



**REVISED AGENDA  
STANDING POLICY COMMITTEE ON FINANCE  
PUBLIC MEETING**

Monday, September 16, 2019, 2:00 p.m.

Council Chamber, City Hall

Committee Members:

Councillor A. Iwanchuk, Chair, Councillor C. Block, Vice Chair, Councillor R. Donauer,  
Councillor B. Dubois, Councillor M. Loewen, His Worship Mayor C. Clark (Ex-Officio)

	Pages
1. CALL TO ORDER	
2. CONFIRMATION OF AGENDA	6 - 21
<i>Recommendation</i>	
1. That the letter submitting comments from Chris Guerette, Saskatoon & Region Home Builders' Association, dated September 15, 2019 be added to item 7.2.2;	
2. That the letter submitting comments from James Barr, KPMG LLP, dated September 15, 2019, be added to item 7.3.1; and	
3. That the agenda be confirmed as amended.	
3. DECLARATION OF CONFLICT OF INTEREST	
4. ADOPTION OF MINUTES	22 - 28
<i>Recommendation</i>	
That the minutes of Regular Meeting of the Standing Policy Committee on Finance held on August 12, 2019 be adopted.	
5. UNFINISHED BUSINESS	
6. COMMUNICATIONS (requiring the direction of the Committee)	
6.1 Delegated Authority Matters	
6.1.1 Municipal Heritage Advisory Committee - Request for 2019 Wicahitowin Indigenous Engagement Conference Attendance Approval [File No. CK 1704-5]	29 - 30

A letter, dated September 3, 2019, from Lenore Swystun, Chair, Municipal Heritage Advisory Committee is provided.

**Recommendation**

That the request for three members of the Municipal Heritage Advisory Committee to attend the 2019 Wîcihitowin Indigenous Engagement Conference, be approved.

- 6.1.2      Municipal Planning Commission - Conference Attendance Approval - Saskatchewan Professional Planners Institute Planning Conference - September 16 and 17, 2019 [File No. CK 175-16]** 31 - 31

A letter dated September 10, 2019, from the Municipal Planning Commission, is provided.

**Recommendation**

That the request for three members from the Municipal Planning Commission to attend the Saskatchewan Professional Planners Institute Planning Conference - September 16 and 17, 2019, be approved.

- 6.1.3      Public Art Advisory Committee - Conference Attendance Approval - Creative City Summit - October 1-3, 2019 [File No. CK 175-58]** 32 - 32

A letter dated September 11, 2019, from the Public Art Advisory Committee, is provided.

**Recommendation**

That the request for up to three members from the Public Art Advisory Committee to attend the Creative City Summit - October 1-3, 2019, be approved.

**6.2      Matters Requiring Direction**

- 6.2.1      Downtown Saskatoon - Board Composition and Request for Temporary Exception [File No. CK. 6280-2]** 33 - 34

A letter from Brent Penner, Executive Director, Downtown Saskatoon dated August 30, 2019, requesting a temporary amendment to Bylaw 6170 to permit a nominee of a business outside of the District to remain on the Downtown Business Improvement District Board of Management.

**Recommendation**

That the Standing Policy Committee on Finance recommend to

City Council:

1. That the Downtown BID be granted an exception to the Board composition requirements contained in Bylaw 6710 on a temporary basis to permit Shaunna Leyte, a nominee of a business outside of the District (within River Landing) to remain on the Board; and
2. That the City Solicitor be instructed to make the appropriate Bylaw amendments.

### **6.3 Requests to Speak (new matters)**

## **7. REPORTS FROM ADMINISTRATION**

### **7.1 Information Reports**

#### **Recommendation**

That the information reports contained in items 7.1.1 and 7.1.2 be received as information.

<b>7.1.1</b>	<b>Infrastructure Investment Evaluation Process Internal Audit Project [File No. CK. 1600-1]</b>	<b>35 - 87</b>
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The following reports are provided for the Committee's information:

- Infrastructure Investment Evaluation Process Internal Audit Project, from Internal Auditors, PricewaterhouseCoopers LLP; and
- Administrative Response – Infrastructure Investment Evaluation Process Internal Audit Project

A representative from PricewaterhouseCoopers LLP will be in attendance to present the Internal Audit Report.

<b>7.1.2</b>	<b>Internal Audit Budget – August 2019 [File No. CK. 1600-3]</b>	<b>88 - 90</b>
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### **7.2 Approval Reports**

<b>7.2.1</b>	<b>Acquisition of Land for the Relocation of the Saskatoon Fire Department Maintenance and Mechanical Shop [File No. CK. 4020-1]</b>	<b>91 - 95</b>
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#### **Recommendation**

That the Standing Policy Committee on Finance recommend to City Council:

1. That the Administration be authorized to purchase 2011 1st Avenue North for a price of \$740,000 to be funded from the Property Realized Reserve; and
2. That the City Solicitor be requested to prepare the appropriate agreement and that His Worship the Mayor and the City Clerk be authorized to execute the agreement under the Corporate Seal.

**7.2.2 Development Levies Review – Request for Additional Funding [File No. CK. 4216-1]**

96 - 102

A letter submitting comments from Chris Guerette, Saskatoon & Region Home Builders' Association, dated September 15, 2019 is provided.

**Recommendation**

1. That the proposed scope change for the City of Saskatoon's Development Levy Review project that will extend the timeline and also see an increase to the maximum upset cost in the amount of \$10,000 plus applicable taxes, be approved; and
2. That the appropriate documentation be prepared by the Corporate Risk Manager and, following a review by the Office of the City Solicitor, the City Manager and City Clerk be authorized to execute the same on behalf of the City of Saskatoon.

**7.3 Decision Reports**

**7.3.1 Internal Audit Service Delivery Model [File No. CK. 1600-37]**

103 - 126

A letter submitting comments from James Barr, KPMG LLP, dated September 15, 2019, is provided.

**Recommendation**

That the Administration undertake the necessary actions to implement Option 2 – Establish a Co-Sourced Internal Audit Function.

8. URGENT BUSINESS
9. MOTIONS (notice previously given)
10. GIVING NOTICE
11. IN CAMERA AGENDA ITEMS



12. RISE AND REPORT

13. ADJOURNMENT

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**From:** Chris Guérette <cguerette@saskatoonhomebuilders.com>  
**Sent:** Sunday, September 15, 2019 7:26 AM  
**To:** City Council  
**Subject:** Form submission from: Write a Letter to Council  
**Attachments:** srhba\_letter\_of\_support\_to\_spc\_on\_finance\_14.09.2019.pdf

Submitted on Sunday, September 15, 2019 - 07:25

Submitted by anonymous user: 71.17.241.98

Submitted values are:

Date Sunday, September 15, 2019  
To His Worship the Mayor and Members of City Council  
First Name Chris  
Last Name Guérette  
Email cguerette@saskatoonhomebuilders.com  
Address 17-102 Cope Cres  
City Saskatoon  
Province Saskatchewan  
Postal Code S7T 0X2  
Name of the organization or agency you are representing (if applicable) Saskatoon & Region Home Builders' Association  
Subject Agenda item 7.2.2 Development Levies Review – Request for Additional Funding Meeting (if known) SPC on Finance (September 16 2019)  
Comments Please see attached letter, merci.  
Attachments  
[srhba\\_letter\\_of\\_support\\_to\\_spc\\_on\\_finance\\_14.09.2019.pdf](#)

The results of this submission may be viewed at:

<https://www.saskatoon.ca/node/398/submission/336548>



September 14, 2019

Standing Policy Committee on Finance  
c/o Councillor Ann Iwanchuk, Committee Chair  
222 3<sup>rd</sup> Avenue North  
Saskatoon, SK  
S7K 0J5

**RE: September 16 2019 meeting - Agenda item 7.2.2 Development Levies Review – Request for Additional Funding**

Dear members of the Standing Policy Committee on Finance,

We strongly support City administration's request for additional funding of \$10,000 – an increase of 7% to the originally approved maximum cost - to review our City's development levies.

Once all stakeholders embarked on the process, we realized very early that the consultation process was not nearly enough for the consulting team to properly assist and understand the process. It was also very clear that if the process could not be fully trusted, the results would be questioned as well. Given the importance of this review for everyone involved, we recommended adding more consultation to improve transparency and understanding to the project, and in turn bring trust to the process.

Our professional association, when bringing the proposal of auditing development levies to Council in October 2018, wanted to utilize this idea to build trust as we embark on a global conversation on growth together. This is not a conversation that can be rushed and if it requires additional conversations and time, and all parties are willing to make that investment in time, we should support it. We certainly will continue to support this project and remain available to City administration in helping where appropriate.

We very much look forward to the results of the report and moving onto the phase of this project focused on recommendations and improvement.

I am at your disposal to answer any questions or comments you may have and thank you again for supporting this project.

Sincerely,

Chris M. Guérette  
CEO

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**From:** James Barr <jbarr@kpmg.ca>  
**Sent:** Sunday, September 15, 2019 4:07 PM  
**To:** City Council  
**Subject:** Form submission from: Write a Letter to Council  
**Attachments:** kpmg\_ia\_sourcing\_options.pdf

Submitted on Sunday, September 15, 2019 - 16:07

Submitted by anonymous user: 76.9.197.100

Submitted values are:

Date Sunday, September 15, 2019

To His Worship the Mayor and Members of City Council

First Name James

Last Name Barr

Email jbarr@kpmg.ca

Address 500 - 475 Second Avenue South

City Saskatoon

Province Saskatchewan

Postal Code S7K 1P4

Name of the organization or agency you are representing (if applicable) KPMG LLP

Subject SPC on Finance Agenda item 7.3.1 - Internal Audit Service Delivery Model

Meeting (if known) SPC on Finance - Sept 16, 2019

Comments

KPMG is one of the largest professional services firms in Canada, with a dedicated internal audit practice consisting of over 500 audit and IT audit professionals (with 15 professionals in Saskatchewan, including two partners, one of which is the national service line leader). We currently have a Master Framework Agreement for Risk, Assurance & Consulting Services with the City of Saskatoon, and were invited to submit comments with respect to topic 7.3.1 on the agenda for the SPC-Finance's public meeting on September 16, 2019 (Internal Audit Service Delivery Model).

We have reviewed the Decision Report supporting this agenda item and offer the following comments for the Committee's consideration:

KPMG is regularly asked by management, boards and audit committees of organizations of all types about the optimal delivery model for internal audit services. We agree that the three options examined in the City's Decision Report are the most commonly considered options, and we believe that the City's analysis of the advantages and disadvantages of each option is fairly sound. We offer some additional analysis and consideration points for the City on this topic in our attachment to this submission entitled KPMG IA Sourcing Options.

Our view, based upon our considerable global experience as an internal audit service provider, is that it would be quite difficult for the City to move to an in-house model for internal audit and be able to hire and retain sufficient expertise to perform value-added audits in all areas that would be required at a cost similar to its current internal audit spend (i.e., a sufficiently experienced leader and team plus specialty auditors in IT and other sector or subject matter areas).

We believe that the City would be best served to maintain a sourcing element to its internal audit delivery model (via either a co-source or an outsource) in order to have access to knowledge of leading practices, specialized skill sets and flexible capacity that is required to deliver high-value internal audit services for a large and complex organization such as the City.

If the City decides to proceed with the co-source option, we caution that a strategy of competitively sourcing each individual audit project may not deliver as much savings as anticipated, and may actually result in less value added than selecting one primary service provider to assist with most or all service needs. Individually procuring each audit project may result in a lower professional fees for some projects, but there are also many additional factors that add costs or reduce utility, such as:

- Additional effort and costs to continually develop procurement documents, administer procurements, evaluate, award and contract for services;
- Time and effort required by City staff to continually onboard new providers to the City's people, systems, processes, audit methodology and templates, reporting formats, etc.;
- Different reporting formats, styles and language resulting in less integrated reporting that is harder to understand and interpret by City leaders; and
- Continually requiring service providers to bid for all projects introduces a risk that some may bid pricing to win that is too low to allow for high-quality work (i.e., they may cut corners and/or not go into sufficient depth to identify truly value-added opportunities for improvement).

Our experience indicates that organizations typically receive better overall value (and equivalent all-in costs) by partnering with one internal audit provider for most or all of its service requirements, especially a primary partner who does not provide a significant amount of other services to the City and thus is completely independent.

#### KPMG's Recommendation

We recommend that the City maintain a sourcing element to its internal audit delivery model via either a co-source or outsource. If the City decides to proceed with the co-source option, it would be better served by selecting one co-source partner to work with on most or all of its service requirements. This strategy would allow for the service provider to develop better knowledge of, and relationships with, Internal Audit and City representatives, systems and processes, and avoid the costs and effort of continual procurement and onboarding of different providers. Such a model would not have to be exclusive, as the City could reserve the right to seek other service providers to deliver unique or complex engagements that, for whatever reason, the use of the primary service provider is not desirable.

Attachments

[kpmg\\_ia\\_sourcing\\_options.pdf](#)

The results of this submission may be viewed at:

<https://www.saskatoon.ca/node/398/submission/336619>



# Internal Audit Sourcing Options

## Information Item for the City of Saskatoon

September 16, 2019



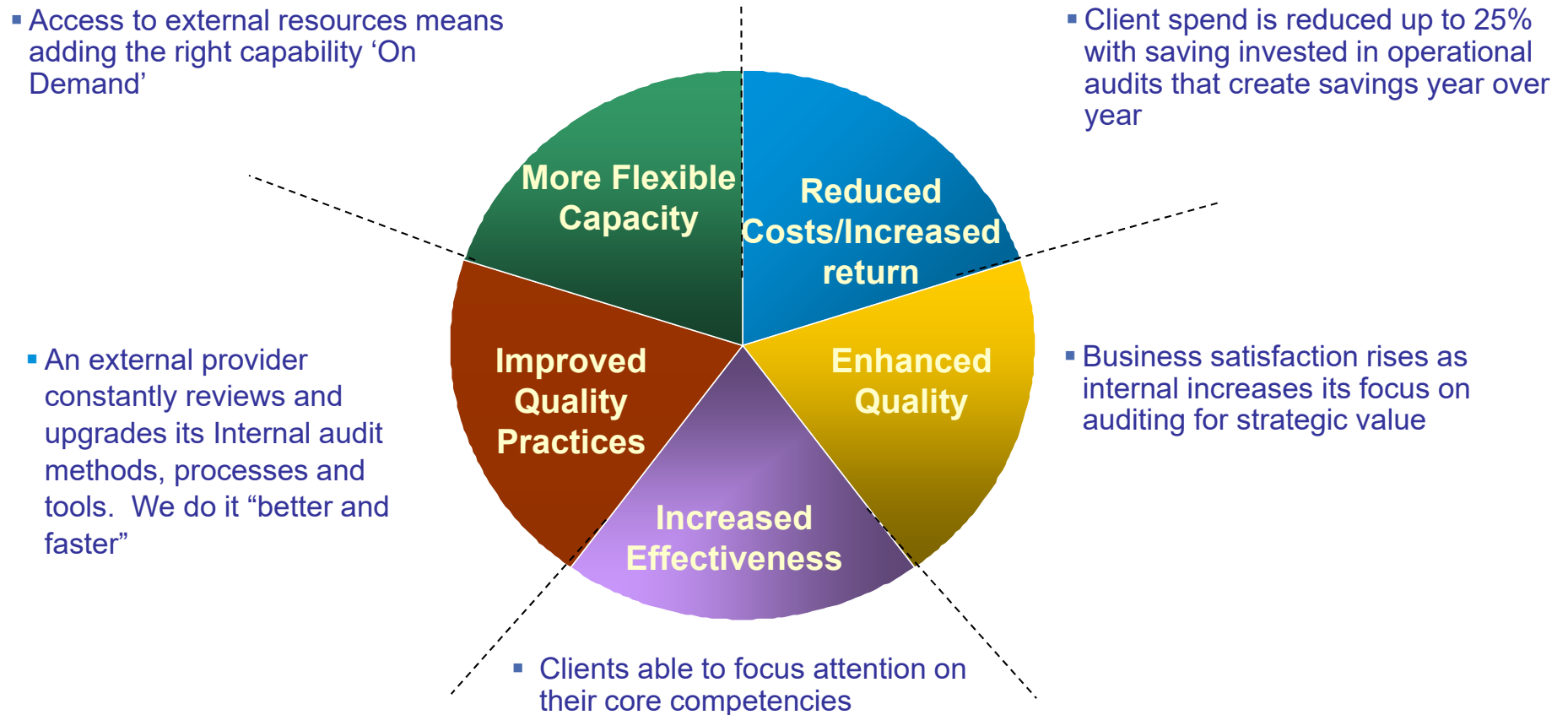
# Sourcing Options Summary

## We are seeing:

- Companies increasingly outsourcing or co-sourcing some of their functions outside their core competencies as a way of getting access to subject matter expertise, reducing costs, freeing up capital, and achieving greater flexibility.
- The internal audit (IA) function within organizations is being asked to move beyond its traditional role and become more capable of protecting organizations against risks and improving control systems.
- Strategic sourcing of IA gives an organization immediate access to specialized resources and tools and methods to quickly adjust to changing business conditions.
- Increased complexity and regulatory expectations combined with an increasing desire to maximize revenue and a need to reduce costs is increasing demands on internal auditors
- The use of tools and methods to analyze complete populations of data for risks and opportunities

# The Internal Audit Delivery Model

You can realize many benefits, including significant cost savings and increased return from findings:

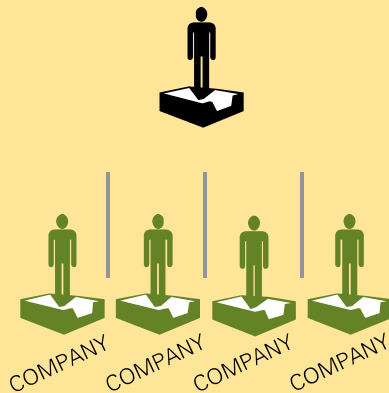




# Alternative Internal Audit Sourcing Strategies:

## IN-HOUSE MODEL

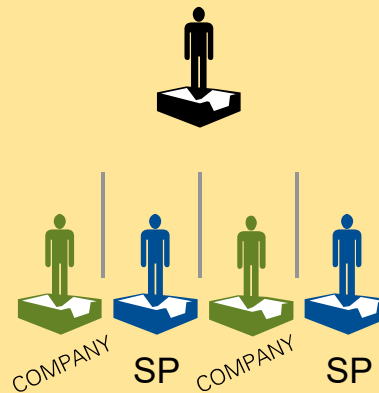
COMPANY



The organization would internally staff 100% of their Internal Auditing resources.

## CO-SOURCED MODEL

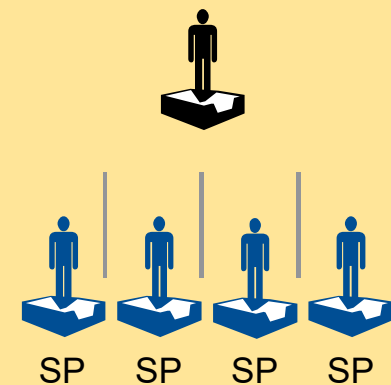
COMPANY



A Service provider (SP) would serve as an extension of the organization's Internal Audit, working collaboratively with team members of the in-house department (on a project-by-project basis, as needed).

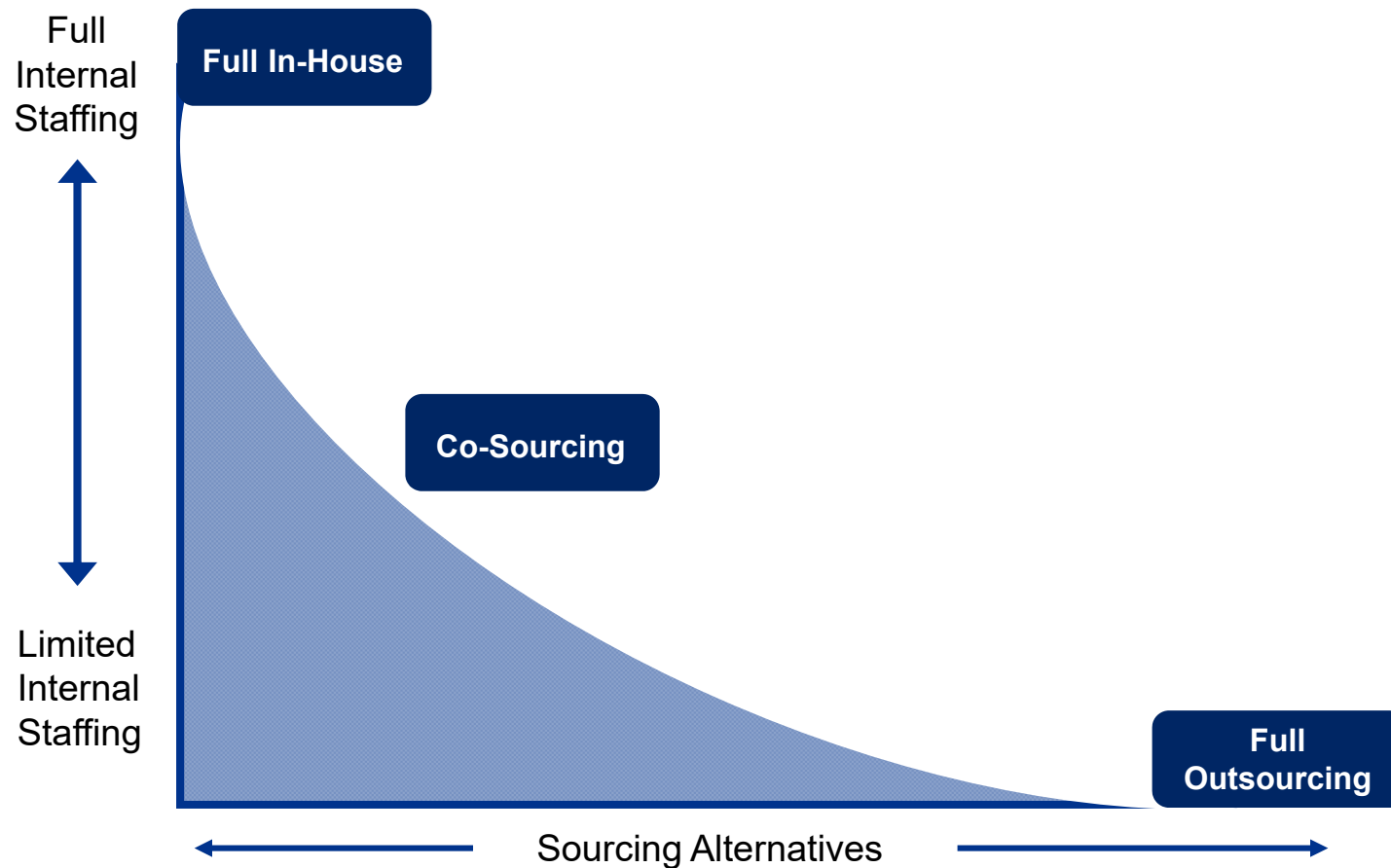
## OUTSOURCED MODEL

COMPANY



In this arrangement, service provider (SP) would perform the function of Internal Audit, providing end-to-end services working closely with, and report to, the In-House Client Representative and the Audit Committee.

# Alternative Internal Audit Sourcing Strategies:



# Sourcing Models – In-House

- With an in-house internal audit function, the administration and management of the internal audit function is conducted by the company itself.
- Typically an internal audit manager is appointed to administer and manage the internal audit function and is supported by a team of internal audit staff who are employed by the company.
- The internal audit manager would set out the internal audit plan, oversee the conduct of the audits, control the reports issued to management and report the results to the audit committee.

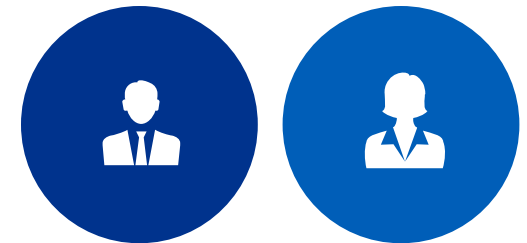
## Benefits

- ✓ Dedicated internal audit staff
- ✓ Detailed knowledge & experience of internal affairs
- ✓ Prompt and consistent follow up with management
- ✓ Easier access to systems for audit purposes
- ✓ Close relationship with management

**In-House**

## Disadvantages

- ✓ Reduced independence
- ✓ Staff are not up to date with changes in risk & control methodologies & technology
- ✓ Risk management / control models and tools may become outdated over time
- ✓ Staffing/human resource administration and costs borne directly by the company
- ✓ Audit inefficiencies are borne by the company
- ✓ Investment in technology, training and set-up costs are borne by the company
- ✓ Inability to benchmark the company against other companies



# Sourcing Models – Co-Source

- Through co-sourcing, the administration and co-ordination of the internal audit function is conducted at the Company itself.
- An internal audit manager would normally be appointed to administer and co-ordinate the internal audit function, and he may hire additional internal audit staff.
- Permanent internal audit staff costs and other Human Resource costs would be borne by the Company.
- The internal audit manager, in consultation with the service provider, would set out the internal audit plan and report the results to the audit committee.
- The service provider would supply internal audit staff to fill staffing gaps, oversee the internal audit work performed by its own staff and issue the internal audit report.

## Benefits

- ✓ Increased independence compared with in-house
- ✓ Latest risk management/internal audit models and tools are employed
- ✓ Staffing/human resource administration and costs are less than in-house
- ✓ Knowledge of industry and access to the service providers industry knowledge bases
- ✓ Dedicated manager to administer & co-ordinate internal audit function
- ✓ Detailed knowledge & experience of internal affairs
- ✓ Prompt and consistent follow up with management

## Disadvantages

- ✓ Reduced independence compared with outsource
- ✓ Lack of compatibility with internal audit methodologies and tools
- ✓ Staffing/human resource administration and costs are greater than outsource
- ✓ Experienced and knowledgeable staff are not retained by the Company
- ✓ Inefficiencies of the manager and own staff are borne by the Company
- ✓ Investment in technology, training and set-up costs are borne by the Company for permanent staff
- ✓ Reliance on third parties

**Co-Source**



# Sourcing Models – Out-Source

- Through outsourcing, the administration and co-ordination of the internal audit function is conducted by the service provider.
- The service provider would set out the internal audit plan in consultation with management.
- The service provider would oversee the conduct of the audits, control the reports issued to management and report the results to the audit committee.
- Permanent internal audit staff costs and other Human Resource costs would be borne by the service provider.
- The service provider would supply the right staff for each audit at a time suitable to the Company.

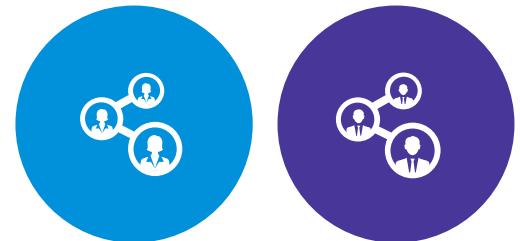
## Benefits

- ✓ Independence
- ✓ Latest risk management / internal audit methodologies and tools are employed
- ✓ Specialist audit staff, with relevant skills and experience, are available
- ✓ Knowledge of the industry and access to local and international industry knowledge bases
- ✓ Inefficiencies are borne by the service provider
- ✓ Staffing / human resource administration and costs are borne by the service provider
- ✓ Easy to switch staff or obtain relevant skills

## Disadvantages

- ✓ Reduced knowledge and experience of internal affairs
- ✓ Lack of dedicated full time staff
- ✓ Experienced and knowledgeable staff are not retained by the company
- ✓ Reduced access to company systems for audit purposes
- ✓ Reliance on outsource partner

**Out-Source**



# Internal audit sourcing model – Benefits

Benefit	Description
Manage IA costs	✓ Sourcing can reduce costs and drive value through improved quality and service
Tap resources of a top provider	<ul style="list-style-type: none"> <li>✓ A sourcing provider can offer scalability and flexibility to adapt to business needs</li> <li>✓ Strategic sourcing can give an organization immediate or just-in-time access to global resources</li> </ul>
Leverage the infrastructure of the provider	✓ Costs of developing and maintaining an IA capability (employee training, recruiting, state-of-art systems and methodologies) are shifted to the provider, freeing up the organization's capital and resources for other purposes
Gain access to leading practices and subject matter professionals	✓ Sourcing arrangements provide access to professionals who can provide additional value in the audit process through their technical skills (IT, forensics, treasury, risk management, procurement, etc) and industry experience
Gain access to global resources	✓ A sourcing provider can create efficiencies by reducing travel costs, understanding the local culture, and providing local resources with appropriate language skills

# Internal audit sourcing model - Benefits

Benefit	Description
Address the human resources challenges	A sourcing provider will ensure high-quality personnel with appropriate financial, operational, and language skills along with specific industry and subject matter knowledge.
Gain access to leading IA methodologies	Providers can bring companies IA methodologies and supporting technologies that are risk-based, field-proven, and scalable
Enhance independence	An IA sourcing provider may be able to maintain a greater degree of independence and objectivity in its oversight compared with an in-house function, maintaining standard practices
Strengthen communication	IA sourcing providers can establish or enhance effective communications on organizational risks and governance with senior executives, CEOs, CFOs, and audit committees
Focus on core competencies	Sourcing the IA function enables the organization to free up capital and resources for core activities and critical strategic business priorities



Thank you





[kpmg.ca](https://kpmg.ca)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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## **PUBLIC MINUTES**

### **STANDING POLICY COMMITTEE ON FINANCE**

**Monday, August 12, 2019, 2:00 p.m.**

**Council Chamber, City Hall**

**PRESENT:** Councillor A. Iwanchuk, Chair  
Councillor C. Block, Vice Chair  
Councillor B. Dubois  
Councillor M. Loewen  
His Worship Mayor C. Clark (Ex-Officio)

**ABSENT:** Councillor R. Donauer

**ALSO PRESENT:** Interim Chief Financial Officer C. Hack  
City Solicitor C. Bogad  
Deputy City Clerk S. Bryant  
Committee Assistant H. Thompson

#### **1. CALL TO ORDER**

The meeting was called to order at 2:00 p.m. on Treaty 6 Territory and the Homeland of the Metis people.

#### **2. CONFIRMATION OF AGENDA**

**Moved By:** Councillor Dubois

1. That the item with a speaker be considered immediately following consideration of Unfinished Business:

1. 7.2.2 - Alex Fallon, SREDA; and

2. That the agenda be confirmed as presented.

In Favour: (5): Councillor Iwanchuk, Councillor Block, Councillor Dubois, Councillor Loewen, and Mayor C. Clark

Absent (1): Councillor Donauer

**CARRIED UNANIMOUSLY**

#### **3. DECLARATION OF CONFLICT OF INTEREST**

#### **4. ADOPTION OF MINUTES**

**Moved By:** Councillor Block

That the minutes of Regular Meeting of the Standing Policy Committee on Finance held on June 11, 2019 be adopted.

In Favour: (5): Councillor Iwanchuk, Councillor Block, Councillor Dubois, Councillor Loewen, and Mayor C. Clark

Absent (1): Councillor Donauer

**CARRIED UNANIMOUSLY**

## **5. UNFINISHED BUSINESS**

Pursuant to resolution, Item 7.2.2 was considered next.

## **6. COMMUNICATIONS (requiring the direction of the Committee)**

### **6.1 Delegated Authority Matters**

### **6.2 Matters Requiring Direction**

#### **6.2.1 Meewasin Valley Authority Financial Statements - March 31, 2019 [File No. CK. 1870-10]**

Meewasin Valley Authority Financial Statements - March 31, 2019 were provided.

**Moved By:** Mayor C. Clark

That the Meewasin Valley Authority Financial Statements, March 31, 2019 be received and forwarded to City Council for information.

In Favour: (5): Councillor Iwanchuk, Councillor Block, Councillor Dubois, Councillor Loewen, and Mayor C. Clark

Absent (1): Councillor Donauer

**CARRIED UNANIMOUSLY**

### **6.3 Requests to Speak (new matters)**

## **7. REPORTS FROM ADMINISTRATION**

### **7.1 Information Reports**

**Moved By:** Councillor Dubois

That the reports contained in items 7.1.1 to 7.1.5 be received as information.

In Favour: (5): Councillor Iwanchuk, Councillor Block, Councillor Dubois, Councillor Loewen, and Mayor C. Clark

Absent (1): Councillor Donauer

**CARRIED UNANIMOUSLY**

**7.1.1 Semi-Annual Report – Builder and Developer Lot Supply – 2019 Mid-Year [File No. CK. 4110-1]**

**7.1.2 Accessibility at Persephone Theatre and Remail Modern [File No. CK. 620-5]**

Interim Chief Financial Officer Hack advised the Committee that the Persephone Theater Administration indicated that the grant application timeline has passed for the current year and Persephone is reviewing other options.

**Moved By:** Councillor Dubois

1. That the report be forwarded to the Saskatoon Accessibility Advisory Committee for information; and
2. That the Administration report back to the Standing Policy Committee on Finance on the matter in one year.

In Favour: (5): Councillor Iwanchuk, Councillor Block, Councillor Dubois, Councillor Loewen, and Mayor C. Clark

Absent (1): Councillor Donauer

**CARRIED UNANIMOUSLY**

**7.1.3 Internal Audit Budget – July 2019 [File No. CK. 1600-3]**

**7.1.4 Asset Management Plan for Fleet Services [File No. CK. 1295-1 x 1390-1]**

**7.1.5 2019 Mid-Year Results – City of Saskatoon's Corporate Business Plan and Budget [File No. CK. 430-72]**

Interim Chief Financial Officer Hack addressed questions of the Committee related to municipal revenue sharing.

General Manager, Community Services Lacroix advised the Committee on the status of the Seniors Technical Advisory Committee.

## **7.2 Approval Reports**

### **7.2.1 Direct Sale of Remnant Parcel to Arbutus Meadows Partnership [File No. CK. 4214-1 x 4351-019-007]**

**Moved By:** Councillor Dubois

1. That the Administration be authorized to sell, by direct sale, Surface Parcel No. 131812668 to Arbutus Meadows Partnership or nominee as per the terms and conditions outlined in the report of the Chief Financial Officer dated August 12, 2019; and
2. That the City Solicitor be requested to prepare the Direct Sale Agreement and that His Worship the Mayor and the City Clerk be authorized to execute the agreement under the Corporate Seal.

In Favour: (5): Councillor Iwanchuk, Councillor Block, Councillor Dubois, Councillor Loewen, and Mayor C. Clark

Absent (1): Councillor Donauer

**CARRIED UNANIMOUSLY**

### **7.2.2 Incentive Application – Saskatchewan Food Development Centre Industry Inc. [File No. CK. 3500-13]**

A letter requesting to speak from Alex Fallon, Chief Executive Officer, SREDA, dated July 29, 2019 was provided.

Alex Fallon addressed recommending the approval of the tax abatement application and informed of the benefits to the economy.

**Moved By:** Councillor Dubois

That the Standing Policy Committee on Finance recommend to City Council:

1. That the application from the Saskatchewan Food Development Centre Industry Inc. for a five-year tax abatement on the incremental portion of taxes at 2335 Schuyler Street, as a result of its development in 2020, be approved as follows:
  - 100% in Year 1;
  - 80% in Year 2;
  - 70% in Year 3;
  - 60% in Year 4;
  - 50% in Year 5; and
2. That the City Solicitor be instructed to prepare the appropriate agreements.

In Favour: (5): Councillor Iwanchuk, Councillor Block, Councillor Dubois, Councillor Loewen, and Mayor C. Clark

Absent (1): Councillor Donauer

**CARRIED UNANIMOUSLY**

### **7.2.3 Saskatoon Light & Power Capital Funding Reallocation 2019 [File No. CK. 1815-1]**

Director of Saskatoon Light & Power advised the Committee of the financial implications of the funding reallocation.

**Moved By:** Councillor Block

That the Standing Policy Committee on Finance recommend to City Council that the transfer of funds, as indicated below, be approved:

1. That \$56,031.55 from the Electrical Distribution Extension Reserve and \$47,411.32 from the Electrical Distribution Replacement Reserve be allocated to Capital Project 1308-02, Varsity View Conversion – 14<sup>th</sup> Street;
2. That \$236,196.46 from the Electrical Distribution Extension Reserve be allocated to Capital Project 722-04, Kenderdine Rd. – Attridge to Ag Station;

3. That \$107,291.36 from the Electrical Distribution Extension Reserve be allocated to Capital Project 2305, Landfill Gas Energy;
4. That \$316,561.08 from the Electrical Distribution Extension Reserve be allocated to Capital Project 1174-06, Street Lighting – Hampton Village;
5. That \$251,893.72 from the Electrical Distribution Extension Reserve and \$116,749.22 from the Electrical Distribution Replacement Reserve be allocated to Capital Project 1174-02 Street Lighting – Stonebridge;
6. That \$458,157.73 from the Electrical Distribution Extension Reserve be allocated to Capital Project 1174-03, Street Lighting – Willowgrove;
7. That \$59,320.39 from the Electrical Distribution Extension Reserve and \$59,320.38 from the Electrical Distribution Replacement Reserve be allocated to Capital Project 812-03, GIS Implementation; and
8. That \$672,960.79 from the Electrical Distribution Extension Reserve be allocated to Capital Project 1174-07, Street Lighting – Evergreen.

In Favour: (5): Councillor Iwanchuk, Councillor Block, Councillor Dubois, Councillor Loewen, and Mayor C. Clark

Absent (1): Councillor Donauer

**CARRIED UNANIMOUSLY**

### **7.3 Decision Reports**

#### **7.3.1 Safe Streets Commission - Asset Allocation Report [File No. CK. 175-55]**

A letter submitting comments from Brent Penner, Executive Director, Downtown Saskatoon, dated August 1, 2019 was provided.

General Manager, Community Services Lacroix answered questions regarding the funding and its handing.

Following discussion, Committee supported putting forward Option 3, which is returning a proportionate share to the Downtown Business Improvement District and allocating the remainder of the funds to the newly created Safe Streets Community Action Alliance.

**Moved By:** Councillor Block

That the Standing Policy Committee on Finance recommend to City Council, Option 3: - Return a proportionate share to the Downtown Business Improvement District, and allocate the remainder of the funds to the newly created Safe Community Action Alliance.

In Favour: (5): Councillor Iwanchuk, Councillor Block, Councillor Dubois, Councillor Loewen, and Mayor C. Clark

Absent (1): Councillor Donauer

**CARRIED UNANIMOUSLY**

- 8. URGENT BUSINESS**
- 9. MOTIONS (notice previously given)**
- 10. GIVING NOTICE**
- 11. IN CAMERA AGENDA ITEMS**
- 12. RISE AND REPORT**
- 13. ADJOURNMENT**

The meeting adjourned at 2:43 p.m.

---

Councillor A. Iwanchuk, Chair

---

Deputy City Clerk S. Bryant



September 3, 2019

Secretary, SPC on Standing Policy Committee on Planning, Development & Community Services

Dear Secretary:

**Re: Municipal Heritage Advisory Committee – Request for 2019 Wîcihitowin Indigenous Engagement Conference Attendance Approval [File No. CK. 1704-5]**

The Municipal Heritage Advisory Committee (MHAC), at its meeting held on September 4, 2019 considered the 2019 Wîcihitowin Indigenous Engagement Conference being held on October 16-17, 2019 in Saskatoon, SK. The event information is attached.

In the past, we have had members of our Committee attend this conference as the learnings and networking that take place, strongly align with the mandate and work plan of MHAC. Members who attend bring back key learnings for the Committee's consideration.

The Committee respectfully requests that three members of the Municipal Heritage Advisory Committee be approved to attend the 2019 Wîcihitowin Indigenous Engagement Conference.

Yours truly,



**Lenore Swystun, Chair**  
Municipal Heritage Advisory Committee

LS:ht

Attachment

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## Wicihitowin - Indigenous Engagement Conference

Wednesday, 16 October 2019 at 7:30 AM - Thursday, 17 October 2019 at 5:00 PM (CST)  
Saskatoon, SK

2019

**WICIHITOWIN**  
Indigenous Engagement Conference

### Registration Information

REGISTRATION TYPE	SALES END	PRICE	FEE	QUANTITY
<b>Early Bird Tickets (June 3 - Sept 15)</b> <a href="#">more info</a>	15 Sep 2019	\$200.00	\$0.00	0
<b>Group Rate 10 people or more</b> <a href="#">more info</a>	4 Oct 2019	\$200.00	\$0.00	0
<b>Regular Tickets (Sept 16 - Oct11)</b> <a href="#">more info</a>	Not Started	\$250.00	\$0.00	N/A

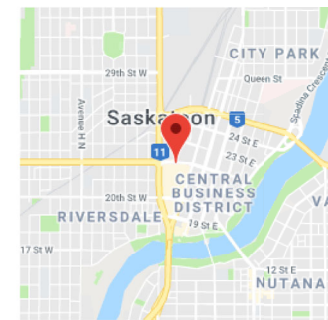


Offline payments available

Register

Save This Event

### When & Where



**TCU Place**  
35 22 Street East  
Saskatoon, SK S7K 0C8  
Canada

Wednesday, 16 October 2019 at 7:30 AM  
- Thursday, 17 October 2019 at 5:00 PM (CST)

[Add to my calendar](#)

Share Wicihitowin - Indigenous Engagement Conference

Email

Share

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### Event Details

*Wicihitowin* is Cree/Saulteaux term for "helping each other" or "working together", which is an important component of delivering enhanced programs and services within an organization, government or community setting.

Now in its fifth year, the *Wicihitowin Indigenous Engagement Conference* is commemorating the children that never made it home and is paying respect to the survivors of the Indian residential schools, Indian day schools, missing and murdered Indigenous women and girls, and the sixties scoop, by recognizing that they were, and continue to be, seeds for change. Nationally respected, the late Elder Walter Linklater shared many universal teachings that continue to help guide people on a path to reconciliation. To honour him, his teaching of 'being a good person and trying to live a good life' inspires the theme of this year's conference.

The conference will focus on:

- Supporting the Truth and Reconciliation Commission's Calls to Action by working towards respectful Indigenous engagement and inclusion in community settings.
- Highlighting the work and experiences of survivors, Indigenous leaders, educators, community members, and youth, as they related to the TRC's Calls to Action.
- Honouring the survivors of the residential school system and sixties scoop.
- Focusing on issues concerning Indigenous engagement and human service delivery issues relevant to Indigenous and non-Indigenous participants.
- Providing organizations, levels of government and businesses with an opportunity to learn about inclusive representation of Indigenous people as employees, volunteers and decision-makers.

This conference is organized in partnership by City of Saskatoon, United Way of Saskatoon & Area, Saskatchewan Health Authority, Aboriginal Friendship Centres of Saskatchewan and Johnson Shoyama Graduate School of Public Policy.

Have questions about Wicihitowin - Indigenous Engagement Conference? [Contact the organizer](#)

### Organizer

[Contact the Organizer](#)

[View organizer profile](#)

<http://www.unitedwaysaskatoon.ca/>

<facebook.com/WicihitowinYXE>

[wicihitowinyxe](#)

1 upcoming event on Eventbrite

14 past events on Eventbrite

Other Events You May Like

September 10, 2019

Secretary, SPC on Planning,  
Development and Community Services

Dear Ms. Bryant:

**Re: Conference Attendance Approval  
Saskatchewan Professional Planners Institute Planning Conference  
September 16 and 17, 2019  
(File No. CK. 175-16)**

In the past, Municipal Planning Commission members have attended the Saskatchewan Professional Planners Institute Planning Conference for educational purposes including insight of on-going challenges and understanding best planning practices.

This year, three members of the Commission would like to attend the conference being held in North Battleford, Saskatchewan. The request for the three members to attend is within the 2019 Municipal Planning Budget.

The Commission respectfully requests that the three members be allowed to attend the above conference.

Yours truly,



Penny Walter, Committee Assistant  
Municipal Planning Commission

PW:

cc: General Manager, Community Services Department  
Director, Planning and Development, Community Services Department

September 11, 2019

Secretary, Standing Policy Committee on Finance

Dear Ms. Bryant:

**Re: Conference Attendance Request**  
**Public Art Advisory Committee (File No. CK. 175-58)**

The Public Art Advisory Committee, at its meeting scheduled for Friday, September 13, 2019, will be discussing sponsoring attendance of up to three of its members at the Creative City Summit October 1-3, 2019 in Saskatoon. The City of Saskatoon is one of the organizers of the 2019 conference. Up to 150 municipal delegates from two dozen Canadian cities are expected to attend.

The cost per registrant is \$750 + Eventbrite Fee, and although the funds are in place as part of 2019's approved budget, the Committee requests formal approval as per the conference policy for Advisory Committees.

Attendance by PAAC members would be of benefit to the City as municipal public art is an important component of this conference. Members will have the chance to meet municipal public art practitioners from across Canada and actively participate in the public art round table discussions facilitated by the Public Art Network of Canada.

Yours truly,

**Janice Hudson**

Committee Assistant, on behalf of PAAC

JH:

cc: J. Morgan, Chair, Public Art Advisory Committee  
K. Kitchen, Community Development Manager  
L. Lacroix, General Manager, Community Services Department





August 30, 2019

His Worship Mayor Charlie Clark and City Councillors  
City Hall  
222 Third Avenue North  
Saskatoon, SK S7K 0J5

Dear Mayor Clark and City Councillors,

Re: Downtown Saskatoon Board Composition & Request for Temporary Exemption

As you know, Bylaw 6710 provides the statutory direction for the Downtown Saskatoon Business Improvement District. Included in the Bylaw is the requirement for board composition. Section 4 states that *"the Board is a body corporate and shall consist of persons appointed by resolution of Council. At least one person appointed shall be a member of Council, and the other persons appointed shall be persons who are electors of The City of Saskatoon and who are operators of businesses in the District or who are nominees of corporations which operate businesses in the District."*

The most recent person to join the Board is Shaunna Leyte, a Senior Manager at EY. EY currently has their office located at 410 22<sup>nd</sup> Street East which is located within the boundaries of the District. As of November 2019, EY's office is relocating within Downtown Saskatoon to 409 3<sup>rd</sup> Avenue South. Based on our current boundaries, this location, although Downtown, falls outside of our boundary as it was redrawn by the City of Saskatoon on January 26, 2009. Previously, this area was included in our boundaries when the Downtown BID was formed in 1986 and remained until 2009.

Downtown Saskatoon's Board has requested that the City of Saskatoon include the River Landing area south of 19<sup>th</sup> Street and east of Idylwyld Drive as part of the Downtown Saskatoon Business Improvement District. We anticipate upcoming reports from the City Administration regarding a review and consideration of BID governance and River Landing soon. We do not anticipate a decision on the boundary will be finalized prior to EY's office relocation and unless a temporary amendment is made to our Bylaw, we will lose Shaunna Leyte as a board member.

We are not asking for a permanent amendment to Bylaw 6710 to permit a business owner or appointee of a non-BID located business to sit on the Board. Rather, we are asking for a temporary exception to the current Board composition requirements contained in Bylaw 6710. As these requirements are contained in a Bylaw, we understand that the exception

must also be granted by Bylaw. To that end, Downtown Saskatoon is asking that City Council:

1. Grant the Downtown BID an exception to the Board composition requirements contained in Bylaw 6710 on a temporary basis to permit Shaunna Leyte, a nominee of a business outside of the District (within River Landing) to sit on the Board; and,
2. Direct the City Solicitor's Office to draft a Bylaw that recognizes this exception on a temporary basis (for a period of up to one year).

In conclusion, the Board asks for a timely resolution to this matter so a board member is able to remain on the Board, and that the City Administration's reports on extending the Downtown BID boundary to include the area south of 19<sup>th</sup> Street East and the area east of Idylwyld Drive are delivered as soon as possible.

Sincerely,



Brent Penner  
Executive Director

cc: Chris Beavis, Chair, Downtown Saskatoon Board of Management  
Cynthia Block, Ward 6 City Councillor  
Jeff Jorgenson, City Manager  
Joanne Sproule, City Clerk  
Lynne Lacroix, General Manager, Community Services  
Cindy Yelland, City Solicitor  
Lesley Anderson, Director of Planning & Development  
Shaunna Leyte, Board Member, Downtown Saskatoon  
Michelle Beveridge, Chief of Staff, Office of the Mayor

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# ***City of Saskatoon***

## **Infrastructure**

### **Investment Evaluation**

#### **Process Internal Audit**

#### **Project**

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*June 26, 2019*

*Final*



# Executive Summary

## Report Rating:



## Total observations:



## Overall Conclusion:

Overall, our findings indicate that there is room for improvement to facilitate more effective business planning and further mitigate the risk of infrastructure investments that do not support sustainable growth. These findings are supported by observations within the detailed report provided to administration.

With respect to **Planning** practices, we identified five areas of opportunity. Overall, we observed that the desired strategic outcomes and high-level approach to planning at the City of Saskatoon (the “City” or “Saskatoon”) is consistent with common practice but could benefit from more focused strategic objectives and key performance indicators. As the City tracks towards growth projections, it will be important to incorporate strategic performance measurement and risk management lessons that have been learned from other municipalities who have recently experienced significant regional growth.

We identified four areas of opportunity for City **Prioritization** practices. Overall, we observed that the City has made progress in the identification of lifecycle operating costs through asset management plans and a new multi-year business plan and budget policy. By requiring submission of a more robust and consistent business case, the City can further support effective investment decisions related to identified opportunities.

In assessing City **Evaluation** practices, we identified two areas of opportunity. Overall, we observed that by incorporating an integrated approach to evaluating infrastructure investments and measuring and monitoring the outcomes of those evaluation decisions, the City will be better poised to fully realize the benefits of current strategic and directional planning practices.



## Background & Objectives

One of the strategic goals in the City Strategic Plan 2018-2021 states that “*Saskatoon is known for smart, sustainable growth.*” To support achievement of Sustainable Growth, the City has identified measures and actions related to three specific outcome statements:

1. Our Plan for Growth is sustainable, through a balanced approach to land use, transportation choices and efficient servicing.
2. Regional partnerships provide the best opportunities for sustainable prosperity and quality of life.
3. Economic growth and development is supported by streamlined business practices and development approvals.

Industry practice<sup>1</sup> recognizes the importance of considering risk in both the strategy-setting process and in driving performance of strategic goals. A common framework<sup>2</sup> defines risk as “*the possibility that events will occur and affect the achievement of strategy and business objectives.*” Within its Strategic Risk Register, the City has categorized risks related to the achievement of Sustainable Growth in the following statement: “*The City’s infrastructure investments may not correspond to growth trends and forecasts for the local or regional economy.*”

Success in mitigating risks related to strategic performance depends on numerous decisions made through daily business activities and processes. In practice, municipal administrators create Business Plans to identify business objectives and deliver on the strategic direction provided by Council. Business Plans can include projects, policy, work plans and budgets. Performance is enhanced by integrating risk management within the daily business activities that support Business Plans. It is also common for organizations to set targets to monitor performance. By establishing targets, the risk profile of an organization is influenced depending on whether the target is aggressive or conservative.

While the City has identified strategic performance actions and indicators to measure success, we recognize that there is still work being done to continuously improve practices and deliver on the strategic direction provided by Council. This is evidenced by the recently approved two year budgeting process and new Multi-Year Business Plan and Budget Policy (effective April 1, 2019).

The overall objective of this Internal Audit (IA) project was to assess the effectiveness of business activities related to Sustainable Growth. Specifically, we considered the planning, evaluation and prioritization practices for investment in infrastructure to assess the following:

- whether current practices to prioritize projects for investment in infrastructure align with good government practice;
- whether current practices to prioritize projects for investment in infrastructure align with City Council’s Strategic Priorities and approved planning documents (i.e. Growth Plan to Half a Million and regional, concept, and community plans); and
- whether current practices to evaluate projects for funding prioritization minimize the risk of under/over investment and align with leading practice methodologies.

Our services were performed and this Report was developed in accordance with the Statement of Work approved by the Standing Policy Committee (SPC) on Finance on November 5, 2018. Our work was limited to the specific approach described herein and was based primarily on documented evidence related to the approval of the 2018 Business Plan and Budget Process and evidence obtained from interviews and emails through March 31, 2019.

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<sup>1</sup> Industry practice leverages common frameworks from international standard-setting bodies and commissions, as well as government and similarly complex organizations.

<sup>2</sup> Committee of Sponsoring Organizations of the Treadway Commission. June 2017. Enterprise Risk Management. Integrating with Strategy and Performance. Volume 1.

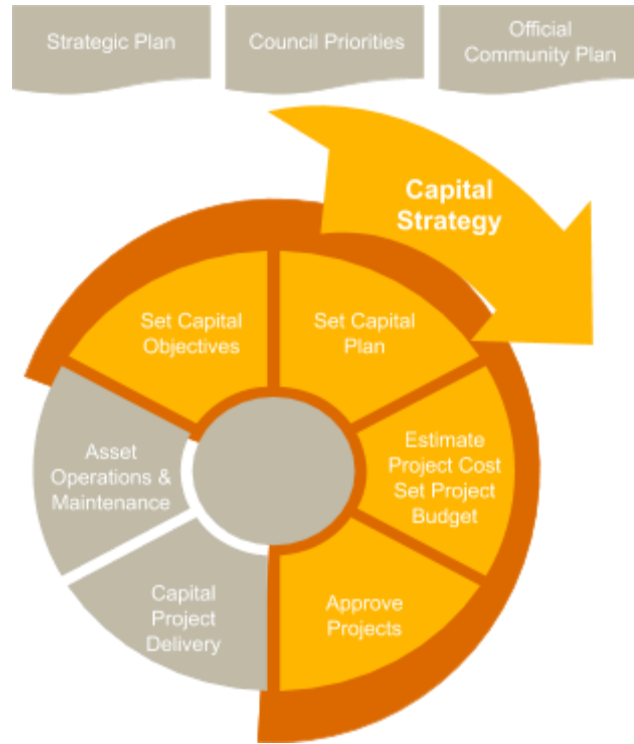
## Approach

In designing our approach to achieve the IA objective of this project, we leveraged the Capital Strategy phase of PwC's Physical Asset Lifecycle Maintenance Framework™.

Capital Strategy typically includes activities designed to optimize the identification, selection, location, financing, and rationalization of capital projects in alignment with business strategy.

It is important to note that the Strategic Plan and Council Priorities, along with the Official Community Plan and other Directional Plans, serve as guiding documents in setting the Capital Strategy to support infrastructure investment decisions.

To execute our approach, we completed activities to assess City practices within each of the four areas related to Capital Strategy, as summarized below.



### Capital Objectives

- Interviewed City Administration<sup>3</sup> to understand the approach taken to develop key infrastructure planning documents
- Studied key infrastructure planning<sup>3</sup> documents and gained an understanding of planning priorities
- Conducted research to compare City practices to other municipalities<sup>4</sup>

### Capital Plan

- Selected a sample of projects<sup>5</sup> included in the 2018 capital plan
- Examined supporting evidence and conducted interviews with project department leaders
- Assessed alignment of projects included in the capital plan to strategic priorities and approved planning documents

### Capital Project Budget

- Examined supporting evidence and conducted interviews with project finance coordinators to understand financial models to support business cases
- Assessed project submissions against good industry practice

### Capital Project Approval

- Examined supporting evidence and conducted interviews with City Administration to gain an understanding of project evaluation practices
- Assessed methods of project evaluation against good industry practice

<sup>3</sup> A list of City Administrative staff who supported this project through interview participation is included in Appendix 1.

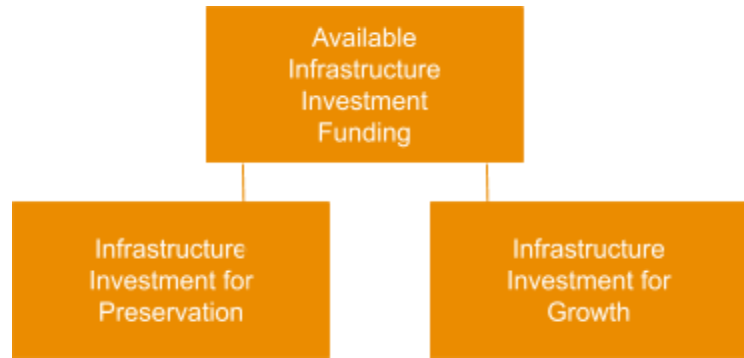
<sup>4</sup> A list of key documents and organizations for which comparable research was conducted is included in Appendix 2.

<sup>5</sup> Projects were selected from across all City divisions, representing both capital and non-capital intensive divisions to assess variation in practices. The 2018 annual capital budget amount examined was \$67.9 million of the total \$296.2 approved.

## Summary of Observations & Opportunities

The City has established controls to support asset and financial sustainability related to infrastructure investments through the Capital Reserve Bylaw (the “Bylaw”). The Bylaw indicates the amount of funds to be saved for specific investments in infrastructure.

The money set aside within the reserve cannot be expended, pledged or applied to a purpose other than that for which the Reserve was established.



As a result, there may be constraints in accessing available funds to support infrastructure investments for which a reserve has not been established, or for which a reserve has not accumulated sufficient funds to support the required investment.

The **observations & opportunities** included within our detailed report are summarized by three categories, and based on an examination of evidence for a selection of sample of projects for which investments in infrastructure were approved for both preservation and growth purposes (Appendix 2).

.



Plan



Prioritize



Evaluate

With respect to forming our eleven recommendations, we have presented the key strengths for each in-scope area of assessment, identifying practical improvement opportunities across **four practice areas** that could further enhance the achievement of business objectives.





Plan

## Define Capital Objectives & Set a Capital Plan

**Audit Objective:** Gain an understanding of planning practices to determine infrastructure needs

**Practice Areas:** Strategic Planning & Risk Appetite | Enterprise Risk Management

### Key Strengths:

- The City actively engages citizens on a wide range of important public issues, projects and decisions. Specifically, the Saskatoon Speaks Initiative supports the development and approval of the four-year Strategic Plan, which was updated in 2018 to replace the previous ten year Strategic Plan (2013-2023) to align with the election cycle.
- In April 2016, Saskatoon City Council adopted in principle the Growth Plan to Half a Million. This directional document supported all of the Strategic Plan goals while focusing on the goals of Sustainable Growth and Moving Around. The following themes are included in this growth model: Corridor Growth, Transit, Core Area Bridges, Employment Areas, Active Transportation, and Financing Growth.
- The City adopts an Official Community Plan (“OCP”) with the intent to ensure that development takes place in an orderly and rational manner, balancing the environmental, social and economic needs of the community. The current OCP was approved by the Provincial Ministry of Municipal Affairs in 2009. In early 2018, the City’s Planning & Development division initiated a redesign of the OCP.
- Other Directional Plans, such as land development plans align with common practice planning documents and articulate how certain strategic objectives will be addressed.
- The City has identified a number of performance indicators within the Strategic Plan.
- The City implemented a Risk Based Management Program in August 2014.
- Risk Appetite was approved by SPC on Finance and received as information by Council in March 2018.

### Observation Rating:

● Low

### Recommended Opportunities:

*Opportunity 1:* Improve timeliness and focus of the Strategic Plan updates

*Opportunity 2:* Support long-term financial sustainability within Directional Plans

*Opportunity 3:* Improve practices to measure and monitor outcomes by aligning key performance indicators to strategic outcomes

*Opportunity 4:* Consider risk in development of Strategy

*Opportunity 5:* Improve integration of risk within Directional Plans



Prioritize

## Estimate Project Cost & Set Project Budget

**Audit Objective:** Assess whether current practices to prioritize projects for investment in infrastructure align with City Council's Strategic Priorities and approved planning documents

**Practice Area:** Infrastructure Investment Submissions

### Key Strengths:

- The City compiles the capital budget by business line for presentation to Council.
- The Building Better Infrastructure reports issued in 2016 provide insights into the current state of assets and identify future investment requirements.
- Working groups across City divisions actively employ good practices to assess infrastructure needs and costs in an informal and decentralized manner.
- Third party studies support significant capital budget requests. These studies include long term financial analysis and "savings" plan recommendations to support future investment requirements.
- Council recently approved a new Multi-Year Business Plan and Budget policy (effective April 1, 2019), which requires that the capital budget capture the full cost of the project and be prepared for a 10-year period.
- The Corporate Business Plan and Budget document explains revenue sources and tools available to pay for the projects contained in the capital budget, such as borrowing, government grants, utility rates, and reserves.
- Each of the 14 business plans and budgets contained within the 2018 Corporate Business Plan and Budget document references relevant strategic outcomes, goals, risks, performance measures, and planned initiatives.
- Availability of funding sources and a reasonable tax rate increase are key considerations in prioritizing capital investments.

### Observation Rating:

● Medium

### Recommended Opportunities:

*Opportunity 6:* Perform scenario analysis for each investment to identify potential risk responses

*Opportunity 7:* Implement capital budget tools to support internal and external collaboration

*Opportunity 8:* Include cost/benefit analysis or total value measures within the business case

*Opportunity 9:* Investigate the practicality of incorporating a top-down budget approach for capital budgeting



Evaluate

## Approve Capital Projects

**Audit Objective:** Assess whether current practices to evaluate projects for funding prioritization are designed to minimize the risk of under/over investment and aligned to good practice.

**Practice Area:** Infrastructure Investment Decisions

**Key Strengths:**

- The 2018 Corporate Business Plan and Budget document states that all business lines prepare individual business plans with the objective of achieving the City's strategic goals, performance targets and City Council's collective priorities.
- The City utilizes a budget software to track capital budget requests and approvals.

**Observation Rating:**

● High

**Recommended Opportunities:**

*Opportunity 10:* Develop and communicate prioritization criteria

*Opportunity 11:* Develop and implement an infrastructure investment evaluation tool

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# *Detailed Report*

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# 1. Overview

## Strategic Goals and Risks

Within the 2018-2021 Strategic Plan, the City has identified measures and actions related to three specific outcome statements for the Strategic Goal of Smart, Sustainable Growth:

1. Our Plan for Growth is sustainable, through a balanced approach to land use, transportation choices and efficient servicing.
2. Regional partnerships provide the best opportunities for sustainable prosperity and quality of life.
3. Economic growth and development is supported by streamlined business practices and development approvals.

In practice, municipal administrators create Business Plans to identify business objectives and deliver on the strategic direction provided by Council. Business Plans can include projects, policy, work plans and budgets.

Business plans can include activities such as:

- developing growth plans, long-term infrastructure plans, and regional, concept, and community plans;
- aligning major infrastructure investments to growth plans and strategies;
- securing funding commitments;
- frequent and ongoing monitoring of market conditions, economic indicators and financial resources; and
- aligning the annual business plan & budget to City Council's Strategic Priorities as well as feedback received from residents in the Civic Services Survey.

Industry practice<sup>6</sup> recognizes the importance of considering risk in both the strategy-setting process and in driving performance of strategic goals. A common framework<sup>7</sup> define risk as “*the possibility that events will occur and affect the achievement of strategy and business objectives.*”

Success in mitigating risks related to strategic performance depends on numerous decisions made through daily business activities and processes.

The City’s Strategic Risk Register includes Risk SG-2 related to the City’s Strategic Goal of Sustainable Growth, which states “*The City’s infrastructure investments may not correspond to growth trends and forecasts for the local or regional economy*”. This risk has the following potential impacts if ineffectively managed:

- Growth overwhelms existing infrastructure due to delayed or insufficient investment in infrastructure;
- Stifled economic activity, employment and business opportunities due to delayed or insufficient investment in infrastructure;
- Significant investment precludes use of funds for alternative priorities due to investments that are not aligned with planning priorities; and

---

<sup>6</sup> Industry practice leverages common frameworks from international standard-setting bodies and commissions, as well as government and similarly complex organizations.

<sup>7</sup> Committee of Sponsoring Organizations of the Treadway Commission. June 2017. Enterprise Risk Management. Integrating with Strategy and Performance. Volume 1.



- Increasing debt servicing costs due to early access of funds for investments that are not aligned with planning priorities.

The City has undertaken a number of risk management activities, as described in the December 7, 2017 report to SPC on Finance, designed to achieve the following outcomes:

- Well-functioning and efficient infrastructure that enhances quality of life, promotes environmental responsibility, expands access to vital services and improves economic opportunities for all;
- Strategic approach to infrastructure development that includes enhancements to existing assets before building new and use of infrastructure to influence rate/type of growth; and
- Investments are aligned with the approved Growth Plan to Half a Million.

Performance is enhanced by integrating risk management within the daily business activities that support Business Plans. It is also common for organizations to set targets to monitor performance. By establishing targets, the risk profile of an organization is influenced depending on whether the target is aggressive or conservative.

While the City has identified strategic performance actions and indicators to measure success, we recognize that there is still work being done to continuously improve practices and deliver on the strategic direction provided by Council. This is evidenced by the recently approved two year budgeting process and new Multi-Year Business Plan and Budget Policy (effective April 1, 2019).

## ***Project Objectives & Approach***

The purpose of this IA project was to assess certain of the City's risk management activities in pursuit of achieving the Strategic Goal of Sustainable Growth.

The scope of this IA project includes an assessment of the planning, evaluation and prioritization practices for investment in infrastructure. The IA objectives were:

- to assess whether current practices to prioritize projects for investment in infrastructure align with good government practice;
- to assess whether current practices to prioritize projects for investment in infrastructure align with City Council's Strategic Priorities and approved planning documents (i.e. Growth Plan to Half a Million and regional, concept, community plans); and
- to assess whether current practices to evaluate projects for funding prioritization minimize the risk of under/over investment and align with leading practice methodologies.

Our approach to assess the planning, evaluation and prioritization practices for investment in infrastructure, and to provide the City with a report recommending reasonable improvements, is outlined in detail below.

### ***Phase 1: Gain an understanding of planning practices to determine infrastructure needs***

**Objectives:** At a high-level, document current City of Saskatoon planning practices to determine infrastructure needs and compare to practices at other governments. Activities will include:

- a. Study key infrastructure planning documents to gain an understanding of planning priorities;
- b. Identify teams responsible for developing key infrastructure planning documents and conduct 3-5 interviews to understand practices and desired outcomes;
- c. Identify 2-3 comparable government planning functions to conduct a benchmarking exercise; and
- d. Assess whether the City's current practices and desired outcomes are reasonable in comparison to other government practice.

*Deliverables:* An assessment summarizing key findings from our analysis.

### ***Phase 2: Assess whether prioritized infrastructure investments are aligned to approved plans***

*Objectives:* Assess whether current practices to prioritize projects for investment in infrastructure align with City Council's Strategic Priorities and approved planning documents (i.e. Growth Plan to Half a Million and regional, concept, and community plans). Activities will include:

- a. Select a sample of infrastructure projects approved in the 2018 annual business plan & budget and examine supporting evidence of the approach used to prioritize these projects;
- b. Assess whether the prioritization approach for the selected sample provides reasonable evidence that Strategic Priorities and approved planning documents were considered in the prioritization process; and
- c. Validate findings with those involved in the prioritization process.

*Deliverables:* An assessment summarizing key findings from our examination.

### ***Phase 3: Assess whether current practices to evaluate projects for funding prioritization are aligned to good practice***

*Objectives:* Assess whether current practices to evaluate projects for funding prioritization are designed to minimize the risk of under/over investment and aligned to leading practice methodologies. Activities will include:

- a) Study existing evidence to gain an understanding of infrastructure project submission and evaluation practices;
- b) Identify teams responsible for submitting potential infrastructure projects for evaluation and conduct 3-4 interviews to understand current approach;
- c) Identify 1-2 stakeholders responsible for evaluating submitted projects and conduct interviews to understand current approach and decision criteria; and
- d) Assess whether the City's current divisional and corporate wide submission and evaluation practices, including decision criteria, are reasonable in comparison to leading practice methodologies and good practice.

*Deliverables:* A report that includes an assessment summary and recommendations for harmonization of key practices with desired outcomes and good practice. In the development of recommendations we will consider reasonable activities designed to mitigate the risk that the City will not achieve the goal of "Sustainable Growth". Our report will include a prioritization framework to address any identified gaps, and will outline good practice success criteria and elements as part of a benefits realization approach to support continuous improvement.

## Common Industry Practice

PwC employs a number of practice methodologies and frameworks based on our experiences and research into leading practices. Diagram 1, presented below, represents a framework that demonstrates the stages associated with asset management activities. The PwC Physical Asset Lifecycle Maintenance (PALM) Framework™ includes Capital Strategy activities that are typically designed to optimize the identification, selection, location, financing, and rationalization of capital projects in alignment with business strategy. We have referenced our team insights and practice aids with respect to Capital Strategy as part of this project to frame common practices in infrastructure investment evaluation.

**Diagram 1: PwC's Physical Asset Lifecycle Maintenance Framework™**



As part of our assessment of whether the City's current practices and desired outcomes are reasonable, we conducted research of other government practice. Where applicable, we have referenced these practices within our detailed observations and insights in the context of capital strategy activities.

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## 2. Detailed Observations and Insights



Plan



Prioritize



Evaluate

As outlined in the Statement of Work, we have presented an assessment summarizing key findings from our analysis of three areas, as described in more detail below. Please refer to Appendix 4 for the rationale used to rate observations.

Due to the timing of the audit (Q4 2018 and Q1 2019), we primarily focused on assessing the design and operating effectiveness of the activities used to support the infrastructure investments presented in the 2018 Capital Plan. We have also assessed information from 2017 to compare Saskatoon practices to other municipalities based on availability of information. Where relevant, we have incorporated information from 2019 to assess the City's future plans with respect to the areas under assessment (i.e. Multi-Year Business Plan and Budget policy and process).

Presented below are our detailed observations, insights and suggested recommendations to implement activities to further mitigate the risk that the City will not achieve the goal of "Sustainable Growth".

### *City of Saskatoon Planning Practices*

#### *Audit Objective*



Plan

Gain an understanding of planning practices to determine infrastructure needs.

#### *Risk Assessment*

The City employs a number of planning practices to support infrastructure needs and assess risk related to achieving strategic outcomes. We have concluded that current state practices would have a **low impact** on infrastructure investment evaluations if existing risks are not mitigated through corrective action and/or continuous improvement activities. This is primarily due to the fact that directional plans are in place, and supported by a strategic plan and operational risk identification process.

#### *Comparison of Industry & City Practices*

We looked at industry practice to define capital strategy objectives and set a plan, as well as understand risks that may impact success.

In conducting our benchmarking activities, we noted that The Strategic Plan and Council Priorities, along with the Official Community Plan (referred to as a Municipal Development Plan in Alberta and Manitoba), serve as guiding documents in setting Capital Strategy to support infrastructure investment decisions.

## Strategic Plan

Strategic goals are broad targets that an organization aims to achieve through continuous actions taken in the desired direction. Objectives are the aims that the organization wants to achieve in a short span of time. The Strategic Plan is intended to guide City Administration along a path and provide focus and purpose to all that they do. A strategic plan is the most important plan an organization adopts - it shapes the organizational structure, programs and services provided. Clear alignment of directional plans for infrastructure investment to strategic goals and priorities improves the likelihood of achieving desired outcomes and supports implementation of strategic goals and business objectives.

Organizations can have short-term and long-term goals, and it is important that each goal is clearly designed to be supported by measurable objectives. The purpose of strategic objectives is to serve as a guide when managers formulate business plans and budgets.

While strategic goals are generally longer term in nature, **Council Priorities** are shorter-term goals aligned more closely to the election cycle.

The **Government of Alberta**<sup>8</sup> strategic plan identifies key priorities for government over the following 3-year period. The strategic plan, in addition to ministry 3-year business plans, is updated annually as part of the government's budget process. The ministry 3-year business plan encompasses the department, and all consolidated entities, in its outcomes, key strategies, and performance measures and indicators. Ministry business plans are aligned with the strategic direction of the Government of Alberta, and reflect the structure of government at the time of publication. The government's strategic plan, in addition to ministry business plans, is updated annually as part of the government's budget process.

The **City of Edmonton**<sup>9</sup> prepares a 10 year strategic plan. This strategic plan is intended to guide and inform planning for a 10-year planning horizon. In addition to Edmonton City Council's annual review of the progress of implementation, an extensive review and update of the plan occurs every four years to reflect changes in the operating environment and to ensure priorities are addressed.

The City of Edmonton indicates that:

- Strategic goals provide a clear focus for the future and direct long-term planning;
- Corporate outcomes describe how City Council defines success in the journey to achieving the 10-year strategic goals;
- Measures provide evidence of success in achieving the outcomes; and
- Targets identify how far and how fast the City will proceed to deliver on the corporate outcomes within a specified time horizon.

The 2009-2018 City of Edmonton strategic plan included six goals and 12 outcomes with two measures and targets identified for each outcome. The six strategic goals were aligned to six directional plans, discussed in more detail below. Edmonton has recently updated their strategic plan, reducing their strategic goals to four and including only four or five key performance indicators for each goal.

The **City of Regina**<sup>10</sup> has included five targeted outcomes and 12 strategic objectives within their 2018-2021 strategic plan. Within the strategic plan, they have clearly demonstrated how the plan fits within their overall strategic framework, as well as how it links to their OCP that was approved in 2014.

The **Government of Saskatchewan**<sup>11</sup> indicates that their Vision and four goals provide the framework for ministries, agencies, and partners to align their programs and services and meet the needs of Saskatchewan's residents. Note that as a recipient of Government of Saskatchewan grants, it is important

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<sup>8</sup> <https://www.alberta.ca/government-and-ministry-business-plans.aspx>

<sup>9</sup> [https://www.edmonton.ca/city\\_government/documents/PDF/The\\_Way\\_Ahead2014.pdf](https://www.edmonton.ca/city_government/documents/PDF/The_Way_Ahead2014.pdf)

<sup>10</sup> <https://www.regina.ca/export/sites/Regina.ca/city-government/administration/galleries/pdfs/Strategic-Plan.pdf>

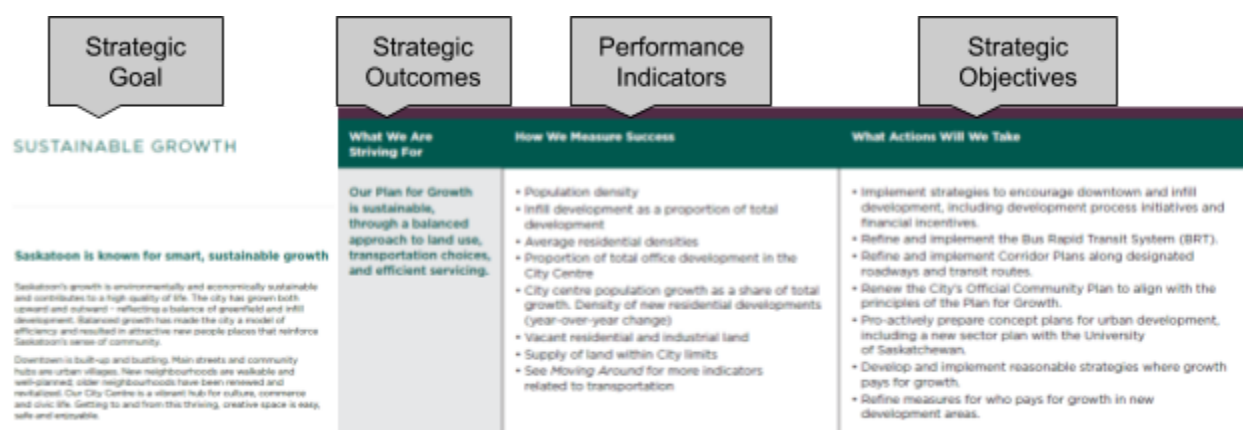
<sup>11</sup> <https://www.saskatchewan.ca/government/budget-planning-and-reporting/government-direction-2019-20>

that the City keep these goals in mind as they develop their own strategic objectives. Particularly, as bilateral agreements, such as the “Investing in Canada Plan”, shift to an outcomes-based approach to assess infrastructure project eligibility. In addition, performance measures will be included in the bilateral agreements and include common definitions and negotiated key performance indicator targets.

In 2011, the **City of Winnipeg**<sup>12</sup> developed four directional strategies that guide their Municipal Development Plan and other key planning documents.

In 2012, the City adopted a 10-year strategic plan. The City’s 2018-2021 **Strategic Plan** identifies seven strategic goals, 22 strategic outcomes and a number of actions, or strategic objectives, to achieve its community vision.

An excerpt from the City’s most recent Strategic Plan is provided below to illustrate the concepts used above, and throughout this report.



We observed that the City actively engages citizens on a wide range of important public issues, projects and decisions. Specifically, the Saskatoon Speaks Initiative supports the development and approval of the four-year Strategic Plan, which was updated in 2018 to replace the previous ten year Strategic Plan (2013-2023) to align with the election cycle. The City has made progress in defining measurable objectives, as illustrated by the measurements and actions identified within the 2018-2021 strategic plan.

Within the 2018-2021 Strategic Plan, City Council identified 10 strategic priority areas to provide focused leadership as the organization strives to achieve its strategic goals.

In our research we identified that the City’s current Strategic and Business Planning processes are similar to, or trending towards, good practices of other government organizations. However, we have noted that the City could benefit from a more focused plan as documented business plans and discussions with business plan preparers indicated that it is difficult to clearly articulate **how** activities support the achievement of strategic objectives.

### *Directional Plans: Official Community Plan and Other Infrastructure Plans*

An analysis of the planning conducted by selected peer cities (Appendix 2) indicates that each city prepares a version of an Official Community Plan as a statutory requirement. In Alberta and Manitoba, this plan is called a Municipal Development Plan (“MDP”).

Under Alberta’s Municipal Government Act, every municipality with more than 3,500 people must have

<sup>12</sup> <https://www.winnipeg.ca/interhom/CityHall/OurWinnipeg/>

an MDP. MDPs are the only statutory plans listed in the Municipal Government Act that are not optional. Edmonton's MDP is The Way We Grow, which was adopted in 2010. It is the highest level statutory plan in Edmonton. It outlines land use policies and growth targets designed to guide the city's evolution and development for ten years.

The City of Edmonton's six directional plans (referred to as "The Ways") supported the development of Edmonton's downtown core, built new communities and facilities, and guided the neighbourhood renewal program. This direction aligns closely to the direction established by the City of Saskatoon in their 2018-2021 Strategic Plan and the goal of Sustainable Growth. The City of Edmonton's six directional plans that supported their 2009-2018 strategic plan were as follows:

1. The Way We Grow: **Municipal Development Plan** aligned to the strategic goal of "Transform Edmonton's Urban Form";
2. The Way We Move: **Transportation Master Plan** aligned to the strategic goal of "Enhance use of public transit & active modes of transportation" ;
3. The Way We Live: Edmonton's **People Plan** aligned to the strategic goal of "Improve Edmonton's Livability";
4. The Way We Green: Edmonton's **Environmental Plan** aligned to the strategic goal of "Preserve & Sustain Edmonton's Environment";
5. The Way We Finance: aligned to the strategic goal of "Ensure Edmonton's Financial Sustainability"; and
6. The Way We Prosper: Edmonton's **Economic Development Plan** aligned to the strategic goal of "Diversify Edmonton's Economy".

In Winnipeg, Manitoba, a **Municipal Development Plan** like OurWinnipeg presents a 25-year vision for the city. It guides and informs more detailed planning. Detailed directional strategies supported the vision in key planning areas:

1. Sustainable Transportation: forms the policy framework for the **Transportation Master Plan**;
2. Sustainable Water & Waste: addresses environmental, economic and social sustainability and provide a path to guide the City's infrastructure needs into the future;
3. A Sustainable Winnipeg: is an integrated community sustainability strategy with a 25-year time horizon. It is built on solid sustainability principles supporting the three dimensions that comprise sustainability – economic, environmental and social; and
4. Complete communities: Winnipeg's guide to **Land Use and Development**.

The City of Winnipeg's MDP plan contains similar themes to those contained in the City of Saskatoon's Growth Plan to Half a Million. Some of the questions posed by the City of Winnipeg in developing their plan include:

- How are we going to accommodate growth and change?
- How do we capitalize on growth while making sure our city stays livable, affordable and desirable?
- How do we make sure that all Winnipeggers benefit from this growth?
- How do we maintain and enrich what we value while finding room for a growing population?

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In April 2016, Saskatoon City Council adopted in principle the Growth Plan to Half a Million. This directional document supported all of the Strategic Plan goals while focusing on the goals of Sustainable Growth and Moving Around. The following themes are included in Saskatoon's growth model: Corridor Growth, Transit, Core Area Bridges, Employment Areas, Active Transportation, and Financing Growth.

We observed that the City adopts an Official Community Plan<sup>13</sup> (OCP) with the intent to ensure that development takes place in an orderly and rational manner, balancing the environmental, social and economic needs of the community. The City's OCP is a legal document required by the provincial

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<sup>13</sup> [saskatoon.ca/ocp](http://saskatoon.ca/ocp)



Planning and Development Act, 2007. Like the Strategic Plan it is a long-term plan that has been shaped by input from citizens. It is intended to provide direction to Civic Administration to integrate the community's vision into all aspects of planning, priority-setting and development of land and infrastructure. The current OCP was approved by the Provincial Ministry of Municipal Affairs in 2009. In early 2018, the City's Planning & Development division initiated a redesign of the OCP.

Like other municipalities, the City's land development plans, including sector, concept and local area plans, articulate how the strategic direction approved by governing bodies will be addressed. We observed evidence that the City is continuously improving practices to support the infrastructure investment evaluation process, specifically with respect to supporting decisions for preserving current infrastructure. Practices such as regular condition assessments help identify the amount of ongoing investment required to sustain current infrastructure. Directional plans, such as master plans, are being developed to support future decisions for growth related infrastructure.

### *Regional Plans*

Regional planning deals with the efficient placement of land-use activities, infrastructure, and settlement growth across a larger area of land than an individual city or town.

Edmonton is the largest city within what is commonly referred to as the "Edmonton Metropolitan Region". As a member of the Edmonton Metropolitan Region Board (EMRB), Edmonton considers the EMRB's regional plans as guiding documents in setting Capital Strategy. The regional plans consider matters that impact multiple jurisdictions or municipalities. Edmonton's website notes "environmental, social and economic issues often cross city or town boundaries and require big-picture solutions. A collaborative approach to planning is needed to balance factors and interests such as population growth, urban sprawl, maintaining farmland, planning efficient transportation networks and protecting natural areas. By working on issues that cross boundaries together, the outcome is more comprehensive and effective".

The EMRB is a group of 24 municipalities that have been working together since developing a 2010 growth plan to ensure long term economic prosperity and quality of life for all citizens within the Edmonton Metropolitan Region. Edmonton's Metropolitan Region Growth Plan "Re-imagine. Plan. Build." was delivered to the Government of Alberta in 2016, and provides broad policy direction for all member municipalities to follow. As a regional growth management board, the EMRB is mandated by the Province to implement the region's 30-year Growth Plan and to create a regional metro servicing plan.

The City of Edmonton recently partnered with the Edmonton Chamber of Commerce to complete a regional program mapping initiative by inviting Council and Administration from neighbouring municipalities. Such leading practice initiatives are being undertaken across North America to understand how municipalities within regions can share services by taking a regional approach to understand program commonality across a community (city, school district, hospitals, non-profit organizations and other private sector entities). This type of initiative not only breaks down silos within municipal service delivery departments, but across jurisdictions. Instead of competing for limited funds, organizations collaborate to use those funds to provide value to citizens.

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We noted that the Saskatoon North Partnership for Growth (P4G) has prepared a P4G Regional Plan that will guide future growth in the region by establishing a coordinated approach to land use, development, infrastructure, and governance. As of September 25, 2017, the five partner municipalities<sup>14</sup> have endorsed the P4G Regional Plan in principle and are in the process of creating a new joint Planning District and the documents and bylaws that are needed to go with it. The P4G Regional Servicing Strategy provides recommendations to the P4G member municipalities for strategic investments in regional infrastructure

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<sup>14</sup> City of Saskatoon, Rural Municipality of Corman Park, City of Martensville, Town of Osler, City of Warman



development and service delivery. As the development identified in Land Use Concept takes place, capital investments and extensions of infrastructure will be required to support this growth.

In comparison to the ERMB, there is no provincial mandate for the P4G to implement the regional OCP, and while the EMRB has clearly set a 30-year growth plan for the region, the P4G plan does not specify a planning time period. One of the P4G 2019 initiatives is to receive provincial approval of the P4G Planning District Agreement, P4G Official Community Plan and P4G Zoning Bylaw.

The City can look to the City of Edmonton's approach that has recently focused on infrastructure investment to support their growth plans through identifying and addressing lessons learned.

### *Integrating Risk with Strategy & Performance*

Councils and Administrations are now, more than ever before, responding to growing calls for accountability and transparency with respect to achieving strategic success, expected performance and effective risk management.

It is commonly recognized that early identification of high risk areas within the PALM framework increases management's ability to proactively reduce costs and inefficiencies, increasing the likelihood of achieving capital objectives and related strategic goals.

In 2017, COSO released an updated Enterprise Risk Management (ERM) Framework that follows the business model and is designed to provide more depth, clarity, and greater insight into the links between strategy, risk and performance.

As depicted below, there are five key components of the business model.

1. Mission, Vision & Core Values;
2. Strategy Development;
3. Business Objective Formulation;
4. Implementation & Performance; and
5. Enhanced Value.

The updated COSO ERM Framework consists of five interrelated components of risk management:

1. Governance & Culture;
2. Strategy & Objective-Setting;
3. Performance;
4. Review & Revision; and
5. Information, Communication & Reporting.

Within these components, there is a series of principles that represent the fundamental concepts associated with each risk management component, as depicted below.

**Diagram 2: Enterprise Risk Management. Integrating with Strategy and Performance.**



Our research indicated that a number of municipalities utilize the ISO 31000 framework currently used by the City, including the City of Calgary. ISO suggests that use of their risk management standard can help organizations increase the likelihood of achieving objectives. The ISO 31000 framework is preferred by municipal governments, as many municipal departments utilize ISO standards in service delivery, such as incident management and asset management. Both frameworks are relevant, particularly as many risk professionals find that the ISO framework has a more practical application while the COSO framework is seen as more strategic.

The ISO 31000 framework was updated in 2018 and includes an emphasis on embedding risk management within the decision-making process. In their guide to the 2018 version of the ISO 31000 framework, the Institute of Risk Management (IRM) notes that “the risk management process is now presented as a set of iterative steps that are undertaken in a coordinated manner, but not necessarily in a strict sequence.”<sup>15</sup>

Many municipalities also recognize the importance of linking risk to strategy, including the City of Edmonton, whose ERM policy includes the following statement: “The City Manager will develop a comprehensive ERM Framework that will be followed by the City’s employees for the purpose of proactively, and on an ongoing basis, identifying, evaluating, managing, mitigating and reporting on enterprise risks associated with City business or strategic goals”.<sup>16</sup>

Industry practice recognizes the importance of considering risk in both the strategy-setting process and in driving performance of strategic goals.

<sup>15</sup> <https://www.theirm.org/media/3513119/IRM-Report-ISO-31000-2018-v3.pdf>

<sup>16</sup> [https://www.edmonton.ca/city\\_government/documents/PoliciesDirectives/C587.pdf](https://www.edmonton.ca/city_government/documents/PoliciesDirectives/C587.pdf)

The City implemented a Risk Based Management Program in August 2014 and conducted a Strategic Risk Assessment and prioritization exercise in 2015.

The City's Risk Based Management (RBM) Program includes eight principles for value creation and protection. One of the principles, based on ISO 31000, in the Corporate Risk: 2018 Annual Report is most relevant to setting strategic capital objectives and states that *"the City's RBM Program will be integrated into activities and processes, including strategic and business planning, project management and change management."*

In March 2018, the Standing Policy Committee on Finance approved the City's risk appetite. Risk appetite is the amount of risk, on a broad level, an organization is willing to accept in pursuit of value. Each organization pursues various objectives to add value and should broadly understand the risk it is willing to undertake in doing so. The City's risk appetite consists of fourteen individual risk appetite statements, grouped into five general risk categories: Human Capital, Technology, Financial, Operational, and Legal.

The City has identified a number of indicators to measure and monitor performance against desired outcomes within the Strategic Plan. However, these measures have not yet been implemented, and should be reconsidered to assess reasonableness of implementation and alignment to strategic outcomes.

For the period under assessment, the 2013-2023 Strategic Plan guided the setting of capital objectives and was adopted on August 14, 2013. Within each of the seven strategic goals, long term strategies (10 years) and shorter term priorities (4 years) were presented.

For the goal of Sustainable Growth, six success drivers and five indicators were presented as illustrated below.

Strategic Success Drivers for Sustainable Growth	Strategic Success Indicators for Sustainable Growth
1. Orderly and Sustainable Growth	1. City Centre population growth as a percentage of total growth (%)
2. Neighbourhood Quality and Character	2. Residents' perception of the quality of their neighbourhoods (%)
3. Balanced Land Use	3. Ratio of new infill units compared to new housing in greenfield development (:)
4. Access to Amenities and Services	4. Balance distance of population to the City Centre (%)
5. Availability of Serviced Land	5. Average residential density (#)
6. Regional Cooperation	

The 2018-2021 Strategic Plan was adopted on August 27, 2018. This plan included three outcomes for Sustainable Growth (referred to as "drivers" in the 2013-2023 Strategic Plan excerpt above). In addition, the Strategic Plan identified operational actions to be undertaken to support achievement of the Strategic Goal and an increased number of success metrics (15, plus overlapping metrics related to Transportation).

We observed that the City presents certain performance information on its website<sup>17</sup> whereby the performance dashboard results and targets for Sustainable Growth were captured below.

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**Indicator: Population Growth and Rate of Change**

2018 total population annual growth estimated at 2.0% for a total of 278,500 residents. This is not an actual figure.

A target is not available in the performance dashboard. However, a population of 500,000 is targeted/expected by 2045 (2.2% annual growth)

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**Indicator: Residential Infill Development**

2016 percentage of total dwellings that were infill development was 16.8%.

At least 25% five-year rolling average of residential development is in infill neighbourhoods by 2023 has been targeted.

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While growth and infill development impact sustainability initiatives, we found that it would be difficult for the average citizen to ascertain how the two indicators included in the City's current performance dashboard directly relate to the following specific outcome statements, presented in the City's Strategic Plan.

1. Our Plan for Growth is sustainable, through a balanced approach to land use, transportation choices and efficient servicing.
2. Regional partnerships provide the best opportunities for sustainable prosperity and quality of life.
3. Economic growth and development is supported by streamlined business practices and development approvals.

## ***Analysis & Recommendations for Improvement***

### ***Opportunity 1: Improve timeliness and focus of the Strategic Plan updates***

The 2018-2021 Strategic Plan was adopted by City Council on August 27, 2018. However, this was four months subsequent to the approval of the 2018 Capital Plan and Budget on April 30, 2018. In addition, the adoption of the 2018-2021 Strategic Plan occurred 10 months subsequent to the public release of the preliminary 2018 budget on October 16, 2017. A number of municipalities have been reducing the number of desired strategic outcomes, objectives and key performance indicators included within their strategic plans to provide a more focused approach to business planning and budgeting for infrastructure investment. This focused approach can facilitate more effective resource management and performance measurement, increasing the likelihood of success.

***Recommendation 1:*** We recommend that the City improve the timeliness and focus of the Strategic Plan update process. (PL1).

***Action:*** Incorporate updated strategic priorities and more focused objectives and performance indicators within the Capital Strategy practices by June 2021 to drive the 2022-2025 multi-year planning, budgeting and evaluation process for infrastructure investment in a more timely manner. Note that the next municipal election is scheduled for November 2020 and that the recently approved Multi-Year Business Plan and Budget Policy requires City Council to develop and approve its strategic priorities in the first full year of a Council term.

***Expected Benefit:*** Citizens engaged to participate in the annual business plan and budget process will see a clearer link between strategic goals and business objectives, enabling more focused conversations and

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<sup>17</sup> <https://www.saskatoon.ca/city-hall/our-performance/performance-dashboard/sustainable-growth>

quality community engagement. More focused conversations will facilitate Administration's prioritization of investments and support operational actions to achieve desired strategic outcomes.

*Opportunity 2: Support long-term financial sustainability within directional plans*

In our review of the directional plans we did not observe reference to the Strategic Goal of "Asset and Financial Sustainability". As discussed in more detail below, Asset and Financial Sustainability is the primary goal referenced in allocating funding to infrastructure investment decisions.

**Recommendation 2:** We recommend that City directional plans demonstrate consideration of all strategic goals. Council strategic priorities may also be considered, where appropriate and long term in nature. (PL2).

**Action:** Assess directional plans as part of the regular review cycle, or in alignment with the Strategic Plan update process, whichever is earliest. Where required, update directional plans to demonstrate consideration of all strategic goals by indicating how each principle within the plan will support achievement of desired strategic outcomes.

**Expected Benefit:** Given the significance of the amount invested in infrastructure to support directional plans, the weighted consideration of all strategic goals within the plans will result in a more balanced approach between prioritizing social and financial goals. Actions taken to support strategic goals will be clearly aligned with directional plans and strategies, facilitating more effective evaluation decisions.

*Opportunity 3: Improve practices to measure and monitor outcomes by aligning key performance indicators to strategic outcomes*

The performance indicators within both the 2013-2023 and 2018-2021 Strategic Plans do not clearly align to the desired outcomes. For example, there is no indicator to support performance measurement of the City's achievement of Regional Cooperation.

In addition, the number of metrics included within the 2018-2021 Strategic Plan suggests that the selected metrics have not been prioritized to support effective and efficient implementation of systems to measure, report and monitor results. The City is currently measuring and reporting only two indicators, and these do not directly align with the indicators included in the Strategic Plans.

**Recommendation 3:** We recommend the City prioritize the key performance indicators included within the Strategic Plan to identify a maximum of two indicators for each strategic outcome. (PL3).

**Action:** Provide additional training to those involved in the Strategic Plan update process to facilitate the selection of a maximum of two key strategic performance indicators for each outcome that are realistic, measurable, actionable and timely.

**Expected Benefit:** A more focused approach to identifying key strategic performance indicators will support Administration in implementing practices to measure, report and monitor City progress towards achieving strategic outcomes.

*Opportunity 4: Consider risk in development of Strategy*

In our review of the 2018-2021 Strategic Plan and the accompanying report presented to the Governance and Priorities Committee on August 20th, we did not observe documentation indicating the consideration of risks in setting strategic goals and priorities. In addition, we observed that the five general risk categories summarizing the fourteen individual risk appetite statements are not clearly linked to strategic goals and desired outcomes in a way that facilitates the embedment of risk within departmental business planning, project management and change management activities.

In the IRM Guide to ISO 31000:2018, they indicate that the importance of “understanding the organization and its context is included as part of the framework guidance in ISO 31000 and is also included in the process section under the heading ‘scope, context, criteria’. The components of establishing the context are described as defining the purpose and scope of risk management activities; establishing the external, internal and risk management context; and defining the risk criteria. Defining the risk criteria involves specifying the amount and type of risk that the organisation may or may not take, relative to objectives. This is usually referred to as the ‘risk appetite’ of the organization.<sup>18</sup>”

**Recommendation 4:** We recommend that Council consider risk appetite by integrating risk within the Strategic Plan update process and revisiting as part of the next four-year update. (PL4).

**Action:** Revisit risk categories and risk appetite to provide a better alignment to strategic goals and desired outcomes included in the 2018-2021 Strategic Plan. A staggered approach to updating could be taken beginning in the next annual review cycle to fully update and facilitate integration with the 2021 Strategic Plan update process.

**Expected Benefit:** All organizations assume a level of risk within the risk appetite specified by their governing body to create value for their stakeholders. By demonstrating evidence that risk is considered in the strategy-setting process, City Council can influence the organization’s risk culture and impact effective risk management in business planning, project management and change management to drive performance of strategic goals.

#### **Opportunity 5: Improve integration of risk within Directional Plans**

Within the Official Community Plan, we noted only two high-level references that demonstrated consideration of risk. A reference to Human & Environmental risk was included in the industrial land use policy for the Environmental Industrial Park. A reference to long-term Financial risk was included within the Corridor Planning Program.

**Recommendation 5:** We recommend that City business objectives included within directional plans identify prioritized risks and appropriate risk responses to drive performance. (PL5).

**Action:** As part of the regular review cycle, or to support the next Strategic Plan update process, identify risks for each business objective included within each directional plan. Conduct a risk assessment to assess the severity of each risk in order to develop appropriate risk responses and implementation plans for key risks.

**Expected Benefit:** By establishing a process to develop risk responses that are based on key risks that could impact the achievement of strategic outcomes, key planning documents can be utilized to drive infrastructure investment decisions throughout the organization.

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<sup>18</sup> <https://www.theirm.org/media/3513119/IRM-Report-ISO-31000-2018-v3.pdf>



# City of Saskatoon Prioritization Practices



Prioritize

## Audit Objective

Assess whether current practices to prioritize projects for investment in infrastructure align with City Council's Strategic Priorities and approved planning documents.

## Risk Assessment

The City conducts a number of informal and formal practices to prioritize projects for investment in infrastructure. For example, working groups across divisions actively employ good practices to assess infrastructure needs in an informal and decentralized manner. While capital and operating lifecycle costs are regularly estimated, guidance to support good practice in total value measurement is not well-established throughout the organization. Formal practices have been implemented to allocate funds to infrastructure investments but this process is highly centralized and may not take a balanced approach to ensure prioritization considers all strategic goals and desired outcomes. As Administration is actively improving practices in this area, we have concluded that current state practices would have a **medium impact** on infrastructure investment evaluation practices if risks are not mitigated through corrective action and/or continuous improvement activities.

## Comparison of Industry & City Practices

We looked at industry practice to prepare a comprehensive cost estimate, as well as establish a funding strategy.

### *Estimating Costs for Opportunity Identification & Business Case Analysis*

To facilitate capital planning and budgeting, many government organizations utilize templates to achieve consistency across ministries or divisions. In our research, we have identified two planning/budgeting templates that represent good industry practice and may be relevant for consideration by the City with respect to infrastructure investment as well as other capital decisions. Both requesters and approvers can benefit from the regular use of formal documentation in a consistent format to develop a common understanding and break down silos.

An **Opportunity Intake Template** can enable divisions in self-assessment and categorization of their opportunity. Benefits are realized from the preliminary identification of key decision criteria, such as:

- Business need;
- Proposed solution;
- Resource requirement alternatives;
- Expected outcomes;
- Stakeholder benefits; and
- Risks of not proceeding.

This template also serves as a tool to:

- Research a potential partnership with another division;
- Discover an existing solution within the City;
- Develop a centre of excellence or working group related to the opportunity; and
- Development of the proposal when funding becomes available.

A comprehensive **Business Case Template** should be designed to gather the information required to support effective decisions. It is common practice to require a Business Case to support every

infrastructure investment budget request. Depending on the significance of the request, a Business Case Analysis vs. a Business Case Submission may be acceptable. An acceptable analysis could be in the format of an updated Opportunity Intake.

A typical Business Case would include a number of components, as depicted below. Discussions would build on the key decision criteria included in the Opportunity Intake, and would include additional solution details such as environmental scan, stakeholder impacts and implementation plan. The cost/benefit analysis would include both tangible and intangible benefits to support performance measurement. Alignment to the strategic and other directional plans would be documented in a clear and concise manner, and risk mitigation activities would be consistent with the Enterprise Risk Management principles.

**Diagram 3: Common Business Case Components**



**Public Services and Procurement Canada**<sup>19</sup> suggests that projected cost estimates should be based on total cost of ownership, which includes ongoing costs over the course of the investment's lifecycle as well as potential compliance costs for stakeholder groups. Based on the costs established, they provide guidance that business case preparers should describe how those costs are weighed against the benefits. Further guidance suggests conducting a cost/benefit analysis for each option, taking into account costs, benefits, and risks. It may be beneficial for the City to consider business case guidance provided by the Federal government to align practices with likely expectations for completing grant applications.

A comprehensive cost estimate would generally include the following for each alternative solution:

- Total capital costs for each alternative by major component and cost category (i.e. salary, consulting, purchasing);
- Total operational lifecycle costs for each alternative by major cost category over the life of the asset; and
- A reasonable contingency cost estimate based on risk assessment.

The recommended solution could detail the annual breakdown of capital and operational costs by major cost category for the recommended alternative for five years and five years plus, as depicted below.

<sup>19</sup> <https://www.tpsgc-pwgsc.gc.ca/biens-property/sngp-npms/ti-it/armva-bctlv-eng.html>



**Example 1a: Recommended Solution  
Comprehensive Cost Estimate**

Estimate Description	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 5+	Total
Capital Component 1 - Total	\$\$	\$\$	\$\$	\$\$	\$\$		\$\$\$\$
• Cost Category 1	\$	\$	\$	\$	\$		\$\$\$
• Cost Category 2	\$	\$	\$	\$	\$		\$\$\$
Capital Component 2 - Total		\$\$	\$\$	\$\$	\$\$		\$\$\$\$
• Cost Category 1		\$	\$	\$	\$		\$\$\$
• Cost Category 2		\$	\$	\$	\$		\$\$\$
Cost Contingency based on risk assessment							
Total Capital Costs	\$\$	\$\$\$\$	\$\$\$\$	\$\$\$\$	\$\$\$\$	-	\$\$\$\$
Operating Cost Category 1						\$\$	\$\$\$
Operating Cost Category 2						\$\$	\$\$\$
Cost Contingency based on risk assessment							
Total Operating Costs - ## useful life	-	-	-	-	-	\$\$\$\$	\$\$\$\$
<b>Total Expected Tangible Costs</b>	\$\$\$\$	\$\$\$\$	\$\$\$\$	\$\$\$\$	\$\$\$\$	\$\$\$\$	\$\$\$\$

The City compiles the capital budget by business line for presentation within the Corporate Business Plan and Budget document. As a result, we selected a sample of approved projects across business lines (Appendix 2) to assess practices in identifying infrastructure needs, estimating project costs and submitting infrastructure funding requests.

The City has made progress in utilizing asset management plans and conducting industry good practice comparisons to identify infrastructure needs across divisions with significant infrastructure investments. However, we noted that organizational tools and templates are not used to conduct scenario analysis in a consistent manner to consider funding constraints or other external risks.

The new Multi-Year Business Plan and Budget Procedures require that the Capital Budget capture the full cost of an entire component of the project in the approval year. In addition, the inclusion of the operating impact considerations, defined as “future costs that are required as a result of a capital project”, are to be included.

We observed that the 2018 Corporate Business Plan and Budget document details project cost estimates for five years, and provides a breakdown by major cost component. While details of cost categories are not provided within the document, we did observe evidence of the consideration of these costs during our assessment.

The new Multi-Year Business Plan and Budget Procedures indicate that divisions must prepare an internal 10-year Capital Budget in order to align with approved service levels and provide insight into the City’s long-term capital requirements.

We noted that the new Multi-Year Business Plan and Budget Policy limits annual adjustments to the Capital Budget to the following circumstances:

- City Council-directed changes to its Strategic Priorities and/or the City’s Strategic Plan that have impacts on the prioritization of capital projects; or
- Unanticipated external factors.

### *Total Value Measurement, Cost/Benefit Analysis and Funding Plans*

Many organizations manage projects well once they are funded. But they struggle in choosing the project mix that aligns most closely with corporate strategy and delivers the greatest stakeholder value. A project with impact that is difficult to measure may be under-funded or passed over completely. Some organizations formally quantify indirect impacts in dollar terms and apply portfolio optimization techniques to enable alignment of the budgeting and planning process with strategy to drive better performance. These concepts can be aligned with Triple Bottom Line frameworks that focus on financial, social and environmental performance. Some of the benefits of Total Value Measurement to prioritize capital spending include:

- Putting a dollar value on important value drivers that don't produce direct financial benefits;
- Comparing indirect value drivers on equal footing with those that have a direct cash flow impact;
- Building internal buy-in around a fair selection process;
- Motivating project planners to create and submit new funding business cases; and
- Communicating portfolio value to stakeholders to justify rate/fee increases.

Public sector organizations commonly face funding constraints. A number of municipalities have investigated opportunities to diversify funding sources, however it is generally accepted that infrastructure funding is limited to three primary sources:

- taxes and user fees (indirect contributions by reserve and debt repayment);
- other government (direct transfers); and
- other contributions (direct non-government contributions).

Adding to the funding constraints caused by lack of diversification is the limited ability to grow funding sources at a rate sufficient to meet the required expenditures for service delivery and up front infrastructure investment. When expenditures exceed available funds, a funding gap results.

To support any funding strategy or budgeting approach, a comprehensive funding estimate is required for each proposed investment, and would generally include the following as part of a business case submission:

- For each alternative solution:
  - Total expected operational savings for each alternative (i.e. reduced maintenance, efficiencies) over the life of the asset;
  - Total funding for each alternative by major funding source category (i.e. grant, rate, reserve); and
  - A reasonable contingency estimate based on risk assessment, where relevant.
- For the recommended solution:
  - Annual breakdown of operational savings by major cost category for the recommended alternative for five years and five years plus;
  - Annual breakdown of funding by major funding source category for the recommended alternative for five years and five years plus; and
  - A reasonable contingency estimate based on risk assessment, where relevant.

**Example 1b: Recommended Solution  
Funding Plan**

Estimate Description	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 5+	Total
Operating Cost Category 1		\$	\$	\$	\$	\$\$	\$\$
Operating Cost Category 2		\$	\$	\$	\$	\$\$	\$\$
Contingency based on risk assessment		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Total Operational Savings	-	\$	\$	\$	\$	\$\$	\$\$\$
Funding Source 1	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$
Funding Source 2	\$	\$\$	\$	\$	\$	\$	\$\$
Contingency based on risk assessment	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Total Funding	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$
<b>Total Expected Tangible Benefits</b>	<b>\$\$\$</b>	<b>\$\$\$</b>	<b>\$\$\$</b>	<b>\$\$\$</b>	<b>\$\$\$</b>	<b>\$\$\$</b>	<b>\$\$\$</b>

A comprehensive cost/benefit analysis would generally include a total calculation of net tangible cost/benefit for each alternative, and an annual breakdown for the recommended solution for five years and five years plus. If using the total value approach to quantify indirect impacts in dollar terms, the total expected intangible benefits for each alternative (i.e. social, environmental) would be provided, as would an annual breakdown for the recommended solution for five years and five years plus. This is illustrated below.

**Example 1c: Recommended Solution  
Total Value Measurement**

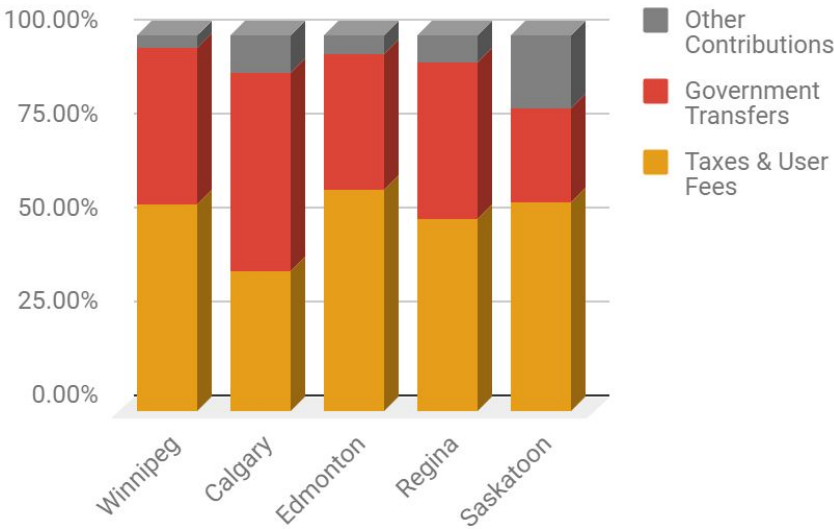
Estimate Description	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 5+	Total
Total Expected Tangible Costs	\$\$\$	\$\$\$	\$\$\$	\$\$	\$\$\$	\$\$\$	\$\$\$
Total Expected Tangible Funding	\$\$\$	\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$
Net Tangible Benefits/(Costs)	-	(\$\$)	-	\$	-	-	(\$)
Intangible Benefit Category 1						\$	\$
Intangible Benefit Category 2						\$	\$
Net Intangible Benefits/(Costs)	-	-	-	-	-	\$\$	\$\$
<b>Total Expected Value</b>	<b>-</b>	<b>(\$\$)</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$\$</b>	<b>\$</b>

We noted references to strategic outcomes, goals and risks within the City's 2018 Corporate Business Plan and Budget document but were unable to clearly link the intangible benefits to the approved budget amounts. Discussions and reviews of samples selected indicated that the business would benefit from organizational guidance (i.e. common procedure and templates) in this area.

We also observed that the City has established controls to support asset and financial sustainability related to infrastructure investments through the Capital Reserve Bylaw (the “Bylaw”). The Bylaw indicates the amount of funds to be saved for specific investments in infrastructure. The money set aside within the reserve cannot be expended, pledged or applied to a purpose other than that for which the Reserve was established. As a result, there may be constraints in accessing available funds to support infrastructure investments for which a reserve has not been established, or for which a reserve has not accumulated sufficient funds to support the required investment.

We examined the funding plans used for infrastructure investments for a selected group of municipalities, presented immediately below in Diagram 4 for illustrative purposes. On average, Saskatoon’s peers funded 50% of their municipal infrastructure investments by taxes and user fees compared to a 55% funding contribution at the City. The City funded their remaining 2017 infrastructure investment by government transfers (25%) and other contributions (20%). This compared to an average of 43% funding from other government and 7% from other contributions across Saskatoon’s peers.

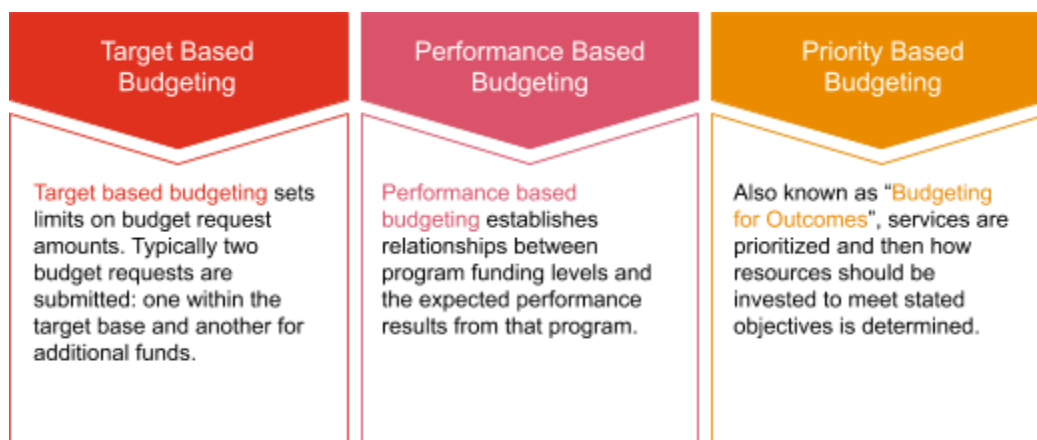
**Diagram 4: Funding Strategy Comparison (2017 Infrastructure Investments<sup>20</sup>)**



*Budget Approaches for Funding Prioritization*

A number of municipalities across North America have recently changed their approach to budgeting to help focus on priorities and service delivery outcomes given the funding gap challenge. This can be helpful in supporting grant applications and needs to other levels of government. Below we have outlined some common budgeting approaches that support the development of a funding strategy for infrastructure investments. Each of these are considered a “top-down” approach that prioritizes available funding sources.

<sup>20</sup> Reserve funding was estimated based on data compiled from the 2017 audited statement of operations and the statement of cash flows for each municipality. Infrastructure investment means capital acquisition per the statement of cash flows.



In Alberta, municipalities such as **Strathcona County**<sup>21</sup> have investigated/implemented priority based budgeting to provide valuable information that supports decision-making by directors and managers. This enables them to allocate or reallocate resources based on each program or resource request's alignment to strategic and corporate priorities. It can also be used by the organization to set targets and determine how resources are aligned, based on priorities.

Open data initiatives are being used in conjunction with business planning and budgeting to engage residents and businesses. At the **City of Edmonton**<sup>22</sup>, Open Data promotes transparency and innovation; by making it truly accessible and barrier-free they intend to help connect the people of Edmonton by doing more than simply publishing data. The **City of Shawnee, Kansas**<sup>23</sup> is using open data generated from their implementation of priority based budgeting to support regional planning collaboration. The City of Shawnee has identified each and every service they provide, the costs and workforce dedicated to each service, the measurable influence (or lack thereof) of each service on societal goals, and other key attributes for every service.

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We observed that the City's approach aligns most closely with target based budgeting.

## ***Analysis & Recommendations for Improvement***

### ***Opportunity 6: Perform scenario analysis for each investment to identify potential risk responses***

We observed that costs prepared as part of the asset management planning process are utilized directly to support the infrastructure investment request. By costing only one solution, the City is less agile in situations where projects are delayed and costs increase, or in a situation where funding is constrained.

In addition, project managers consistently identified insufficient funding as a key infrastructure investment risk. We observed that risk is generally managed through establishment of a contingency fund as opposed to conducting a comprehensive risk assessment.

**Recommendation 6:** We recommend the preparation and analysis of alternative scenarios that could achieve desired strategic outcomes or performance targets within an established tolerance. (PR1).

**Action:** Provide guidance and/or training in conducting good practice scenario analysis. Require the inclusion of a scenario analysis, or a reason why it is not applicable, within the business case for proposal review.

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<sup>21</sup> <https://www.strathcona.ca/council-county/plans-and-reports/business-plan-and-budget/priority-based-business-planning-budgeting/>

<sup>22</sup> [https://www.edmonton.ca/city\\_government/initiatives\\_innovation/open-data.aspx](https://www.edmonton.ca/city_government/initiatives_innovation/open-data.aspx)

<sup>23</sup> <https://cityofshawnee.org/cms/one.aspx?portalId=8941472&pageId=9637756>

*Expected Benefit:* Completion of scenario analysis is an industry standard good practice and supports the implementation of risk responses throughout the infrastructure investment capital strategy and capital project delivery lifecycle stages. This is especially important due to the long-term nature of capital budgeting and planning and could reduce annual adjustments to the capital budget.

*Opportunity 7: Implement capital budget tools to support internal and external collaboration*

We observed that some divisions have more robust collaboration and costing practices in place than others. Assigning capital budget accountability to each divisional business line is common practice as divisional managers have a better understanding of their area's needs. However, it is important that budgeting practices include a centre-led component to establish consistency for evaluation purposes.

*Recommendation 7:* We recommend the development of industry good practice tools and templates to assess capital budget proposals. Furthermore, we recommend establishing policy to require submission of a standardized business case as part of the divisional capital budget request. (PR2).

*Action:* Develop a business case template that includes a comprehensive cost estimation for implementation in the 2022 capital budget process. Consider whether an opportunity intake template would be sufficient to facilitate Administration's review of projects under a certain dollar threshold.

*Expected Benefit:* By implementing a consistent approach to estimating capital costs, efficiencies are gained in both preparation and evaluation activities and the risk of missing information is reduced. In addition, divisions can be encouraged to work together or with external stakeholders to find innovative solutions to reduce costs through partnership.

*Opportunity 8: Include cost/benefit analysis or total value measures within the business case*

We observed that divisions considered costs in estimating infrastructure investment requirements but that potential benefits were not quantified.

*Recommendation 8:* We recommend the inclusion of intangible or social costs/benefits within the infrastructure investment proposal. (PR3).

*Action:* Develop an approach to measure total value of an infrastructure investment proposal. Include a section to demonstrate divisional consideration of all strategic goals within the business case template.

*Expected Benefit:* By demonstrating that both the financial and social impacts of the proposed infrastructure investment has been considered for all strategic goals, the City will be better positioned to improve evaluation and performance measurement activities.

*Observation Area: Allocation of Funding*

The City's Corporate Business Plan and Budget document identifies 14 separate business lines. A business plan for each line identifies the total operating and capital budgets, as well as at least one strategic goals, the relevant City Council priorities, strategic risks, performance measures, strategic and service outcomes, and planned initiatives for 2018.

The 2018 Corporate Business Plan and Budget document indicated that availability of funding sources and a reasonable tax rate increase are key considerations in prioritizing capital investments. In 2018, 15.1% of the total operating budget was set aside to save for future infrastructure investments and 70.1% of the 2018 capital budget was funded from past savings.

We observed that the City considers Council strategic priorities by developing corporate business plans through the use of cross divisional teams to discuss the strategic priorities and develop options to progress their priorities.

### *Opportunity 9: Investigate the practicality of incorporating a top-down budget approach for capital budgeting*

We observed that it was sometimes difficult to understand the relationship between the facts included within the business plans and the allocation of funding. In addition, divisional project managers who are responsible for preparing “complete, reliable and realistically attainable [capital budget] estimates<sup>24</sup>” expressed concern that identified infrastructure investment needs are not being met due to funding constraints.

**Recommendation 9:** We recommend that cross divisional teams be encouraged to collaborate and discuss innovative ways to progress strategic goals and desired outcomes within a targeted funding amount before developing a capital budget cost estimate. (PR4).

**Action:** Supplement the Multi-Year Business Plan and Budget policy with additional guidance to indicate how funding targets will be communicated, and set expectations with respect to collaboration and innovation for developing solutions that minimize costs. Consider utilizing a form to establish a consistent template to use in investigating internal and external partnership opportunities (i.e. Opportunity Intake form referenced in the common practice section of this report).

**Expected Benefit:** By prioritizing funding over costs and considering strategic outcomes before perceived needs, the Administration can further support a culture of continuous improvement and provide clarity in the relationship between approved funding and performance progress. In addition, capital budget changes as a result of Council changes to strategic priorities and/or the Strategic Plan would be limited.

## ***City of Saskatoon Evaluation Practices***



Evaluate

### ***Audit Objective***

Assess whether current practices to evaluate projects for funding prioritization are designed to minimize the risk of under/over investment and aligned to good practice.

### ***Risk Assessment***

The City takes a controlled approach to infrastructure investments as evidenced by its capital reserve bylaw and prioritization of investments aligned to the Strategic Goal of Asset and Financial Sustainability. We have concluded that current state practices would have a **high impact** on infrastructure investment evaluation practices if risks are not mitigated through corrective action and/or continuous improvement activities. This is primarily a result of decentralized and undocumented processes to support evidence-based decision making in this area.

### ***Comparison of Industry & City Practices***

We looked at industry practice to develop evaluation criteria to support approval decisions.

In our 2016 Internal Audit report titled “Capital Planning, Asset Life Cycle and Operating Costs”, we referenced decision criteria used by the City of Ottawa as part of its process for Comprehensive Asset Management (CAM) Prioritization. While establishing decision criteria and presenting it in a decision tree format is useful to guide infrastructure investment approval decisions, establishing a tool to facilitate those decisions can help with successful implementation.

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<sup>24</sup> Multi-Year Business Plan and Budget Policy (effective April 1, 2019)



An **Evaluation Tool** does not need to be complex to be effective. In our experience, we have observed effective use of scoring tools developed within Microsoft Excel.

### *Evaluation Categories*

To support transparent decisions, the first step is to identify the categories that will be used for evaluation. Less is more. Most organizations choose between three and five (3-5) categories. Examples include: Alignment, Risk, Financial, Efficiency, Social. In any case, the categories should tie to the information required in the Business Case to ensure completeness of information necessary to support the evaluation.

### *Decision Criteria*

Each category will include decision criteria, often presented in the form of two or three questions and organized by sub-category. For each decision criteria evaluators' will rank the submission using a scoring scale. An example of a decision criteria/scoring question for the Alignment category would be: To what extent does this initiative align/contribute to the most recent Strategic Plan? An example of a decision criteria/scoring question for the Efficiency category would be: To what extent will the initiative improve innovation, operational excellence, and/or service delivery through standardization and/or automation of manual processes?

A commentary box should be available for evaluators to document any justification for the score, or additional qualitative considerations.

### *Criteria Scoring*

The criteria scoring scale should allow a maximum of 5 and a minimum of 3 possible scores. The scoring scale will depend on the type of question, as illustrated in the below example for Alignment category.

0	1	2	3	4	5
Does not support or drive a Strategic Plan Outcome.	Supports one or more Strategic Plan Outcome(s).	Drives one or more Strategic Plan Outcome(s).	Drives one or more Strategic Plan Outcome(s) and one or more Council Priorities.	Is critical to one or more Strategic Plan Outcome(s) and one or more Council Priorities.	Is critical to one or more Strategic Plan Outcome(s) and one or more Council Priorities. Directly contributes to measures for the identified Outcome.

An example scoring scale for the Efficiency question above is presented below.

0	1	3	5
No improvement	Minor improvement	Moderate improvement	Major improvement

### *Investment Scoring*

Once the total score for each decision criteria is determined, a weighting can be applied to determine total initiative score. This weighting should reflect the category that the organization considers most imperative to the investment decision. For example, the Financial category may have more weight than



the Efficiency category if the organization places higher priority on Financial impacts in making investment decisions.

In addition, the organization may choose to assign scores for additional decision criteria at this stage. This could include funding type (i.e. reserve, grant, tax, user fee) or investment category (i.e. maintenance, growth, transformation).

### *Evaluation Summary*

An executive summary that includes a summary of the score and initiative should be completed. If the initiative is a result of a provincial or federal regulation or other legal mandate this should also be incorporated into the final decision.

Rationale supporting the decision should be documented and communicated back to the submitting division as part of a commitment to continuous improvement and evidence-based decision making.

The City's total approved annual capital budget for 2018 was \$296.2 million. Within the 2018 Corporate Business Plan and Budget document, the City presents the annual infrastructure investment by business line and indicates which strategic goal(s) are supported by this investment. We have presented the infrastructure investment by strategic goal below to gain an understanding of which goals were prioritized in 2018. As indicated in the table below, Asset and Financial Sustainability was a primary consideration in 2018 for prioritizing infrastructure investments, followed by Environmental Leadership.

Strategic Goal <sup>25</sup>	2018 Infrastructure Investment <sup>26</sup>	Responsible Business Lines
Asset and Financial Sustainability	40.90%	<ul style="list-style-type: none"> <li>• Corporate Asset Management</li> <li>• Corporate Governance and Finance</li> <li>• Land Development</li> <li>• Utilities</li> </ul>
Environmental Leadership	23.90%	<ul style="list-style-type: none"> <li>• Environmental Health</li> <li>• Utilities</li> </ul>
Sustainable Growth	11.47%	<ul style="list-style-type: none"> <li>• Land Development</li> <li>• Urban Planning and Development</li> </ul>
Quality of Life	9.72%	<ul style="list-style-type: none"> <li>• Arts, Culture and Events Venues</li> <li>• Community Support</li> <li>• Fire Services</li> <li>• Policing</li> <li>• Recreation and Culture</li> <li>• Urban Planning and Development</li> </ul>
Moving Around	9.59%	<ul style="list-style-type: none"> <li>• Transportation</li> </ul>
Continuous Improvement	3.69%	<ul style="list-style-type: none"> <li>• Corporate Governance and Finance</li> </ul>
Economic Diversity and Prosperity	0.73%	<ul style="list-style-type: none"> <li>• Urban Planning and Development</li> </ul>

We did not observe a formalized evaluation tool in use at the City.

<sup>25</sup> As presented in both the 2013-2023 & 2018-2021 Strategic Plans

<sup>26</sup> Where a business line indicated that more than one goal was achieved through investment, the investment amount was included in all applicable goals for allocation purposes. The intent of this presentation is to provide a starting point for discussion based on available public information. It is not intended to be a recommendation for the most appropriate allocation methodology.

## ***Analysis & Recommendations for Improvement***

### ***Opportunity 10: Develop and communicate prioritization criteria***

The 2018 Corporate Business Plan and Budget document states that all business lines prepare individual business plans with the objective of achieving the City's strategic goals, performance targets and City Council's collective priorities. However, during our assessment business line project managers indicated that there is a lack of clarity and communication in how project budget submissions are evaluated.

***Recommendation 10:*** We recommend that 3 to 5 evaluation categories be identified and supported by the development of key decision criteria and a scoring methodology that aligns to desired community outcomes and strategic goals. Furthermore, we recommend that the City consider whether implementation of the decision criteria and scoring methodology may require changes to the Bylaw or policies to minimize funding constraints. (E1).

***Action:*** Establish a cross-divisional working group of no more than five members to develop and recommend 3 to 5 evaluation categories and decision criteria that align to desired community outcomes and strategic goals. Provide an opportunity for all project managers and divisional stakeholders to provide feedback. As the CFO is responsible for providing a corporate review of all budget proposals before submission to City Council, the CFO should approve the evaluation categories and decision criteria, and lead the development of the scoring methodology. The current budget approach and reserve allocation bylaw would need to be aligned with decision criteria and scoring methodologies.

***Expected Benefit:*** Identification and communication of evaluation categories and prioritization criteria will support transparent decisions and contribute to a culture of continuous improvement by providing insights into decisions and encouraging collaboration.

### ***Opportunity 11: Develop and implement an infrastructure investment evaluation tool***

Although the City utilizes a budget software to track capital budget requests and approvals, we did not observe evidence that investment infrastructure evaluations are conducted through the use of a formal tool.

***Recommendation 11:*** We recommend that the rationale supporting the infrastructure investment decision be documented and communicated back to the submitting division. (E2).

***Action:*** Create a simple, yet effective tool within Microsoft Excel to support efficient, evidence-based decision making referencing the common evaluation practices identified within this report. The evaluation tool should be developed at the same time as the capital budget tools included in Recommendation 7 to support alignment and divisional accountability.


***Expected Benefit:*** Transparency will be improved with respect to evaluation decisions and the City will be better positioned to realize the benefits of strategic and directional planning by taking an integrated approach to evaluating infrastructure investments. Tools will support performance measurement and contribute to continuous improvement actions related to outcome achievement.






### 3. Prioritization of Recommendations






We have prioritized the areas of assessment by considering the highest impact each area could have on Infrastructure Investment Evaluation practices, if risks are not mitigated through corrective action/continuous improvement activities. Observation/impact rating criteria is presented in Appendix 4.

Assessment Area	Impact Rating
Gain an understanding of <b>planning</b> practices to determine infrastructure needs.	Low (1) 
Assess whether <b>prioritized</b> infrastructure investments are aligned to approved plans.	Medium (2) 
Assess whether current practices to <b>evaluate projects</b> for funding prioritization are aligned to good practice.	High (3) 

Recommendations by assessment area are presented below in order of impact rating:

Prioritized Recommendation	Assessment Area	Impact Rating
<p>E1 Recommendation 10 (pg 35): We recommend that 3 to 5 evaluation categories be identified and supported by the development of key decision criteria and a scoring methodology that aligns to desired community outcomes and strategic goals. Furthermore, we recommend that the City consider whether implementation of the decision criteria and scoring methodology may require changes to the Bylaw or policies to minimize funding constraints.</p> <ul style="list-style-type: none"> <li>Establish a cross-divisional working group of no more than five members to develop and recommend 3 to 5 evaluation categories and decision criteria that align to desired community outcomes and strategic goals. Provide an opportunity for all project managers and divisional stakeholders to provide feedback. As the CFO is responsible for providing a corporate review of all budget proposals before submission to City Council, the CFO should approve the evaluation categories and decision criteria, and lead the development of the scoring methodology. The current budget approach and reserve allocation bylaw would need to be aligned with decision</li> </ul>	Evaluation	

	criteria and scoring methodologies.		
E2	<p>Recommendation 11 (pg 36): We recommend that the rationale supporting the infrastructure investment decision be documented and communicated back to the submitting division.</p> <ul style="list-style-type: none"> <li>Create a simple, yet effective tool within Microsoft Excel to support efficient, evidence-based decision making referencing the common evaluation practices identified within this report. The evaluation tool should be developed at the same time as the capital budget tools included in Recommendation 7 to support alignment and divisional accountability.</li> </ul>	Evaluation	
PR1	<p>Recommendation 6 (pg 31): We recommend the preparation and analysis of alternative scenarios that could achieve desired strategic outcomes or performance targets within an established tolerance.</p> <ul style="list-style-type: none"> <li>Provide guidance and/or training in conducting good practice scenario analysis. Require the inclusion of a scenario analysis, or a reason why it is not applicable, within the business case for proposal review.</li> </ul>	Prioritization	
PR2	<p>Recommendation 7 (pg 32): We recommend the development of industry good practice tools and templates to assess capital budget proposals. Furthermore, we recommend establishing policy to require submission of a standardized business case as part of the divisional capital budget request.</p> <ul style="list-style-type: none"> <li>Develop a business case template that includes a comprehensive cost estimation for implementation in the 2021 capital budget process. Consider whether an Opportunity Intake template would be sufficient to facilitate Administration's review of projects under a certain dollar threshold.</li> </ul>	Prioritization	
PR3	<p>Recommendation 8 (pg 32): We recommend the inclusion of intangible or social costs/benefits within the infrastructure investment proposal.</p> <ul style="list-style-type: none"> <li>Develop an approach to measure total value of an infrastructure investment proposal. Include a section to demonstrate divisional consideration of all strategic goals within the business case template.</li> </ul>	Prioritization	
PR4	<p>Recommendation 9 (pg 33): We recommend that cross divisional teams be encouraged to collaborate and discuss innovative ways to progress strategic goals and desired outcomes within a targeted funding amount before developing a capital budget cost estimate.</p> <ul style="list-style-type: none"> <li>Supplement the Multi-Year Business Plan and Budget policy with additional guidance to indicate how funding targets will be communicated, and set expectations with respect to collaboration and innovation for developing solutions that minimize costs. Consider utilizing a form to establish a consistent template to use in investigating</li> </ul>	Prioritization	

	internal and external partnership opportunities (i.e. Opportunity Intake form referenced in the common practice section of this report).		
PL1	<p>Recommendation 1 (pg 22): We recommend that City improve the timeliness and focus of the Strategic Plan update process.</p> <ul style="list-style-type: none"> <li>• Incorporate updated strategic priorities and more focused objectives and performance indicators within the Capital Strategy practices by June 2021 to drive the 2022-2025 multi-year planning, budgeting and evaluation process for infrastructure investment in a more timely manner. Note that the next municipal election is scheduled for November 2020 and that the recently approved Multi-Year Business Plan and Budget Policy requires City Council to develop and approve its strategic priorities in the first full year of a Council term.</li> </ul>	Planning	
PL2	<p>Recommendation 2 (pg 23): We recommend that City directional plans demonstrate consideration of all strategic goals. Council strategic priorities may also be considered, where appropriate and long term in nature.</p> <ul style="list-style-type: none"> <li>• Assess directional plans as part of the regular review cycle, or in alignment with the Strategic Plan update process, whichever is earliest. Where required, update directional plans to demonstrate consideration of all strategic goals by indicating how each principle within the plan will support achievement of desired strategic outcomes.</li> </ul>	Planning	
PL3	<p>Recommendation 3 (pg 23): We recommend the City prioritize the key performance indicators included within the Strategic Plan to identify a maximum of two indicators for each strategic outcome.</p> <ul style="list-style-type: none"> <li>• Provide additional training to those involved in the Strategic Plan update process to facilitate the selection of a maximum of two key strategic performance indicators for each outcome that are realistic, measurable, actionable and timely.</li> </ul>	Planning	
PL4	<p>Recommendation 4 (pg 24): We recommend that Council consider risk appetite by integrating risk within the Strategic Plan update process and revisited as part of the next four-year update.</p> <ul style="list-style-type: none"> <li>• Revisit risk categories and risk appetite to provide a better alignment to strategic goals and desired outcomes included in the 2018-2021 Strategic Plan. A staggered approach to updating could be taken beginning in the next annual review cycle to fully update to facilitate integration with the 2021 Strategic Plan update process.</li> </ul>	Planning	
PL5	<p>Recommendation 5 (pg 24) We recommend that City business objectives included within directional plans identify prioritized risks and appropriate risk responses to drive performance.</p>	Planning	

	<ul style="list-style-type: none"> <li>As part of the regular review cycle, or to support the next Strategic Plan update process, identify risks for each business objective included within each directional plan. Conduct a risk assessment to assess the severity of each risk in order to develop appropriate risk responses and implementation plans for key risks.</li> </ul>		
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# Appendix 1: Interview List

Name	Area of Responsibility	Topic of Discussion
Kerry Tarasoff	Corporate Financial Services	IA Project Scope, Approach & Deliverables
Nicole Garman	Risk	IA Project Scope, Approach & Deliverables
Clae Hack	Finance	IA Project Scope, Approach & Deliverables   Capital Plan   Capital Project Budget
Lesley Anderson	Planning & Development	IA Project Scope, Approach & Deliverables   Capital Objectives   Capital Plan
Reid Corbett	Saskatoon Water	IA Project Deliverables   Capital Objectives   Capital Plan
AJ McCannell	Saskatoon Water	Capital Objectives   Capital Plan
Beverly Stanley	Finance	Capital Project Budget   Capital Project Approval
Frank Long	Saskatoon Land	IA Project Deliverables   Capital Project Budget   Capital Project Approval
David LeButillier	Transportation	Capital Objectives   Capital Plan
Daryl Schmidt	Construction & Design	IA Project Deliverables   Capital Objectives   Capital Plan   Capital Project Budget   Capital Project Approval
Troy LaFreniere	Facilities Management	Capital Project Budget   Capital Project Approval
Del Ehlert	Facilities Management	Capital Project Budget   Capital Project Approval
Daryl Campbell	Finance	Capital Project Budget   Capital Project Approval
Rob Frank	Major Projects & Preservation	Capital Project Budget   Capital Project Approval
Jennifer Rau	Finance	Capital Project Budget   Capital Project Approval
Matt Petrow	TCU Place	Capital Project Budget   Capital Project Approval
Lynne Lacroix	Community Services	Capital Project Budget   Capital Project Approval
Andrew Roberts	Recreation & Community Development	Capital Project Budget   Capital Project Approval
Morgan Hackl	Saskatoon Fire	Capital Project Budget   Capital Project Approval
Andy Kotelmach	Saskatoon Fire Strategic Planning & Policy	Capital Project Budget   Capital Project Approval
Teresa Quon	Finance	Capital Project Budget   Capital Project Approval

# Appendix 2: Samples Selected

To conduct our assessment we studied key infrastructure planning documents to gain an understanding of planning priorities. These included the following:

Key Document	Purpose
<a href="#">2018-2021 Strategic Plan: August 2018</a>	The 2018-2021 Strategic Plan identifies the most important priorities for the City and outlines actions necessary to achieve them. It is a living document that will guide the City over the next four years. It is a mechanism to proactively address opportunities and challenges as they arise in order to achieve our vision and mission, and sustain the high quality of life that we currently enjoy.
<a href="#">Official Community Plan (Bylaw 8769): May 2018</a>	This Plan has been established in accordance with the provisions of The Planning and Development Act, 2007, as amended. The Plan provides the policy framework to define, direct, and evaluate development in the City of Saskatoon, ensuring that development takes place in an orderly and rational manner, balancing the environmental, social, and economic needs of the community. This Plan is intended to guide the growth and development of the City of Saskatoon to a population of approximately 500,000.
<a href="#">Growth Plan to Half a Million: April 2016</a>	The Growth Plan to Half a Million (Growth Plan) is about making choices to proactively manage the changes associated with growth, creating a city that is vibrant and attractive to future generations. A vibrant Saskatoon has a diverse mix of housing, commercial, social, cultural, and recreational opportunities that are universally accessible by all modes of transportation, including walking, cycling, transit, and driving. This vision was first articulated by residents during the Saskatoon Speaks process. The Growth Plan is made up of seven key themes that form a Growth Model for Saskatoon: Corridor Growth   Transit   Core Bridges   Employment Areas   Active Transportation   Water & Sewer   Financing Growth
<a href="#">Administration Update: November 2016</a> <a href="#">Financing Growth Study: April 2015</a>	As part of the City's strategic planning work, a study of the funding and financing aspects of growth was undertaken.
<a href="#">2018 Approved Operating and Capital Budget: April 2018</a> <a href="#">2018 Approved Capital Projects Detail: April 2018</a>	The 2018 Corporate Business Plan and Budget includes initiatives and projects that are aligned with the 2013–2023 Strategic Plan. It guided the 2018 investments, projects, and service levels. The budget provided financial plans to support the Business Plan and balanced the increased costs of maintaining existing services and the requirements of a growing city with available funding and resources.
Multi-Year Business Plan and Budget Policy: April 2019	To establish the approach and other necessary requirements for planning and approving multi-year business plans and budgets, which shall not exceed four years.








We selected a sample of projects included in the 2018 Approved Capital Project Details to assess alignment of approved infrastructure investment for both preservation and growth to strategic priorities and approved planning documents. We also examined supporting evidence to assess alignment of the approved capital projects to policy, and understand financial models used to support business plans and budgets.

Capital Project Sample   Description   Responsible Department or Controlled Corporation		
1135 AF-CIVIC BLDGS COMPREHENSIVE MAINTENANCE PROGRAM   This project involves planned expenditures from the Civic Buildings Comprehensive Maintenance Reserve for major replacements and repairs in accordance with the comprehensive maintenance program.		Utilities & Environment
2270 TU-PAVED ROADS AND SIDEWALK PRESERVATION   This project funds annual preservation, restoration and rehabilitation programs for local, arterial and collector roads as well as high volume, limited access expressways. It also funds the preservation, restoration and rehabilitation of both neighbourhood and primary network sidewalks. The objective of this program is to minimize the life cycle cost of preserving the local, collector and arterial roads, as well as expressways, subject to minimum acceptable levels of service. These programs have been in place since 1988 (Collector Roads), 1981 (Arterial Roads), 1996 (Local Roads) and 1999 (Expressways). The sidewalk components in this project are required to restore sidewalks to a 'safe' condition. Sidewalk preservation is divided between neighbourhood assets and primary assets. As a neighbourhood asset, the sidewalks primarily serve the residents of that neighbourhood. Sidewalks classified as a primary asset serve a broader range of people.		Transportation & Construction
0740 TCU PLACE-EQUIPMENT REPAIR/REPLACEMENTS   This project provides for the repair or replacements of TCU Place equipment.		TCU Place
0634 LAND DEV'T-TR SWR-NORTH INDUSTRIAL   This project involves the extension of the sanitary trunk sewers from the pollution control plant to service the Marquis Industrial Area. These Trunks are required to serve new and existing industrial areas in the northern part of the City. This project also includes Storm Trunks and Storm Ponds.		Saskatoon Land
1615 TU-WATER DISTRIBUTION   This project is an annual program to undertake major rehabilitation and replacement of water mains and appurtenances in the water distribution system.		Utilities & Environment
1054 WTP-ASSET REPLACEMENT   This project involves the replacement of deteriorating Water Treatment Plant assets (in accordance with the Capital Reserves Bylaw) that have reached the end of their useful life. The assets are replaced by similar equipment or equipment with a similar function.		Utilities & Environment
2101 CY-GOLF COURSE IMPROVEMENTS & EQUIP REPL.   During 1998, City Council approved the Golf Course Program value-for-money audit recommendation that management develop a long-term capital plan with sufficient cash flow to fund and finance capital replacement expenditures for the three municipal golf courses (Holiday Park, Silverwood and Wildwood golf courses). In response to the audit recommendations, in March 2002 City Council approved the Golf Course Capital Reserve (Bylaw No. 6774). The purpose of the reserve is to finance long-term capital plans that included replacement of equipment and vehicles, and expansion and redevelopment of course facilities and services.		Community Services
2508 FIRE-FIRE STATION NO. 5 REPLACEMENT   This project provides for the construction of a new fire station to replace existing Fire Station No. 5.		Saskatoon Fire

To understand how City practices to set capital objectives and plans compared to other municipalities, we researched selected practices of the following organizations:





- City of Calgary
- City of Edmonton
- City of Regina
- City of Winnipeg
- Strathcona County
- City of Shawnee
- Government of Alberta
- Government of Saskatchewan
- Edmonton Metropolitan Region Board

## Appendix 3: Report rating criteria

Report rating	Rating rationale
	<b>Distinctive</b> – Controls are designed and operating effectively. Management has implemented an effective control structure to help it achieve its business objectives and mitigate all relevant risks. Additionally, management has incorporated a number of best practices.
	<b>Satisfactory</b> – Controls are generally effective. Management has implemented controls that are generally effective in mitigating significant risks. However, opportunities exist to improve the controls.
	<b>Needs Improvement</b> – Controls require management's attention to improve/enhance their design or operating effectiveness. Existing controls may not be effective in mitigating significant risks.
	<b>Unsatisfactory</b> – Controls are unsatisfactory and immediate corrective action is required. Existing controls are not properly designed or operating effectively; significant risks exist that are not adequately mitigated.
	<b>Not Rated</b> – Projects undertaken in order to respond to a management inquiry or special consultative projects.

# Appendix 4: Observation rating criteria

An impact assessment is used to assess the consequences of risk events if they are realized. The results of this assessment are then used to prioritize risks to establish a most-to-least-critical importance ranking. The following impact rating is based on the PwC Internal Audit Methodology. An observation for which the exposure arising could have an impact is based on a scale from one to four, or low to critical.

Rating	Assessment rationale
<b>Critical (4)</b> 	<ul style="list-style-type: none"> <li>• Critical impact on operational performance <i>[e.g. resulting in inability to continue core activities for more than two days]</i>; or</li> <li>• Critical monetary or financial statement impact; or</li> <li>• Critical breach in laws and regulations that could result in material fines or consequences; or</li> <li>• Critical impact on the reputation or brand of the organization which could threaten its future viability <i>[e.g. high-profile political and media scrutiny i.e. front-page headlines in national press]</i>.</li> </ul>
<b>High (3)</b> 	<ul style="list-style-type: none"> <li>• Significant impact on operational performance <i>[e.g. resulting in significant disruption to core activities]</i>; or</li> <li>• Significant monetary or financial statement impact; or</li> <li>• Significant breach in laws and regulations resulting in significant fines and consequences; or</li> <li>• Significant impact on the reputation or brand of the organization <i>[e.g. resulting in unfavourable national media coverage]</i>.</li> </ul>
<b>Medium (2)</b> 	<ul style="list-style-type: none"> <li>• Moderate impact on operational performance <i>[e.g. resulting in moderate disruption of core activities or significant disruption of discrete non-core activities]</i>; or</li> <li>• Moderate monetary or financial statement impact; or</li> <li>• Moderate breach in laws and regulations resulting in fines and consequences; or</li> <li>• Moderate impact on the reputation or brand of the organization <i>[e.g. resulting in limited unfavourable media coverage]</i>.</li> </ul>
<b>Low (1)</b> 	<ul style="list-style-type: none"> <li>• Minor impact on operational performance <i>[e.g. resulting in moderate disruption of discrete non-core activities]</i>; or</li> <li>• Minor monetary or financial statement impact; or</li> <li>• Minor breach in laws and regulations with limited consequences; or</li> <li>• Minor impact on the reputation of the organization <i>[e.g. resulting in limited unfavourable media coverage restricted to the local press]</i>.</li> </ul>

*This document has been prepared only for the City of Saskatoon and solely for the purpose and on the terms agreed with you. We accept no liability (including for negligence) to anyone else in connection with this document.*

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# Administrative Response – Infrastructure Investment Evaluation Process Internal Audit Project

## ISSUE

As the internal audit for the Infrastructure Investment Evaluation Process is complete, the Administration's response to the internal auditor's recommendations is required.

## BACKGROUND

An audit of the City of Saskatoon's (City) processes regarding planning, evaluating and prioritizing infrastructure investments was conducted by the internal auditor as part of the 2018 Internal Audit Plan. The audit examined the extent to which the City is managing the strategic risk that "the City's infrastructure investments may not correspond to growth trends and forecasts for the local or regional economy."

The Statement of Work for this audit was approved by the Standing Policy Committee on Finance at its November 5, 2018 meeting.

## CURRENT STATUS

The Infrastructure Investment Evaluation Process internal audit report contains 11 recommendations (Appendix 1).

## DISCUSSION/ANALYSIS

The Administration agrees with all of the recommendations contained in the report. As noted in Appendix 1, implementation is either already in progress or planned to be implemented in conjunction with the next City Council Strategic Planning Session.

## IMPLICATIONS

There are no financial, legal, social or environmental implications.

## NEXT STEPS

A follow-up report on the status of all audit recommendations will be presented to the Standing Policy Committee on Finance in late 2021.

## APPENDICES

1. Infrastructure Investment Evaluation Process Internal Audit – Administrative Response

## Report Approval

Written by: Nicole Garman, Corporate Risk Manager  
Reviewed by: Dan Willems, Interim Chief Strategy & Transformation Officer  
Approved by: Clae Hack, Interim Chief Financial Officer

Admin Report – Administrative Response – Infrastructure Investment Evaluation IA.docx

## Infrastructure Investment Evaluation Process Internal Audit – Administrative Response

### **Recommendation 1:**

*We recommend that City improve the timeliness and focus of the Strategic Plan update process.*

- *Incorporate updated strategic priorities and more focused objectives and performance indicators within the Capital Strategy practices by June 2021 to drive the 2022-2025 multi-year planning, budgeting and evaluation process for infrastructure investment in a more timely manner. Note that the next municipal election is scheduled for November 2020 and that the recently approved Multi-Year Business Plan and Budget Policy requires City Council to develop and approve its strategic priorities in the first full year of a Council term.*

**Administrative Response:** Administration agrees with the recommendation and will incorporate into the next City Council Strategic Planning Session.

**Implementation Date:** June 2021

### **Recommendation 2:**

*We recommend that City directional plans demonstrate consideration of all strategic goals. Council strategic priorities may also be considered, where appropriate and long term in nature.*

- *Assess directional plans as part of the regular review cycle, or in alignment with the Strategic Plan update process, whichever is earliest. Where required, update directional plans to demonstrate consideration of all strategic goals by indicating how each principle within the plan will support achievement of desired strategic outcomes.*

**Administrative Response:** Administration agrees with the recommendation and will incorporate strategic goals into directional documents.

**Implementation Date:** June 2021

### **Recommendation 3:**

*We recommend the City prioritize the key performance indicators included within the Strategic Plan to identify a maximum of two indicators for each strategic outcome.*

- *Provide additional training to those involved in the Strategic Plan update process to facilitate the selection of a maximum of two key strategic performance indicators for each outcome that are realistic, measurable, actionable and timely.*

**Administrative Response:** Administration agrees with the recommendation and will incorporate into the next City Council Strategic Planning Session.

**Implementation Date:** June 2021

**Recommendation 4:**

*We recommend that Council consider risk appetite by integrating risk within the Strategic Plan update process and revisited as part of the next four-year update.*

- *Revisit risk categories and risk appetite to provide a better alignment to strategic goals and desired outcomes included in the 2018-2021 Strategic Plan. A staggered approach to updating could be taken beginning in the next annual review cycle to fully update to facilitate integration with the 2021 Strategic Plan update process.*

**Administrative Response:** Administration agrees with the recommendation and will incorporate into the next City Council Strategic Planning Session.

**Implementation Date:** June 2021

**Recommendation 5:**

*We recommend that City business objectives included within directional plans identify prioritized risks and appropriate risk responses to drive performance.*

- *As part of the regular review cycle, or to support the next Strategic Plan update process, identify risks for each business objective included within each directional plan. Conduct a risk assessment to assess the severity of each risk in order to develop appropriate risk responses and implementation plans for key risks.*

**Administrative Response:** Administration agrees with the recommendation and will incorporate into the next City Council Strategic Planning Session.

**Implementation Date:** June 2021

**Recommendation 6:**

*We recommend the preparation and analysis of alternative scenarios that could achieve desired strategic outcomes or performance targets within an established tolerance.*

- *Provide guidance and/or training in conducting good practice scenario analysis. Require the inclusion of a scenario analysis, or a reason why it is not applicable, within the business case for proposal review.*

**Administrative Response:** Administration agrees that this recommendation would be useful in some scenarios but not for all capital projects.

Requiring scenario-based analysis for all capital projects would require significant work and resources for all capital projects. Administration will implement a scenario-based approach for major initiatives beginning as part of the 2022 Business Plan and Budget cycle.

**Implementation Date:** June 2021



**Recommendation 7:**

*We recommend the development of industry good practice tools and templates to assess capital budget proposals. Furthermore, we recommend establishing policy to require submission of a standardized business case as part of the divisional capital budget request.*

- *Develop a business case template that includes a comprehensive cost estimation for implementation in the 2021 capital budget process. Consider whether an Opportunity Intake template would be sufficient to facilitate Administration's review of projects under a certain dollar threshold.*

**Administrative Response:** While Administration agrees with the recommendations in principle, due to the City's current funding and reserve strategy this approach would only be beneficial for projects that are competing for a discretionary source of funding (e.g., Reserve for Capital Expenditures, Gas Tax Funding or other funding plans).

There would be minimal value in comparing a Roadway Project to a Saskatoon Light & Power project as these projects have dedicated funding sources which are funded in accordance with the approved service level or asset management plan. The ability to utilize Saskatoon Light & Power funds to complete a higher priority roadways project is not possible under the City's current funding/reserve strategy.

A tool will be developed in order to capture decision-making as part of the 2022 Business Plan and Budget.

**Implementation Date:** June 2021

**Recommendation 8:**

*We recommend the inclusion of intangible or social costs/benefits within the infrastructure investment proposal.*

- *Develop an approach to measure total value of an infrastructure investment proposal. Include a section to demonstrate divisional consideration of all strategic goals within the business case template.*

**Administrative Response:** Administration agrees with this recommendation and is currently in the process of developing a triple bottom line approach to evaluate financial, environmental and social impacts of capital projects.

It is anticipated that this tool will be complete and phased in beginning in 2020.

**Implementation Date:** June 2021

**Recommendation 9:**

*We recommend that cross divisional teams be encouraged to collaborate and discuss innovative ways to progress strategic goals and desired outcomes within a targeted funding amount before developing a capital budget cost estimate.*

- *Supplement the Multi-Year Business Plan and Budget policy with additional guidance to indicate how funding targets will be communicated, and set expectations with respect to collaboration and innovation for developing solutions that minimize costs. Consider utilizing a form to establish a consistent template to use in investigating internal and external partnership opportunities (i.e. Opportunity Intake form referenced in the common practice section of this report).*

**Administrative Response:** As part of preparing the multi-year business plan and budget, Administration has already implemented cross-divisional teams in order to coordinate priorities and projects aimed at achieving City Council's Strategic Priorities.

While this is a step in the right direction, Administration agrees that more guidance regarding funding targets, expectations and innovation is required in order to improve the process. Administration will include these recommendations in changes to the Business Plan and Budget cycle for 2022.

**Implementation Date:** June 2021

**Recommendation 10:**

*We recommend that 3 to 5 evaluation categories be identified and supported by the development of key decision criteria and a scoring methodology that aligns to desired community outcomes and strategic goals. Furthermore, we recommend that the City consider whether implementation of the decision criteria and scoring methodology may require changes to the Bylaw or policies to minimize funding constraints.*

- *Establish a cross-divisional working group of no more than five members to develop and recommend 3 to 5 evaluation categories and decision criteria that align to desired community outcomes and strategic goals. Provide an opportunity for all project managers and divisional stakeholders to provide feedback. As the CFO is responsible for providing a corporate review of all budget proposals before submission to City Council, the CFO should approve the evaluation categories and decision criteria, and lead the development of the scoring methodology. The current budget approach and reserve allocation bylaw would need to be aligned with decision criteria and scoring methodologies.*

**Administrative Response:** As previously stated, this recommendation would only apply to those projects competing for a discretionary source of funding, as the City funds reserves based on an approved service level or business case and the individual projects funded by that reserve are prioritized by the technical experts.

Based on this, Administration will continue to develop a more comprehensive prioritization process for discretionary funds utilizing key decision criteria. The estimated time for implementation would be as part of the 2022 Business Plan and Budget cycle.

**Implementation Date:** June 2021

**Recommendation 11:**

*We recommend that the rationale supporting the infrastructure investment decision be documented and communicated back to the submitting division.*

- *Create a simple, yet effective tool within Microsoft Excel to support efficient, evidence-based decision making referencing the common evaluation practices identified within this report. The evaluation tool should be developed at the same time as the capital budget tools included in Recommendation 7 to support alignment and divisional accountability.*

**Administrative Response:** As stated in the previous response, this recommendation would only apply to those projects competing for a discretionary source of funding, as dedicated reserve allocations are already prioritized by recipient departments in the best way to utilize those funds.

A tool will be developed in order to capture decision making as part of the 2022 Business Plan and Budget cycle.

**Implementation Date:** June 2021

### Internal Audit Budget – August 2019

#### ISSUE

This monthly report provides the Standing Policy Committee on Finance with an update on internal audit and consulting services provided to the City of Saskatoon (City) as of August 29, 2019.

#### BACKGROUND

Internal audit and consulting services are funded through an annual base amount of \$427,000. The Internal Audit Reserve also has a balance of \$155,579 funded from previous years' unspent audit funds which could be used for completing outstanding audits or new audits.

This is the fifth year of the five-year internal audit services contract.

#### CURRENT STATUS

As of August 29, 2019, 81% of the total approved internal audit hours and 45% of total approved consulting hours have been completed.

#### DISCUSSION/ANALYSIS

The internal auditor, PricewaterhouseCoopers, continues to conduct fieldwork activities for the Fraud Risk Assessment project and has drafted the audit report regarding the Disability Assistance Program for the Administration's review.

Fieldwork continues on the additional consulting project that was awarded to MNP LLP and Hemson Consulting Ltd. to review the City's development levies.

Appendix 1 provides detailed information regarding each project. The Statement of Work describing the scope and approach for each audit/project is available on the Corporate Risk webpage of the City's website.

#### NEXT STEPS

No further action regarding this report is required.

#### APPENDICES

1. Internal Audit Budget Status Report – August 2019

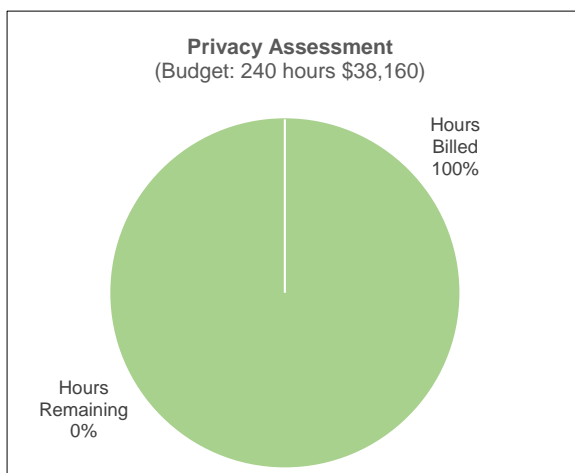
#### Report Approval

Written by: Nicole Garman, Corporate Risk Manager  
Approved by: Clae Hack, Interim Chief Financial Officer

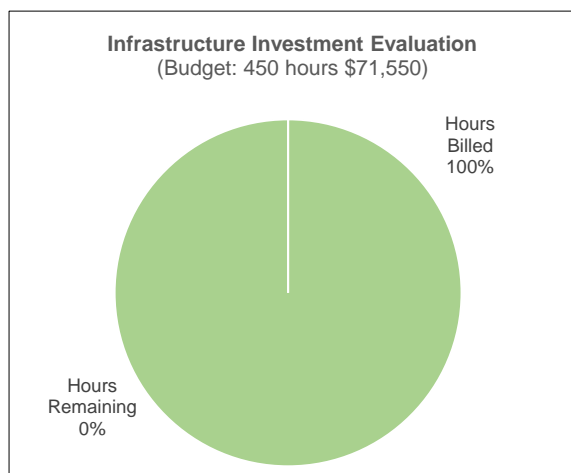
Admin Report – Internal Audit Budget – August 2019.docx

## Internal Audit Budget Status Report - August 2019

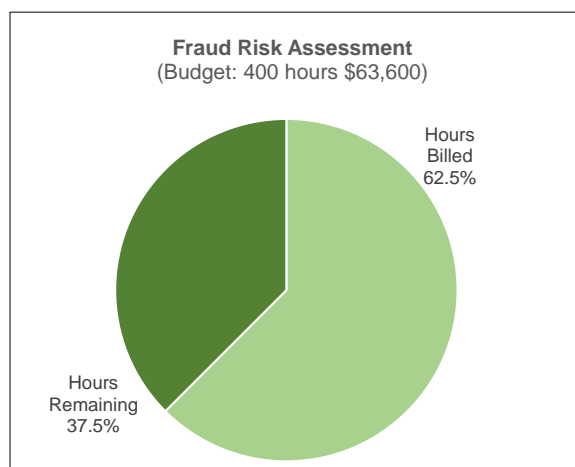
### Internal Audit Projects



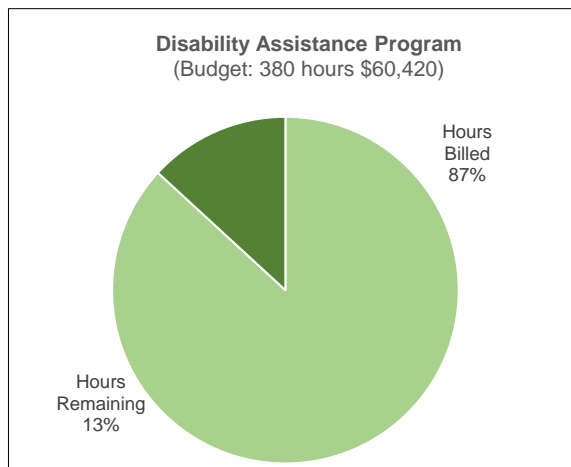
**Notes:** Audit report presented to Committee on March 11, 2019.



**Notes:** Audit report presented to Committee on September 16, 2019.

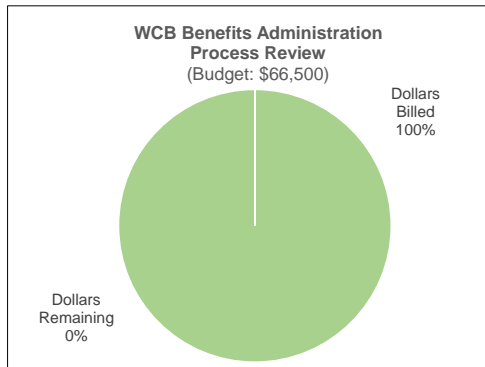


**Notes:** Statement of Work approved by Committee on May 13, 2019. Audit fieldwork underway.

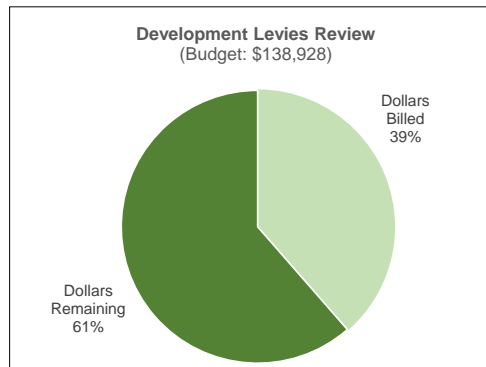


**Notes:** Statement of Work approved by Committee on May 13, 2019. Audit fieldwork complete. Audit report has been drafted for the Administration's review.

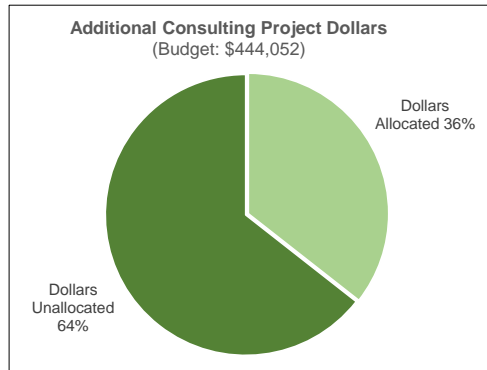
### Additional Consulting Projects



**Notes:** Detailed report submitted to Administration. Summary report presented to Committee on May 13, 2019.

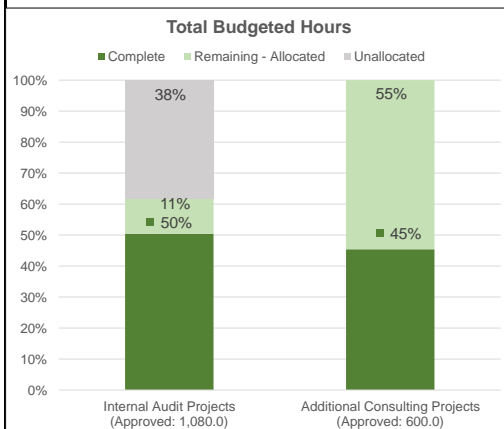


**Notes:** Project approved by Committee on May 13, 2019. Project fieldwork underway.



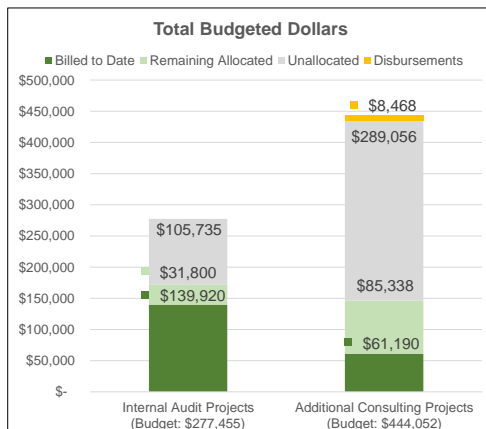
**Notes:** 36% of additional consulting project dollars have been allocated to specific consulting projects and disbursements to date.

### Overall Internal Audit Program



**Notes:** A total of 880.0 hours of internal audit work and 272.5 hours of additional consulting work have been billed to August 29, 2019. This represents 81% of the approved internal audit plan hours (1,080 hours) and 45% of the approved additional consulting hours (600 hours).

There are 665 hours (38%) in the Internal Audit Plan that have not yet been allocated to specific internal audit projects.



**Notes:** A total of \$209,577.66 has been billed to August 29, 2019 for internal audit services, consulting services and disbursements. This represents 29% of the total available funding for 2019.

## Acquisition of Land for the Relocation of the Saskatoon Fire Department Maintenance and Mechanical Shop

### ISSUE

Administration requires City Council approval for the purchase of land to accommodate the future relocation of the Fire Maintenance and Mechanical Shop and long-range planning for the relocation of Fire Station No. 4 from its current location, at 2106 Faithfull Avenue to 2011 1<sup>st</sup> Avenue North.

### RECOMMENDATION

That the Standing Policy Committee on Finance recommend to City Council:

1. That the Administration be authorized to purchase 2011 1<sup>st</sup> Avenue North for a price of \$740,000 to be funded from the Property Realized Reserve; and
2. That the City Solicitor be requested to prepare the appropriate agreement and that His Worship the Mayor and the City Clerk be authorized to execute the agreement under the Corporate Seal.

### BACKGROUND

In 2018, the Saskatoon Fire Department (Department) initiated a project to create the Saskatoon Fire Strategic Facilities Master Plan (the Plan) that will cover facilities planning as the City approaches a population of 500,000. An overview of the project was received at the Standing Policy Committee on Planning Development and Community Services' regular public meeting on November 5, 2018.

It was identified that the current Maintenance and Mechanical Shop is no longer able to meet the needs of the Department's fleet due to the increased workload and demands of a service almost twice the size of when the shop was built. Compounding the problem is the increased size and complexity of modern fire apparatus.

Included in the overview was the proposal that with the right land appropriation, a new Maintenance and Mechanical Shop, and the relocation of Fire Station No. 4, could be built when fiscally possible. Land location is the number one factor when selecting sites for a fire station. The vacant lot identified is in the right location and will serve the City long term.

Fire Station No. 4 is located at 2106 Faithfull Avenue, north of Circle Drive East on the southeast corner of Faithfull Ave and 42<sup>nd</sup> A Street East. The Fire Station was built in 1960, totalling 5,459 square feet, and was constructed to serve the expanding North Industrial Sector. Currently, the Fire Station is aging and replacement is required.

The current Maintenance Shop is located in a building on the rear of Fire Station No. 1 property at 125 Idylwyld Drive South. Built in 1964, the site does not align with current procedures and processes in place today such as efficient asset management, inventory control and storage, and suitable processes for shipping and receiving.

## **Acquisition of Land for the Relocation of the Saskatoon Fire Department Maintenance and Mechanical Shop**

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The Mechanical Shop is located under the same roof as the Maintenance Shop. The age of the Shop does not allow for efficient maintenance of fire apparatus and utility vehicles. Apparatus has changed considerably, both in size and technical requirements, over the past 55 years. An example of this inefficiency is servicing of the Aerial Ladder; trucks currently must be serviced outside, next to the Shop, during times when weather is conducive.

### **DISCUSSION/ANALYSIS**

Upon determining that a replacement of the Maintenance Mechanical Shop would be required, the Department contacted Saskatoon Land, Real Estate Services to aid the search for a suitable site. As 2011 1<sup>st</sup> Avenue North is vacant and ideally situated, it was identified as the best option to pursue.

The lot is a 1.51 acre vacant lot located on 1<sup>st</sup> Avenue, just south of The Brick store on Circle Drive East (Appendix 1). The lot, legally described as Lot A – Blk/Par 231 – Plan G826 Ext 0, as described on Certificate of Title 89S41311, having ISC Parcel No. 118997364 (Appendix 2), is owned by The Brick GP Ltd. The site is large enough to build upon and ideally situated on 1<sup>st</sup> Avenue, providing quick access to Circle Drive to the north or Quebec Avenue when travelling south.

The Brick GP Ltd. was contacted to inquire whether they would consider selling the site and a conditional agreement (the agreement) was reached. Notable terms and conditions of the agreement are as follows:

- Purchase price of \$740,000 (\$490,066/acre).
- Conditional upon City Council approval by September 30, 2019.
- Closing date to be October 31, 2019.

In completing due diligence, it was discovered that storm sewer does not currently run within the street adjacent the site and would therefore have to be extended from Circle Drive to allow for a site service connection. A cost estimate of \$80,000 to complete the work was provided by Construction & Design. The purchase price of \$740,000 was negotiated knowing that this additional cost would be incurred at a later date, and it is believed to be representative of market value.

### **FINANCIAL IMPLICATIONS**

The purchase price of \$740,000 is recommended to be initially funded from the Property Realized Reserve (PRR) until such a time that the Plan, specifically the relocation of the Maintenance and Mechanical Shop and long range planning for Fire Station No. 4 replacement, project has sufficient funds to repay the PRR. This strategy is in alignment with the purpose of PRR and corresponding Capital Reserve Bylaw (No. 6774), section 48(3)(c) which states that PRR may be used for the purchase of property required by the City for future capital expansions. Sufficient funding exists in PRR to accommodate the acquisition costs. Repayment of incurred acquisition costs will be consistent with Council Policy No. C09-19. The eventual cost to extend the storm sewer will be paid at the time of construction; funded from the capital project.



## **Acquisition of Land for the Relocation of the Saskatoon Fire Department Maintenance and Mechanical Shop**

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### **NEXT STEPS**

If City Council approves the land purchase request, the City Solicitor will be requested to complete the documents required to transfer title and work towards closing the transaction.

### **PUBLIC NOTICE**

Public notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

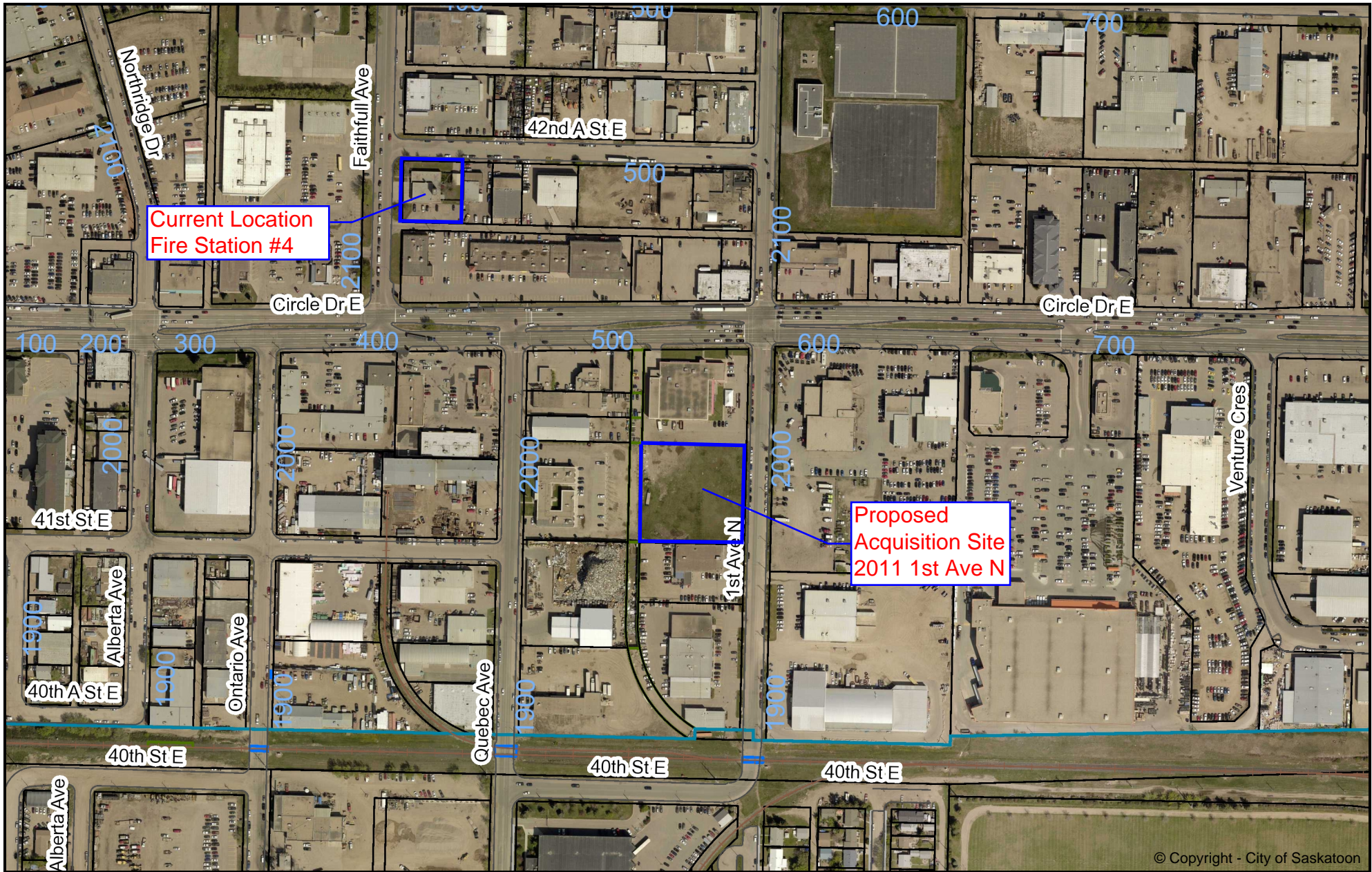
### **APPENDICES**

1. Drawing Showing Location of 2011 1<sup>st</sup> Avenue North
2. Parcel Picture of the Proposed Acquisition Site

### **Report Approval**

Written by: Morgan Hackl, Fire Chief  
Frank Long, Director of Saskatoon Land  
Approved by: Clae Hack, Interim Chief Financial Officer

Admin Report - Acquisition of Land for the Relocation of the Saskatoon Fire Department Maintenance and Mechanical Shop.docx



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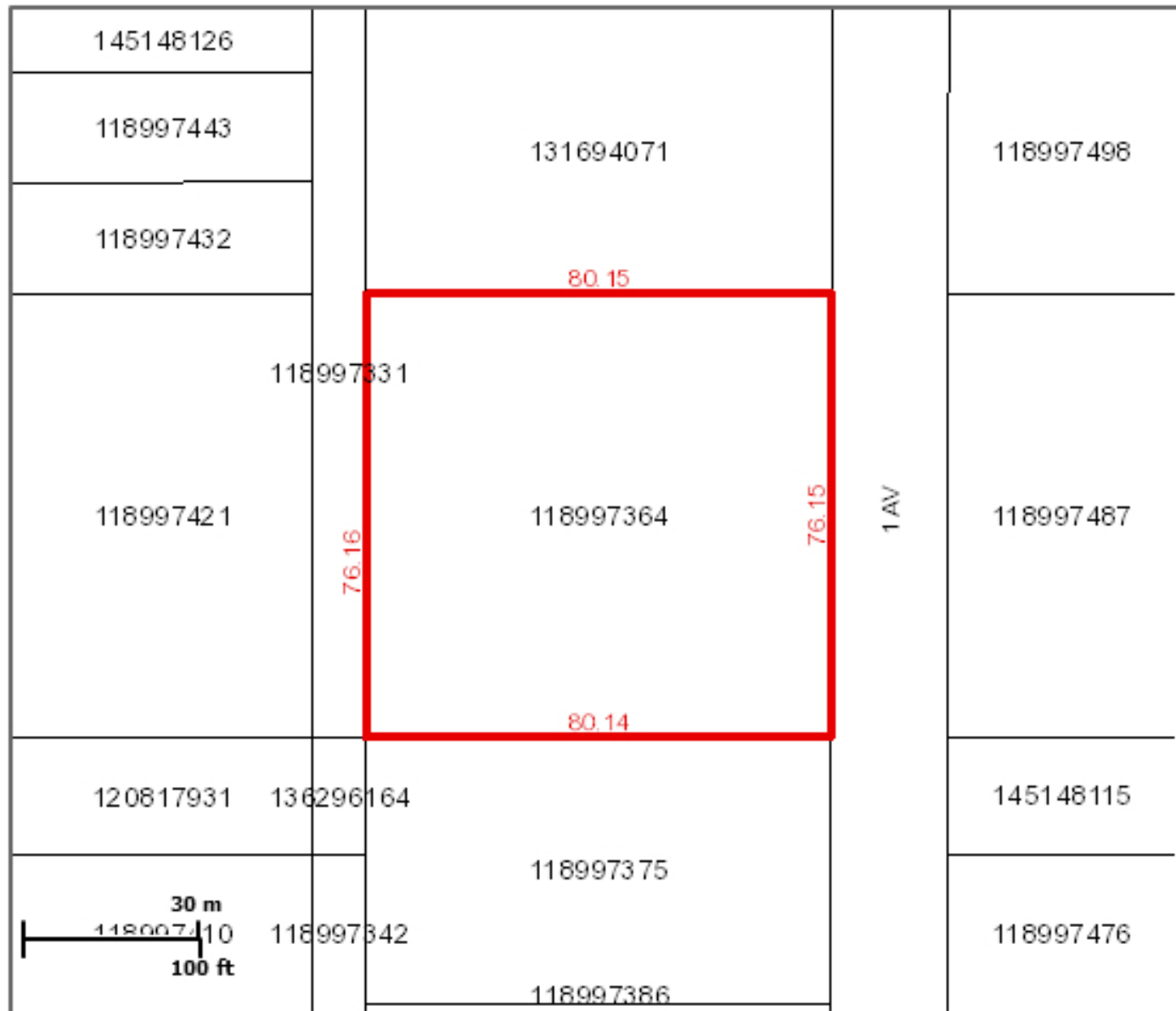
For a complete list of the Terms of Use please refer to the following link: [Terms of Use](#)





## Surface Parcel Number: 118997364

REQUEST DATE: Wed Apr 17 11:09:46 GMT-0600 2019



Scale: 1:2257

**Owner Name(s):** THE BRICK GP LTD.

**Municipality:** CITY OF SASKATOON

**Title Number(s):** 127931070

**Parcel Class:** Parcel (Generic)

**Land Description:** Lot A-Blk/Par 231-Plan G826 Ext 0

**Source Quarter Section:** NW-04-37-05-3

**Commodity/Unit:** Not Applicable

**Area:** 0.61 hectares (1.51 acres)

**Converted Title Number:** 89S41311

**Ownership Share:** 1:1

DISCLAIMER: THIS IS NOT A PLAN OF SURVEY It is a consolidation of plans to assist in identifying the location, size and shape of a parcel in relation to other parcels. Parcel boundaries and area may have been adjusted to fit with adjacent parcels. To determine actual boundaries, dimensions or area of any parcel, refer to the plan, or consult a surveyor.

# Development Levies Review – Request for Additional Funding

## ISSUE

Standing Policy Committee on Finance approval is required for additional funding for the City of Saskatoon's (City) Development Levy Review.

## RECOMMENDATIONS

1. That the proposed scope change for the City of Saskatoon's Development Levy Review project that will extend the timeline and also see an increase to the maximum upset cost in the amount of \$10,000 plus applicable taxes, be approved; and
2. That the appropriate documentation be prepared by the Corporate Risk Manager and, following a review by the Office of the City Solicitor, the City Manager and City Clerk be authorized to execute the same on behalf of the City of Saskatoon.

## BACKGROUND

At its meeting on May 13, 2019, the Standing Policy Committee on Finance approved a review of the City's development levies by MNP LLP in partnership with Hemson Consulting Ltd. (MNP and Hemson) for a maximum upset cost of \$138,928 plus applicable taxes. The review will address the following eight summarized objectives:

1. Determine whether the City's current approach and principles for funding growth-related infrastructure accomplish overall program objectives.
2. Compare the City's approach to that used by other municipalities, innovative approaches and industry best practice.
3. Determine how development levies are being calculated and whether the calculations are in accordance with an established methodology, formula or process.
4. Confirm that the amounts collected are being used for the purposes intended and are consistent with actual historic costs.
5. Assess the City's long-term sufficiency analysis.
6. Review the City's process for implementing new levies.
7. Evaluate whether stakeholder information needs are being met.
8. Evaluate the City's options regarding financial mechanisms to fund community amenities in infill neighborhoods.

## **DISCUSSION/ANALYSIS**

Early in the fieldwork stage of the review, MNP and Hemson conducted a project kick-off meeting with representatives from the development industry. The discussion at that meeting identified that the development industry does not have strong confidence in the current way in which the development levy system works, and that more communication and in-depth discussion would be beneficial during this review process.

In order to improve transparency and understanding, MNP and Hemson are proposing that the scope of the Development Levy project be expanded to include an Industry Workshop Session that would help address these weaknesses, assist in achieving support for any proposed changes and provide valuable feedback that can be incorporated into the final report.

As MNP and Hemson describe in Appendix 1, they estimate that an additional \$10,000 plus applicable taxes would be required to conduct this Industry Workshop Session. In order to properly incorporate the feedback received during the session, MNP and Hemson also estimate an additional three weeks would be required, extending the final deliverable date from September 30, 2019 to October 18, 2019.

## **IMPLICATIONS**

The Internal Audit Program Reserve has a balance of \$155,579 and therefore has adequate funding for this additional scope.

There are no legal, social or environmental implications identified.

## **NEXT STEPS**

If the additional funding is approved, MNP and Hemson will undertake the necessary actions to conduct the Industry Workshop Session in early October 2019.

## **APPENDICES**

1. Development Levy Review Project Change Order – August 28, 2019

### **Report Approval**

Written by: Nicole Garman, Corporate Risk Manager  
Reviewed by: Lesley Anderson, Director of Planning & Development  
Lynne Lacroix, General Manager, Community Services Department  
Approved by: Clae Hack, Interim Chief Financial Officer

Admin Report - Development Levies Review – Request for Additional Funding.docx

**Development Levy Review Project  
Change Order  
August 28, 2019**

## **Background**

In March 2019, the City of Saskatoon's Standing Policy Committee on Finance gave approval for an independent review of the City's development levies to be performed. The review is to address eight objectives:

1. Determine whether the City's current approach and principles for funding growth-related infrastructure accomplish overall program objectives.
2. Compare the City's approach to that used by other municipalities, innovative approaches, and industry best practice.
3. Determine how development levies are being calculated and whether the calculations are in accordance with an established methodology, formula, or process.
4. Confirm that the amounts collected are being used for the purposes intended and are consistent with actual historic costs.
5. Assess the City's long-term sufficiency analysis.
6. Review the City's process for implementing new levies.
7. Evaluate whether stakeholder information needs are being met.
8. Evaluate the City's options regarding financial mechanisms to fund community amenities in infill neighborhoods

MNP LLP (MNP) and Hemson Consulting (Hemson) were selected to work in collaboration with City staff to implement a project to achieve these objectives. During the initial stages of the project, MNP and Hemson facilitated a project kick-off meeting with industry representatives. Participants included representatives from the large developer community and the infill development community. The kick-off meeting provided an overview of the project and gathered input from industry on their perceptions of the development levy system, the implications for the development industry and the City's growth plan, plus their specific ideas for improvement.

There were some specific observations that emerged through these sessions that MNP and Hemson have discussed with the City:

- Industry participants demonstrated that they do not have a clear understanding on how the current development levy system works. This includes how development levies are calculated, the core assumptions and the mechanics of calculations.
- As a result, industry participants have a lack of confidence in the current development levy system.

## **Preliminary Findings from MNP and Hemson**

The City and industry stakeholders would both benefit from greater transparency, openness and understanding on how the current system works. This would also include discussions together on how the system can be improved to better achieve shared objectives between the City and industry including the principle growth pays for growth, housing affordability, a balance of supply and demand and more. Industry participants have strongly expressed interest in being more actively involved in the project as it evolves and continues. They were very clear that they did not want to be in position where final results were presented to them as a stakeholder group at the end of the project. They would like to be engaged in a meaningful way to provide input and build understanding.

## **Additional Work Plan Components**

Based on the original project scope and preliminary findings, MNP and Hemson are recommending the addition of an Industry Workshop Session that would cover the following topics:

1. A clear and straightforward explanation of how development levies are calculated;
2. An overview of the project approach and findings to date in all component areas;
3. A facilitated discussion to identify specific options and ideas to improve the development levy system and approach with the goal of achieving understanding, support and buy-in.

It is anticipated that the workshop will include representatives from 10 to 12 organizations in total. There would be a morning and afternoon session with separate audiences. One session would be specific to the large developers and one session for infill developers.

## **Outcomes and Value Add for the City**

It has become clear to date that a significant part of this project needs to focus on improving communication and trust. By adding the Industry Workshop Session, we are hoping to achieve the following outcomes that will add value for the City:

- Increased understanding by industry for how development levies are calculated which should result in less concerns being expressed to Council and administration.
- Increased appreciation for how the system operates in terms of how growth pays for growth and affordability. This would allow industry firms to better budget, allocate and explain how the levy system works to consumers when appropriate.
- Shared ownership for the future direction of the development levy system and a common commitment to looking forward to building a competitive and sustainable housing market.

## **Adjustment to Contract Terms**

This change order has implications to the original project contract in terms of budget and timelines:

- Amends the total professional fees for the contract from \$138,928 to \$148,928 to recognize incremental costs of \$10,000 plus taxes which includes the following:
  - Workshop planning and preparation: \$4,000 (16 to 20 hours)
  - Workshop facilitation for MNP and Hemson: \$4,000 (16 to 20 hours)
  - Compilation of workshop outcomes: \$2,000 (8 to 10 hours)
  - Meetings would be held at the MNP Saskatoon office in order to avoid any costs for the meeting location.
- Amend the project end date from September 30 to October 18, 2019.
- All other terms and conditions in the original contract remain.



---

**From:** Chris Guérette <cguerette@saskatoonhomebuilders.com>  
**Sent:** Sunday, September 15, 2019 7:26 AM  
**To:** City Council  
**Subject:** Form submission from: Write a Letter to Council  
**Attachments:** srhba\_letter\_of\_support\_to\_spc\_on\_finance\_14.09.2019.pdf

Submitted on Sunday, September 15, 2019 - 07:25

Submitted by anonymous user: 71.17.241.98

Submitted values are:

Date Sunday, September 15, 2019  
To His Worship the Mayor and Members of City Council  
First Name Chris  
Last Name Guérette  
Email cguerette@saskatoonhomebuilders.com  
Address 17-102 Cope Cres  
City Saskatoon  
Province Saskatchewan  
Postal Code S7T 0X2  
Name of the organization or agency you are representing (if applicable) Saskatoon & Region Home Builders' Association  
Subject Agenda item 7.2.2 Development Levies Review – Request for Additional Funding Meeting (if known) SPC on Finance (September 16 2019)  
Comments Please see attached letter, merci.  
Attachments  
[srhba\\_letter\\_of\\_support\\_to\\_spc\\_on\\_finance\\_14.09.2019.pdf](#)

The results of this submission may be viewed at:

<https://www.saskatoon.ca/node/398/submission/336548>



September 14, 2019

Standing Policy Committee on Finance  
c/o Councillor Ann Iwanchuk, Committee Chair  
222 3<sup>rd</sup> Avenue North  
Saskatoon, SK  
S7K 0J5

**RE: September 16 2019 meeting - Agenda item 7.2.2 Development Levies Review – Request for Additional Funding**

Dear members of the Standing Policy Committee on Finance,

We strongly support City administration's request for additional funding of \$10,000 – an increase of 7% to the originally approved maximum cost - to review our City's development levies.

Once all stakeholders embarked on the process, we realized very early that the consultation process was not nearly enough for the consulting team to properly assist and understand the process. It was also very clear that if the process could not be fully trusted, the results would be questioned as well. Given the importance of this review for everyone involved, we recommended adding more consultation to improve transparency and understanding to the project, and in turn bring trust to the process.

Our professional association, when bringing the proposal of auditing development levies to Council in October 2018, wanted to utilize this idea to build trust as we embark on a global conversation on growth together. This is not a conversation that can be rushed and if it requires additional conversations and time, and all parties are willing to make that investment in time, we should support it. We certainly will continue to support this project and remain available to City administration in helping where appropriate.

We very much look forward to the results of the report and moving onto the phase of this project focused on recommendations and improvement.

I am at your disposal to answer any questions or comments you may have and thank you again for supporting this project.

Sincerely,

Chris M. Guérette  
CEO

# Internal Audit Service Delivery Model

## ISSUE

The City of Saskatoon (City) has had an outsourced internal audit function since 1999. The current internal audit services contract expires on December 31, 2019, providing a timely opportunity to review the service delivery model and implement any changes for 2020. How does the City want to structure its internal audit function going forward?

This report focuses only on the service delivery model for internal audit services. A report will be submitted to the Standing Policy Committee on Finance (Committee) regarding the organizational placement and reporting structure for the internal audit function at a later date.

## BACKGROUND

### 2.1 History

The City has had a formal internal audit function since February 1, 1990 when the first City Auditor was appointed by City Council. The City's Audit Services Department was led by the City Auditor who was independent of the Administration, reporting directly to City Council through the former Audit Committee.

In 1999, the City's internal audit function was outsourced and the City has continued to procure internal audit and consulting services through contract since that time. The contracted internal auditor continues to report directly to City Council through the Standing Policy Committee on Finance.

Through its Terms of Reference, the Committee has been delegated authority for the approval of the selection and terms of engagement of the internal auditor.

The purpose, authority and responsibility of the internal audit function has been formally defined in Council Policy No. C02-032, Internal Audit Charter.

### 2.2 Current Status

The current internal audit services contract will expire on December 31, 2019. A decision by the Committee on its preferred internal audit service delivery model is required for the Administration to proceed with implementation in 2020.

### 2.3 Approaches in Other Jurisdictions

The Institute of Internal Auditors defines internal audit as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Internal audit is a key pillar of good governance and plays an important role in improving management and accountability in both financial and non-financial operations for all

types of organizations, public and private, for-profit and not-for-profit. Unlike external auditors who express an opinion on the financial statements on an annual basis, internal auditors routinely evaluate performance in terms of efficiency, effectiveness and economy; compliance with internal and external requirements; and adequacy of controls to safeguard financial resources.

The Administration surveyed the internal audit functions in 12 cities across Canada for comparative information and also reviewed publicly available information on each City's website. As summarized in Appendix 1, seven of the cities function under an in-house model, two cities operate under a co-sourced model, two cities outsource their internal audit function, and one city does not have an internal audit function.

### OPTIONS

The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards) contain mandatory requirements to which internal audit functions as a whole and internal auditors individually must adhere.

However, the manner in which internal audit services are to be provided within an organization are not prescribed. IIA Standards recognize that organizations vary in purpose, size, complexity and structure and therefore there is no single way to structure an internal audit function.

The Chartered Institute of Internal Auditors (a professional body dedicated to internal audit in the UK and Ireland) published a report in May 2015 titled [\*Models of Effective Internal Audit – How to organize a successful internal audit function\*](#). In the report, 12 attributes of an effective internal audit function were presented, along with case studies demonstrating the pros and cons of each model. These attributes are worded in such a way as to be applicable to any internal audit function, regardless of industry (e.g., for-profit or not-for-profit).

As presented in Appendix 2, the 12 attributes of an effective internal audit function are the criteria the Administration considered when evaluating the options described below. The advantages and disadvantages presented are matters of opinion, based on the Administration's experience and interpretation of the attributes.

#### **Option 1 – Continue to Outsource the Internal Audit Function**

This option proposes to maintain the status quo and continue to outsource the internal audit function. An external contractor would be hired to serve as the City's internal audit function for a specified period of time. The contractor would develop the annual audit plan, conduct audits with their own staff, write the audit reports and be accountable to City Council through Committee.

The Request for Proposals (RFP) process could be completed by late 2019 for a contract start in early 2020.

The advantages and disadvantages of this option are outlined on the following page.

### Advantages:

- A high level of independence and objectivity is provided as a result of the contractor being completely separate from the Administration and accountable directly to City Council and Committee.
- Contractors tend to have access to a broad range of specialists and subject matter experts within their network of affiliates who can be brought in as needed to conduct audits or provide consulting services.
- A redesigned RFP could be crafted with particular emphasis on addressing some of the most significant disadvantages of the outsourcing model.
- A shorter contract period with options to renew could be considered to allow flexibility to respond as deliverables meet, exceed or fall short of expectations.
- Consideration could be given to increasing the overall value (and therefore financial attractiveness) of the contract by increasing the estimated hours of service per year while still remaining within existing budget parameters.
- Risks associated with staffing (e.g., staff productivity not maximized, staff underutilized, staff qualifications and/or skill sets do not match needs, staff turnover/vacancy, inability to recruit qualified staff, negligence, etc.) are borne by the external contractor.
- Incremental costs associated with service delivery (e.g., administration, equipment, supplies, office space, training, professional certification, overhead, etc.) are borne by the external contractor.

### Disadvantages:

- It is difficult for a contractor to cultivate and maintain an in-depth understanding of the City when they have many clients to manage in several industries, and staff may be frequently reassigned to work on other client files.
- The contractor's quality control program is not within the City's control and may lead to inconsistent or poor quality deliverables, resulting in the Administration's increased time and effort to remedy shortcomings.
- A service contract that clearly defines and limits scope of responsibility may not encourage coordination/collaboration with other service providers.
- Contractors may focus on minimizing effort in order to maximize recoveries.
- Civic staff do not benefit from the transfer of knowledge and skills due to the contractor's proprietary systems, processes and frameworks.
- Least cost effective model evaluated – current contracted rate per hour of service is \$159/hour.

- Risks associated with contracted relationships (e.g., poor contract management, ineffective contract oversight, lack of clarity around expectations, deliverables that do not meet expectations, etc.) must be managed by the City.

### Financial Implications for Option 1

There is no mill rate impact under this option. Existing operating funding would be sufficient to continue to fund an outsourced internal audit function.

### **Option 2 – Establish a Co-Sourced Internal Audit Function**

This option proposes to create a small in-house internal audit function that utilizes both civic staff and contracted resources to conduct individual audit projects. Internal audit staff would be responsible for developing the annual audit plan, conducting internal audit projects, managing service contracts, overseeing contractor work and reporting results to the Committee. Contractors would be hired as needed to perform internal audit and/or consulting work on behalf of, and under the supervision of, the internal audit function. The scope of contracted work may be an entire audit, only certain parts of an audit, or only certain procedures within an audit.

The staff recruitment process could be initiated in late 2019 for an employment start date in early 2020.

The advantages and disadvantages of this option are outlined below.

#### Advantages:

- Employees tend to have a deeper understanding of the organization they work for. This model allows those audits and decisions that require in-depth organizational knowledge to be completed in-house and relevant information shared with contractors as needed to ensure success on other audits.
- Contractors can be utilized to fill gaps in in-house knowledge, skills or expertise as needed by conducting audits or providing consulting services.
- Establishing a core complement of in-house staff dedicated to internal audit allows for organization-wide relationship building, awareness and understanding of the function to increase. As a result of staff being a part of the organization, its culture, network and social structure, increased confidence and trust in the function should result.
- By retaining core responsibilities in-house and providing more direction and oversight regarding contracted work, the audit methodology followed and the quality of deliverables would be consistent with the City's expectations.
- Depending on the nature of the work, civic staff (e.g., performance improvement coordinators) could be utilized to conduct non-audit projects or to oversee and work with contractors, which would result in valuable skills being transferred to civic staff.

- There is potential for more competitive pricing for contracted audit services since each individual audit project would be sourced through a competitive procurement process.
- The City's risk exposure is managed by transferring many of the audit-specific staffing risks and costs to the contracted service providers (as described in Option 1), although some staffing and service delivery risk would remain with the City for the proportion of the function that is established in-house.

### Disadvantages:

- Difficulty recruiting staff and/or staff turnover would prevent the function from accomplishing its objectives and would leave contracted service providers with no direct oversight.
- Risks associated with contracted relationships (e.g., poor contract management, ineffective contract oversight, lack of clarity around expectations, deliverables that do not meet expectations, etc.) must be managed by the City.

### Financial Implications for Option 2

There is no mill rate impact under this option. Existing operating funding would be sufficient to fund one management position, general operating costs and several contracted internal audit and/or consulting projects each year.

### **Option 3 – Re-Establish an In-House Internal Audit Function**

This option proposes to re-establish an in-house internal audit function. Internal audit services would be delivered by civic staff who are dedicated solely to the internal audit function. Civic staff could also be temporarily seconded from other workgroups into the internal audit function for a period of time.

The recruitment process could be initiated in late 2019 for employment start dates in early 2020.

The advantages and disadvantages of this option are outlined below.

### Advantages:

- Employees tend to have a deeper understanding of the organization they work for; they can focus exclusively on the objectives, risks, activities and functions of one organization.
- Once fully established, an in-house function would be an official and recognized part of the organizational structure, culture, network and social structure. As a member of the team, internal audit staff can provide an independent perspective and professional advice to their peers.
- Audit methodology could be tailored specifically to, and shared throughout, the organization.

## Internal Audit Service Delivery Model

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- A skilled and stable on-site staffing complement would help ensure the function is in a solid position to provide consistent, credible and high-quality audit work that is valued throughout the organization.
- Internal audit staff often gain both a broad and deep understanding of the organization's services and activities through the course of their audit work, which can support progressive and/or lateral career opportunities throughout the organization.
- Most cost effective model evaluated – effective hourly rate for salaried staff, including payroll costs, general program and administrative costs is approximately \$68/hour<sup>1</sup>.

### Disadvantages:

- The extent of specialized knowledge and expertise is limited to that possessed by the individuals employed.
- All risks associated with staffing (e.g., staff productivity not maximized, staff underutilized, staff qualifications and/or skill sets do not match needs, staff turnover/vacancy, inability to recruit qualified staff, negligence, etc.) as well as all costs (e.g., administration, equipment, supplies, office space, training, professional certification, overhead, etc.) are borne solely by the City.

### Financial Implications for Option 3

There is no mill rate impact under this option. Existing operating funding would be sufficient to fund one management position, two internal auditor positions and general operating costs.

## **Option 4 – Eliminate the Internal Audit Function**

This option proposes to eliminate the internal audit function.

The advantages and disadvantages of this option are outlined below.

### Advantages:

- There would be cost savings associated with eliminating the function.

### Disadvantages:

- There is an increased risk that areas that are deserving of examination and scrutiny are not identified, or if they are identified, the funding needed to conduct an external assessment/audit/review is not available.
- Opportunities to strengthen internal controls, improve efficiency and increase effectiveness may not be identified in a timely manner, if at all.

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<sup>1</sup> Current operating budget of \$427,000 / (3 full-time equivalents x 2,080 hours per year)



#### Financial Implications for Option 4

The overall operating budget could be reduced by \$427,000 thereby reducing the mill rate by 0.175%, or existing operating funding could be reallocated to other programs or priorities with no impact on the mill rate.

#### **RECOMMENDATION**

That the Administration undertake the necessary actions to implement Option 2 – Establish a Co-Sourced Internal Audit Function.

#### **RATIONALE**

The establishment of a co-sourced internal audit function allows the City to take a balanced and cost-effective approach to service delivery by capitalizing on many of the benefits of an in-house model while addressing many of the challenges of an outsourced model.

As specific internal audit projects are identified and prioritized, the internal audit function would be able to issue individual Roster Competition procurement documents to suppliers with existing Master Framework Agreements who have been pre-qualified for work pursuant to the Risk, Assurance and Consulting Services Request for Supplier Qualifications. This will streamline the procurement process and should result in competitive pricing for the services required.

A permanent full-time equivalent has not been included in the preliminary 2020/2021 Multi-year Business Plan and Budget. Therefore, if Option 2 is approved, a term position for up to 36 months in duration will be pursued. This staffing strategy will allow for a re-evaluation of the service delivery model in three years' time and changes to be considered for further service improvements.

#### **ADDITIONAL IMPLICATIONS/CONSIDERATIONS**

There are no legal, social or environmental implications. Financial implications have been identified for each option.

Once a service delivery model is approved by the Committee, the Administration will bring forward a report regarding the organizational placement and reporting structure for the internal audit function.

The Administration will bring forward a further report that incorporates the implications of the service delivery model, organizational placement and reporting structure decisions into Council Policy No. C02-032.

#### **COMMUNICATION ACTIVITIES**

The current service provider and all suppliers with existing Master Framework Agreements who have been pre-qualified for Risk, Assurance and Consulting Services have been notified that the Standing Policy Committee on Finance is considering this report. The opportunity to submit comments and/or request to speak was provided through the established process of the City Clerk's Office.

**APPENDICES**

1. Internal Audit Service Delivery Models – Other Municipalities
2. Attributes of an Effective Internal Audit Function

**Report Approval**

Written by: Nicole Garman, Corporate Risk Manager  
Approved by: Clae Hack, Interim Chief Financial Officer

Admin Report - Internal Audit Service Delivery Model.docx

## Internal Audit Service Delivery Models – Other Municipalities

Municipality	Service Delivery Model		
	In-house	Co-sourced	Outsourced
Vancouver, BC	√		
Surrey, BC	√		
Edmonton, AB	√		
Calgary, AB	√		
Saskatoon, SK			√
Regina, SK	N/A	N/A	N/A
Winnipeg, MB		√	
Toronto, ON	√		
London, ON			√
Windsor, ON			√
Ottawa, ON		√	
Halifax, NS	√		
St. John's, NL	√		

**Attributes of an Effective Internal Audit Function**

1. Excellent knowledge of the organization and the sector(s) and markets it operates in.
2. Specialist knowledge and expertise to provide a wider range of assurance (e.g. in the areas of IT, project management, treasury, customer relationships, contracts, etc.).
3. Flexibility and responsiveness to emerging risks and issues.
4. Confidence and trust of senior management to be involved in major projects and change.
5. Independence and objectivity.
6. Risk based internal audit planning and an agreed audit methodology.
7. Providing advice and guidance to support organizational objectives through consultancy.
8. Consistent levels of service delivery.
9. Coordination and collaboration with other assurance providers.
10. Effective teamwork.
11. Career development opportunities within the internal audit function or the wider organization.
12. Commitment to quality and continuous improvement.

---

**From:** James Barr <jbarr@kpmg.ca>  
**Sent:** Sunday, September 15, 2019 4:07 PM  
**To:** City Council  
**Subject:** Form submission from: Write a Letter to Council  
**Attachments:** kpmg\_ia\_sourcing\_options.pdf

Submitted on Sunday, September 15, 2019 - 16:07

Submitted by anonymous user: 76.9.197.100

Submitted values are:

Date Sunday, September 15, 2019

To His Worship the Mayor and Members of City Council

First Name James

Last Name Barr

Email jbarr@kpmg.ca

Address 500 - 475 Second Avenue South

City Saskatoon

Province Saskatchewan

Postal Code S7K 1P4

Name of the organization or agency you are representing (if applicable) KPMG LLP

Subject SPC on Finance Agenda item 7.3.1 - Internal Audit Service Delivery Model

Meeting (if known) SPC on Finance - Sept 16, 2019

Comments

KPMG is one of the largest professional services firms in Canada, with a dedicated internal audit practice consisting of over 500 audit and IT audit professionals (with 15 professionals in Saskatchewan, including two partners, one of which is the national service line leader). We currently have a Master Framework Agreement for Risk, Assurance & Consulting Services with the City of Saskatoon, and were invited to submit comments with respect to topic 7.3.1 on the agenda for the SPC-Finance's public meeting on September 16, 2019 (Internal Audit Service Delivery Model).

We have reviewed the Decision Report supporting this agenda item and offer the following comments for the Committee's consideration:

KPMG is regularly asked by management, boards and audit committees of organizations of all types about the optimal delivery model for internal audit services. We agree that the three options examined in the City's Decision Report are the most commonly considered options, and we believe that the City's analysis of the advantages and disadvantages of each option is fairly sound. We offer some additional analysis and consideration points for the City on this topic in our attachment to this submission entitled KPMG IA Sourcing Options.

Our view, based upon our considerable global experience as an internal audit service provider, is that it would be quite difficult for the City to move to an in-house model for internal audit and be able to hire and retain sufficient expertise to perform value-added audits in all areas that would be required at a cost similar to its current internal audit spend (i.e., a sufficiently experienced leader and team plus specialty auditors in IT and other sector or subject matter areas).

We believe that the City would be best served to maintain a sourcing element to its internal audit delivery model (via either a co-source or an outsource) in order to have access to knowledge of leading practices, specialized skill sets and flexible capacity that is required to deliver high-value internal audit services for a large and complex organization such as the City.

If the City decides to proceed with the co-source option, we caution that a strategy of competitively sourcing each individual audit project may not deliver as much savings as anticipated, and may actually result in less value added than selecting one primary service provider to assist with most or all service needs. Individually procuring each audit project may result in a lower professional fees for some projects, but there are also many additional factors that add costs or reduce utility, such as:

- Additional effort and costs to continually develop procurement documents, administer procurements, evaluate, award and contract for services;
- Time and effort required by City staff to continually onboard new providers to the City's people, systems, processes, audit methodology and templates, reporting formats, etc.;
- Different reporting formats, styles and language resulting in less integrated reporting that is harder to understand and interpret by City leaders; and
- Continually requiring service providers to bid for all projects introduces a risk that some may bid pricing to win that is too low to allow for high-quality work (i.e., they may cut corners and/or not go into sufficient depth to identify truly value-added opportunities for improvement).

Our experience indicates that organizations typically receive better overall value (and equivalent all-in costs) by partnering with one internal audit provider for most or all of its service requirements, especially a primary partner who does not provide a significant amount of other services to the City and thus is completely independent.

#### KPMG's Recommendation

We recommend that the City maintain a sourcing element to its internal audit delivery model via either a co-source or outsource. If the City decides to proceed with the co-source option, it would be better served by selecting one co-source partner to work with on most or all of its service requirements. This strategy would allow for the service provider to develop better knowledge of, and relationships with, Internal Audit and City representatives, systems and processes, and avoid the costs and effort of continual procurement and onboarding of different providers. Such a model would not have to be exclusive, as the City could reserve the right to seek other service providers to deliver unique or complex engagements that, for whatever reason, the use of the primary service provider is not desirable.

Attachments

[kpmg\\_ia\\_sourcing\\_options.pdf](#)

The results of this submission may be viewed at:

<https://www.saskatoon.ca/node/398/submission/336619>



# Internal Audit Sourcing Options

## Information Item for the City of Saskatoon

September 16, 2019



# Sourcing Options Summary

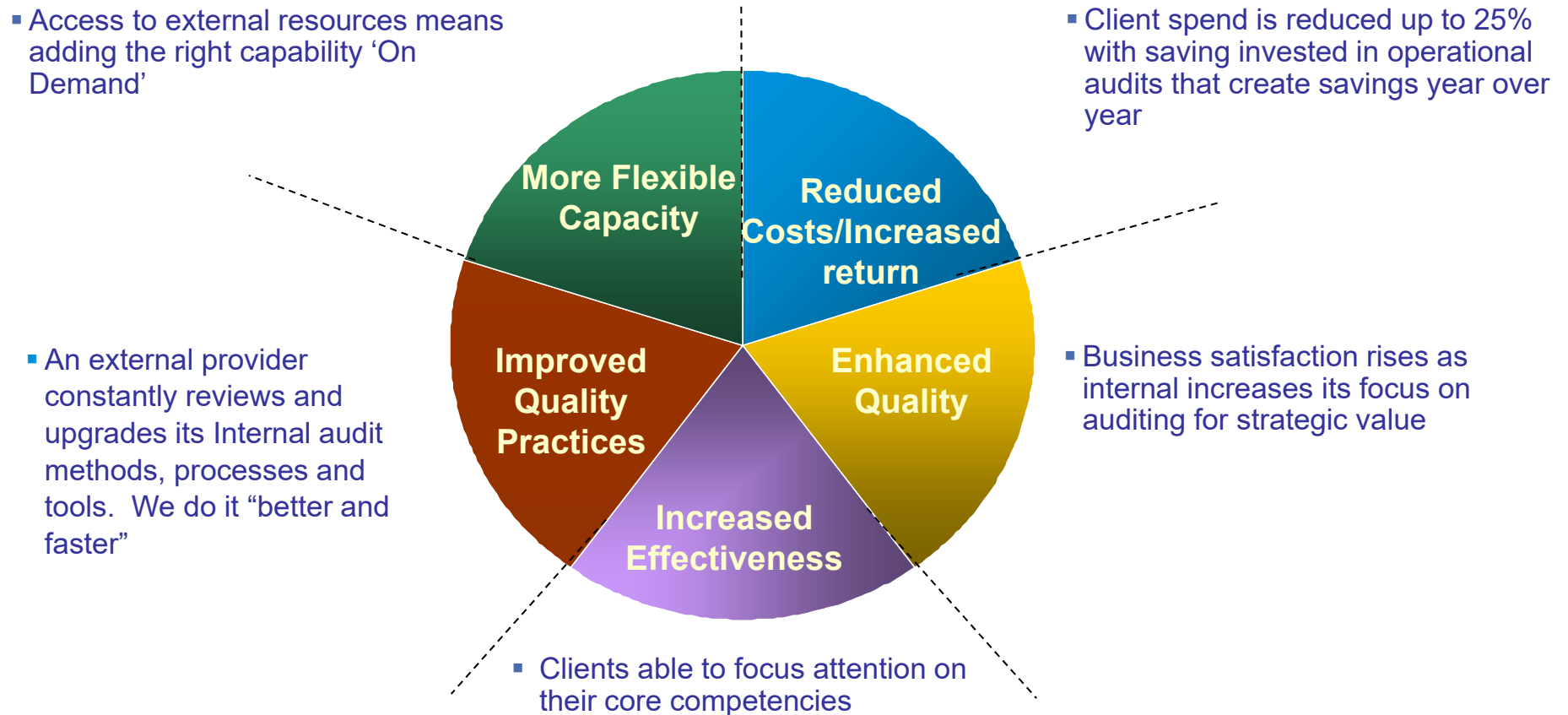
## We are seeing:

- Companies increasingly outsourcing or co-sourcing some of their functions outside their core competencies as a way of getting access to subject matter expertise, reducing costs, freeing up capital, and achieving greater flexibility.
- The internal audit (IA) function within organizations is being asked to move beyond its traditional role and become more capable of protecting organizations against risks and improving control systems.
- Strategic sourcing of IA gives an organization immediate access to specialized resources and tools and methods to quickly adjust to changing business conditions.
- Increased complexity and regulatory expectations combined with an increasing desire to maximize revenue and a need to reduce costs is increasing demands on internal auditors
- The use of tools and methods to analyze complete populations of data for risks and opportunities



# The Internal Audit Delivery Model

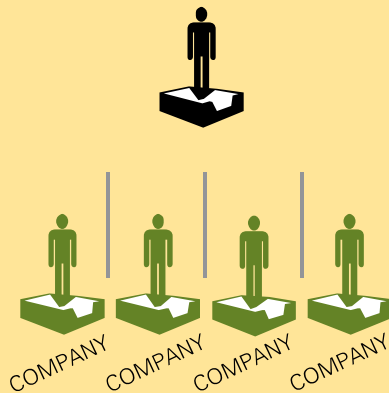
You can realize many benefits, including significant cost savings and increased return from findings:



# Alternative Internal Audit Sourcing Strategies:

## IN-HOUSE MODEL

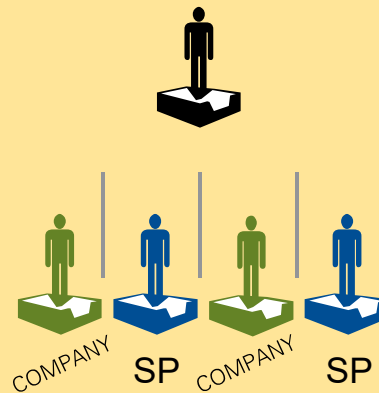
COMPANY



The organization would internally staff 100% of their Internal Auditing resources.

## CO-SOURCED MODEL

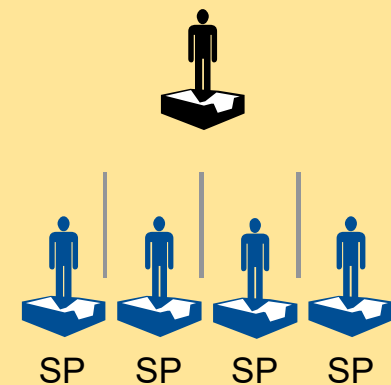
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A Service provider (SP) would serve as an extension of the organization's Internal Audit, working collaboratively with team members of the in-house department (on a project-by-project basis, as needed).

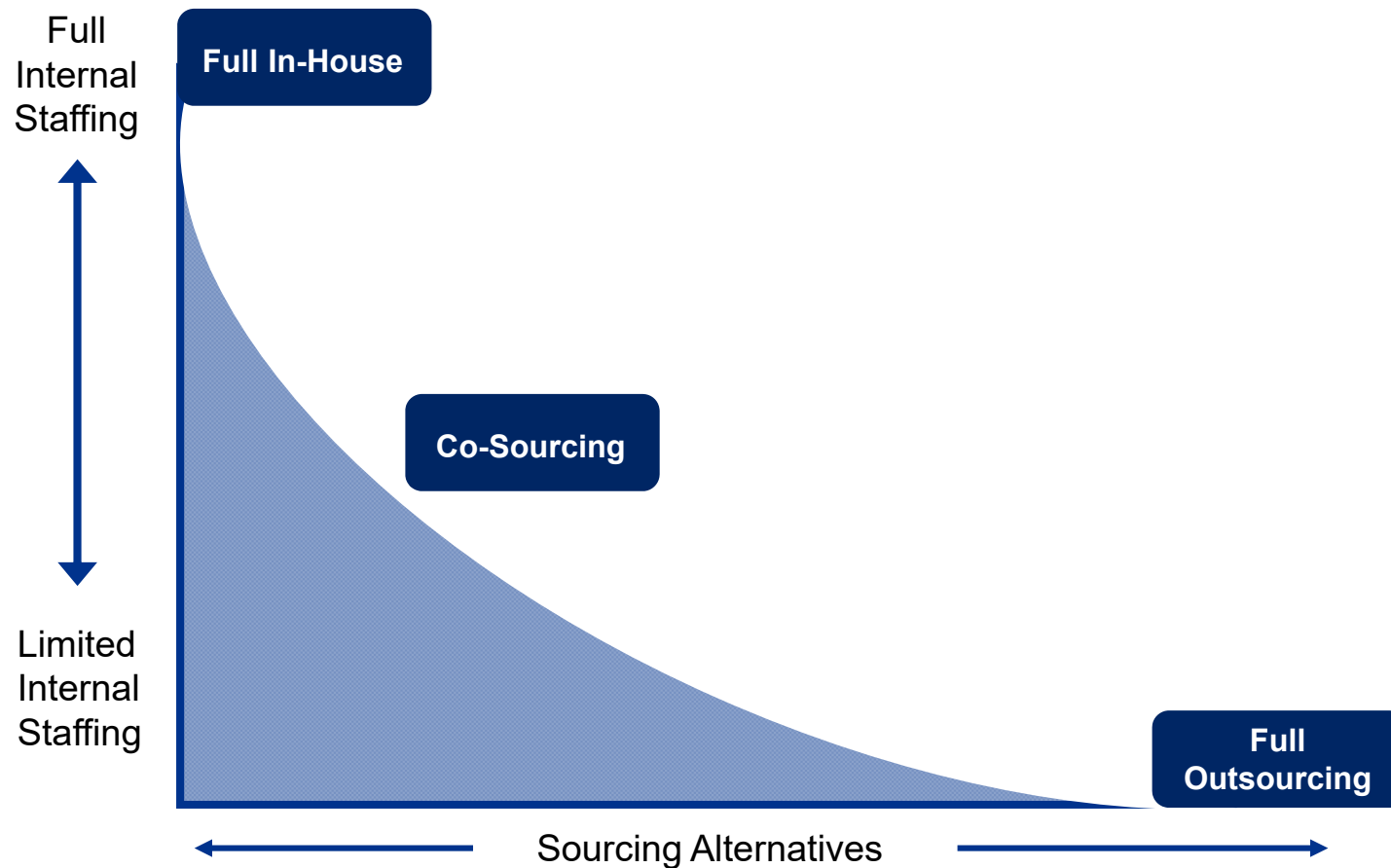
## OUTSOURCED MODEL

COMPANY



In this arrangement, service provider (SP) would perform the function of Internal Audit, providing end-to-end services working closely with, and report to, the In-House Client Representative and the Audit Committee.

# Alternative Internal Audit Sourcing Strategies:



# Sourcing Models – In-House

- With an in-house internal audit function, the administration and management of the internal audit function is conducted by the company itself.
- Typically an internal audit manager is appointed to administer and manage the internal audit function and is supported by a team of internal audit staff who are employed by the company.
- The internal audit manager would set out the internal audit plan, oversee the conduct of the audits, control the reports issued to management and report the results to the audit committee.

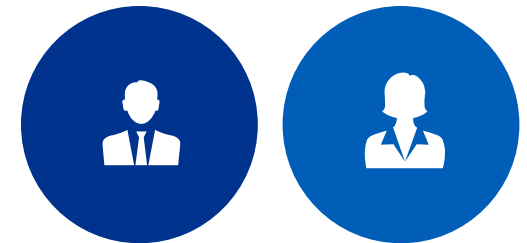
## Benefits

- ✓ Dedicated internal audit staff
- ✓ Detailed knowledge & experience of internal affairs
- ✓ Prompt and consistent follow up with management
- ✓ Easier access to systems for audit purposes
- ✓ Close relationship with management



## Disadvantages

- ✓ Reduced independence
- ✓ Staff are not up to date with changes in risk & control methodologies & technology
- ✓ Risk management / control models and tools may become outdated over time
- ✓ Staffing/human resource administration and costs borne directly by the company
- ✓ Audit inefficiencies are borne by the company
- ✓ Investment in technology, training and set-up costs are borne by the company
- ✓ Inability to benchmark the company against other companies



# Sourcing Models – Co-Source

- Through co-sourcing, the administration and co-ordination of the internal audit function is conducted at the Company itself.
- An internal audit manager would normally be appointed to administer and co-ordinate the internal audit function, and he may hire additional internal audit staff.
- Permanent internal audit staff costs and other Human Resource costs would be borne by the Company.
- The internal audit manager, in consultation with the service provider, would set out the internal audit plan and report the results to the audit committee.
- The service provider would supply internal audit staff to fill staffing gaps, oversee the internal audit work performed by its own staff and issue the internal audit report.

## Benefits

- ✓ Increased independence compared with in-house
- ✓ Latest risk management/internal audit models and tools are employed
- ✓ Staffing/human resource administration and costs are less than in-house
- ✓ Knowledge of industry and access to the service providers industry knowledge bases
- ✓ Dedicated manager to administer & co-ordinate internal audit function
- ✓ Detailed knowledge & experience of internal affairs
- ✓ Prompt and consistent follow up with management

## Disadvantages

- ✓ Reduced independence compared with outsource
- ✓ Lack of compatibility with internal audit methodologies and tools
- ✓ Staffing/human resource administration and costs are greater than outsource
- ✓ Experienced and knowledgeable staff are not retained by the Company
- ✓ Inefficiencies of the manager and own staff are borne by the Company
- ✓ Investment in technology, training and set-up costs are borne by the Company for permanent staff
- ✓ Reliance on third parties

**Co-Source**



# Sourcing Models – Out-Source

- Through outsourcing, the administration and co-ordination of the internal audit function is conducted by the service provider.
- The service provider would set out the internal audit plan in consultation with management.
- The service provider would oversee the conduct of the audits, control the reports issued to management and report the results to the audit committee.
- Permanent internal audit staff costs and other Human Resource costs would be borne by the service provider.
- The service provider would supply the right staff for each audit at a time suitable to the Company.

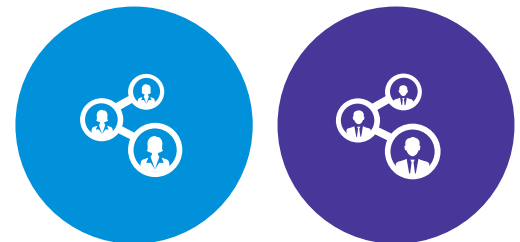
## Benefits

- ✓ Independence
- ✓ Latest risk management / internal audit methodologies and tools are employed
- ✓ Specialist audit staff, with relevant skills and experience, are available
- ✓ Knowledge of the industry and access to local and international industry knowledge bases
- ✓ Inefficiencies are borne by the service provider
- ✓ Staffing / human resource administration and costs are borne by the service provider
- ✓ Easy to switch staff or obtain relevant skills

## Disadvantages

- ✓ Reduced knowledge and experience of internal affairs
- ✓ Lack of dedicated full time staff
- ✓ Experienced and knowledgeable staff are not retained by the company
- ✓ Reduced access to company systems for audit purposes
- ✓ Reliance on outsource partner

**Out-Source**



# Internal audit sourcing model – Benefits

Benefit	Description
Manage IA costs	✓ Sourcing can reduce costs and drive value through improved quality and service
Tap resources of a top provider	<ul style="list-style-type: none"> <li>✓ A sourcing provider can offer scalability and flexibility to adapt to business needs</li> <li>✓ Strategic sourcing can give an organization immediate or just-in-time access to global resources</li> </ul>
Leverage the infrastructure of the provider	✓ Costs of developing and maintaining an IA capability (employee training, recruiting, state-of-art systems and methodologies) are shifted to the provider, freeing up the organization's capital and resources for other purposes
Gain access to leading practices and subject matter professionals	✓ Sourcing arrangements provide access to professionals who can provide additional value in the audit process through their technical skills (IT, forensics, treasury, risk management, procurement, etc) and industry experience
Gain access to global resources	✓ A sourcing provider can create efficiencies by reducing travel costs, understanding the local culture, and providing local resources with appropriate language skills

# Internal audit sourcing model - Benefits

Benefit	Description
Address the human resources challenges	A sourcing provider will ensure high-quality personnel with appropriate financial, operational, and language skills along with specific industry and subject matter knowledge.
Gain access to leading IA methodologies	Providers can bring companies IA methodologies and supporting technologies that are risk-based, field-proven, and scalable
Enhance independence	An IA sourcing provider may be able to maintain a greater degree of independence and objectivity in its oversight compared with an in-house function, maintaining standard practices
Strengthen communication	IA sourcing providers can establish or enhance effective communications on organizational risks and governance with senior executives, CEOs, CFOs, and audit committees
Focus on core competencies	Sourcing the IA function enables the organization to free up capital and resources for core activities and critical strategic business priorities





Thank you



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