model, HRM would assume management of the facility and operations but seek programming input and recommendations from the community advisory committee for a collection of facilities. Citizens on the committee could participate in recreational service delivery, rather than the fiscal oversight and overall facility operation that they are currently tasked with under the current governance model. This would embody the strengths of a centralized model, allowing HRM to take a collective approach to managing these significant assets and their operations, but with the community still having an active role in planning for their needs without the administrative responsibilities. HRM would determine the internal accountability structure necessary and form relationships with the advisory committee. Formal terms of reference documentation could outline clear roles and responsibilities.

Some benefits provided by this model include:

- Community input into program planning and execution
- Clarity of roles and expectations
- Efficiencies and effectiveness from HRM expertise and support
- HRM control and focus on operational and strategic direction
- Ability to strengthen communication within the regional network and development of a system of sharing initiatives and ideas

- Ability to develop, implement and maintain a new financial model for regional facilities system
- Consistency and standardization of operation policies and practices
- Economies and more efficient usage of HRM resources.

Implementing an advisory committee would address most of the challenges faced with an HRM staff operated model however limiting the administrative and operational authority of the committee may make it less appealing for committee members.

The two centralized options noted would also make it easier to facilitate the implementation of the Office of the Auditor General (OAG) recommendations regarding administration functions as well as payroll processes. With administrative and operational control of these facilities, HRM could establish a functional reporting structure, unified policies and practices, and improve programming models. Maintaining a decentralized model such as the current governance model or a new private sector model, would not enable HRM to effectively manage the concerns raised in regards to administrative functions within the regional network without complex management and operating agreements along with significant additional oversight.

Summary

With the significant operational, financial, and community pressures being experienced at these facilities, it is prudent for HRM to take a regional approach to the operation of the MDF facilities and overall recreation service delivery to ensure that operations are effectively managed for the future and the services provided meet all community needs while also aligning with HRM's priorities. With the state of the current governance models, HRM is in a restrictive and reactive situation. HRM has the ability to encourage more cost effective operations however this is a challenge given the current fiscal reality of many of the facilities and may be too much to expect of volunteer boards. Currently, volunteer boards are being tasked with delivering, on HRM's behalf, strategic planning and decision making; community engagement, effective service delivery, financial stewardship, and efficient operations, maintenance and management.

Community involvement in recreation planning is important to make sure community needs are met. As volunteer capacity is limited, the focus of their involvement should be in areas where they can add the most value, providing advice and making recommendations to HRM to support decision making, program service delivery, and the overall facility operation. This will have the most positive impact for the volunteers, the community, and HRM.

Given the financial strain experienced by many of these operations, emphasis should be placed on integrated approaches to cost reduction and operational efficiency opportunities with HRM operations which, if implemented, provide the potential to strengthen the operating performance, viability, financial health and sustainability, and minimize operational pressures at these regional facilities. This is a very complicated and difficult process under the current governance model.

HRM's administrative priorities of financial stewardship, organizational capacity, and service excellence should drive service delivery. In order for HRM to be able to secure efficient and effective programming and operations into the future at a regional level, a regional integrated

network with direct oversight by Regional Council should be implemented. In order to ensure community input is retained and further enhanced, engaging residents through a community advisory committee able to focus providing input into programs and overall recreation service delivery is important. HRM would then be able to clearly ensure that the regional facilities provide services and programs that are inclusive, affordable, and accessible, providing opportunity for all to participate, as outlined in Regional Council's Healthy Communities focus area.

Municipality	Boards	Agreements	Structure	Operations	Funding Model	Reporting
Brampton	No	No agreements	-Centralized -Managed through Director of recreation	-Owned and operated by City	-Facilities collect program and services -Budget is part of City's Parks and Recreation budget	City employees
Hamilton	No	No agreements	-Community Services manages and operates recreation facilities, pools, clubs, arenas and stadiums	-Managed through City's Culture and Recreation Department -Profit sharing agreement in place for their four-pad with Nustadia	-Facilities collect program and service fees -Budget is part of City's Parks and Recreation budget	City employees
Laval	No	Old: City and association New: City and facility	-City is architect and builder of public facilities -Funding provided for infrastructure and physical activity	-Working towards partnerships with rec committees to make facilities & funding available to them -Looking to increase partnerships	-Old system, funds from tax revenues -New system, facilities responsible for own revenues	Non City employees
London	No	No agreements	-Centralized into City's Parks and Recreation Division	-Facilities owned and operated by City	-Facilities collect program and service fees -Budget is part of City's Parks and Recreation budget.	City employees
Surrey	Yes (advisory)	95% of services provided by City, rest through operating agreements (i.e. food, program and select facility operations)	-Six jurisdictions providing Community and Recreation Services	-Facilities owned and operated by City	-Collect program/admission and service fees -Subsidized by tax revenue	For contractors
Winnipeg	Volunteer board for each facility GCWCC acts as management body	Management agreement between City and GCWCC (also management agreements with each community)	-City owns facilities but autonomously run by boards	-Cooperation between City and local volunteers -Primary maintenance by Board, secondary by City	-Collect program/admission and service fees -Subsidized operating grants from the City	Non City employees
Vancouver	Elected board	Joint agreements between City and the 23 community associations	-Centralized through governing body, Vancouver Park Board	-Board of Parks and Recreation acts as steward for operations and management of community facilities	-Fees, levis, loans and funding from other levels of government -Part of City's budget	City employees (Vancouver Park Board)

(Source: Jurisdictional Scan: *Multi-District Facilities Management Across Canada*, Greater Halifax Partnership, Sept. 13, 2012)