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# ***City of Saskatoon*** Infrastructure Investment Evaluation Process Internal Audit Project

*June 26, 2019*

*Final*



# Executive Summary

## Report Rating:



## Total observations:



- Critical
- High
- Medium
- Low

## 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	Capital Plan	Capital Project Budget	Capital Project Approval
<ul style="list-style-type: none"> <li>• Interviewed City Administration<sup>3</sup> to understand the approach taken to develop key infrastructure planning documents</li> <li>• Studied key infrastructure planning<sup>3</sup> documents and gained an understanding of planning priorities</li> <li>• Conducted research to compare City practices to other municipalities<sup>4</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Selected a sample of projects<sup>5</sup> included in the 2018 capital plan</li> <li>• Examined supporting evidence and conducted interviews with project department leaders</li> <li>• Assessed alignment of projects included in the capital plan to strategic priorities and approved planning documents</li> </ul>	<ul style="list-style-type: none"> <li>• Examined supporting evidence and conducted interviews with project finance coordinators to understand financial models to support business cases</li> <li>• Assessed project submissions against good industry practice</li> </ul>	<ul style="list-style-type: none"> <li>• Examined supporting evidence and conducted interviews with City Administration to gain an understanding of project evaluation practices</li> <li>• Assessed methods of project evaluation against good industry practice</li> </ul>

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

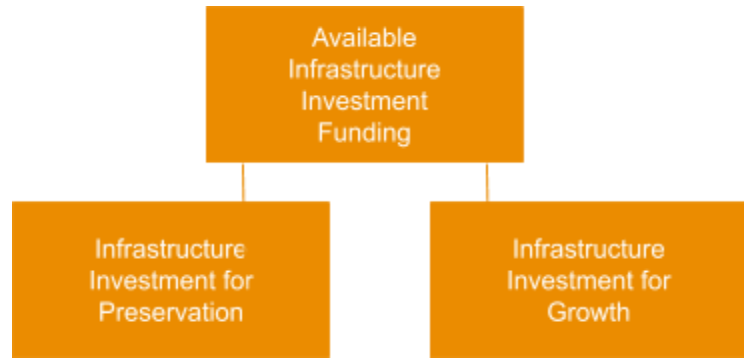
<sup>4</sup> A list of key documents and organizations for which comparable research was conducted is included in Appendix 2.

<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

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

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### 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.
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### 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

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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.

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**Practice Area:** Infrastructure Investment Decisions

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**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.
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**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*

## *Table of Contents*

<b>Overview</b>	<b>10</b>
Strategic Goals and Risks	10
Project Objectives & Approach	11
Common Industry Practice	13
<b>Detailed Observations and Insights</b>	<b>14</b>
City of Saskatoon Planning Practices	14
City of Saskatoon Prioritization Practices	25
City of Saskatoon Evaluation Practices	33
<b>Prioritization of Recommendations</b>	<b>37</b>
<b>Appendix 1: Interview List</b>	<b>41</b>
<b>Appendix 2: Samples Selected</b>	<b>42</b>
<b>Appendix 3: Report rating criteria</b>	<b>45</b>
<b>Appendix 4: Observation rating criteria</b>	<b>46</b>

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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

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<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:

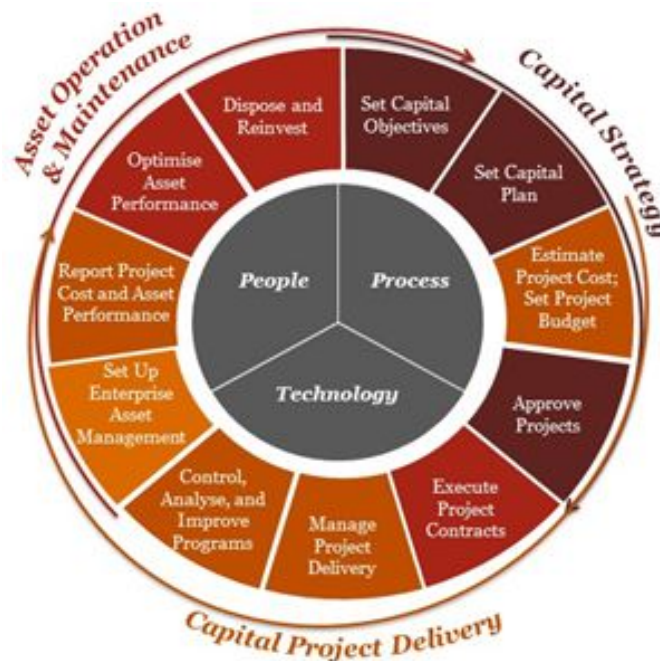
- a) Study existing evidence to gain an understanding of infrastructure project submission and evaluation practices;
- b) Identify teams responsible for submitting potential infrastructure projects for evaluation and conduct 3-4 interviews to understand current approach;
- c) Identify 1-2 stakeholders 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.

## 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***

Gain an understanding of planning practices to determine infrastructure needs.



Plan

#### ***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>

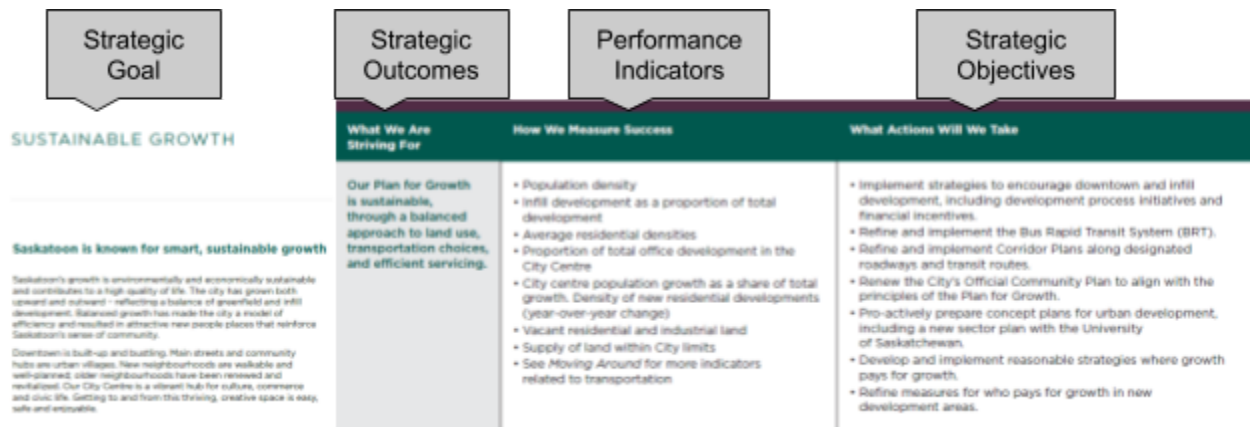
<sup>11</sup> <https://www.saskatchewan.ca/government/budget-planning-and-reporting/government-direction-2019-20>

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 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 <ul style="list-style-type: none"> <li>• Cost Category 1</li> <li>• Cost Category 2</li> </ul>	\$ \$ \$	\$ \$ \$	\$ \$ \$	\$ \$ \$	\$ \$ \$		\$ \$ \$
Capital Component 2 - Total <ul style="list-style-type: none"> <li>• Cost Category 1</li> <li>• Cost Category 2</li> </ul>		\$ \$ \$	\$ \$ \$	\$ \$ \$	\$ \$ \$		\$ \$ \$
Cost Contingency based on risk assessment							
<b>Total Capital Costs</b>	\$	\$	\$	\$	\$	-	\$
Operating Cost Category 1						\$	\$
Operating Cost Category 2						\$	\$
Cost Contingency based on risk assessment							
<b>Total Operating Costs - ## useful life</b>	-	-	-	-	-	\$	\$
<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**

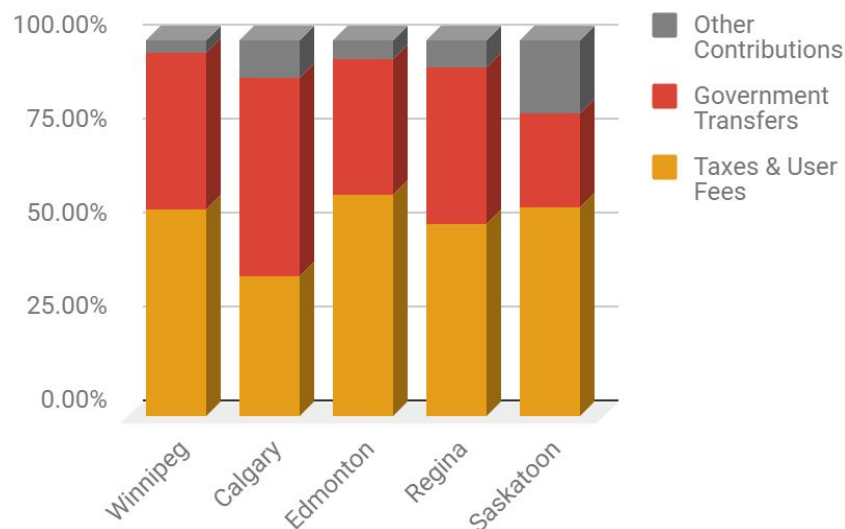
Estimate Description	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 5+	Total
Total Expected Tangible Costs	\$\$\$	\$\$\$	\$\$\$	\$\$	\$\$\$	\$\$\$	\$\$\$
Total Expected Tangible Funding	\$\$\$	\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$
Net Tangible Benefits/(Costs)	-	(\$\$)	-	\$	-	-	(\$)
Intangible Benefit Category 1						\$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

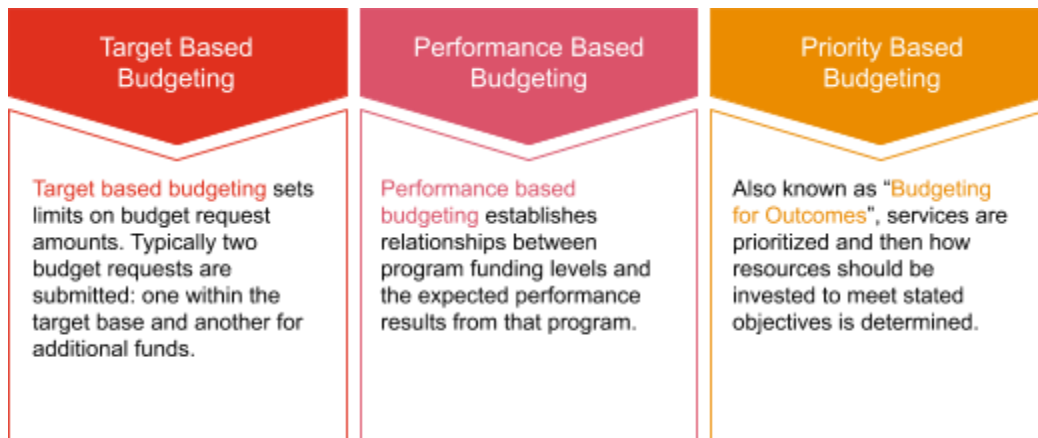
**Diagram 4: Funding Strategy Comparison (2017 Infrastructure Investments<sup>20</sup>)**



### *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.

<b>Strategic Goal<sup>25</sup></b>	<b>2018 Infrastructure Investment<sup>26</sup></b>	<b>Responsible Business Lines</b>
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>	<p>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.</p>
<a href="#">Official Community Plan (Bylaw 8769): May 2018</a>	<p>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.</p>
<a href="#">Growth Plan to Half a Million: April 2016</a>	<p>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 &amp; Sewer   Financing Growth</p>
<a href="#">Administration Update: November 2016</a> <a href="#">Financing Growth Study: April 2015</a>	<p>As part of the City's strategic planning work, a study of the funding and financing aspects of growth was undertaken.</p>
<a href="#">2018 Approved Operating and Capital Budget: April 2018</a> <a href="#">2018 Approved Capital Projects Detail: April 2018</a>	<p>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.</p>
<p>Multi-Year Business Plan and Budget Policy: April 2019</p>	<p>To establish the approach and other necessary requirements for planning and approving multi-year business plans and budgets, which shall not exceed four years.</p>






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

<i>Report rating</i>	<i>Rating rationale</i>
	<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>

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