

Audit of Childcare, Cultural and Social Non-Profit Leases

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- City provides NPOs below-market and nominal leases of City-owned or leased lands and buildings
- NPOs deliver community services through facilities such as childcare centres, neighbourhood houses, theatres and art galleries
- 119 leased properties across the City
- Important contribution to Vancouver's social fabric

Non-profit leases by service group

Service groups	Examples of service types	# of leased facilities	# of operators
Childcare services (Childcare Project team)	Childcare spaces for various age groups	43	17
Cultural services (Arts, Culture and Tourism team)	Museums, galleries and dance theatres	40	36
Social services (Social Infrastructure team)	Neighbourhood houses, family places and seniors centres	36	33
Total		119	86

- *Vancouver Charter* Section 206: Council may provide grants to any charitable institution and any organization deemed to be contributing to the culture, beautification, health or welfare of the City
- Difference between below-market or nominal rent and estimated market rent is considered a grant

Audit objective

- To determine whether the City effectively managed its childcare, cultural and social non-profit leases to deliver intended public benefits in support of its strategic priorities

Audit scope and period

- January 1, 2022 to August 31, 2023
- Included relevant policies, guidance, and administrative processes produced prior to 2022 in use during the audit period

We examined whether the City:

- Had a systematic approach to ensure its management of non-profit leases aligned with the City's strategic objectives
- Implemented effective processes to manage the lifecycle of its childcare, cultural and social non-profit leases
- Evaluated and reported relevant childcare, cultural and social non-profit lease information to the public and Council

In scope

- Childcare, cultural and social non-profit leases

Not in scope

- Park Board leases, non-market housing leases
- Review of the services and programs provided by non-profit lease operators and the realization of public benefits
- Assessment of building lifecycle costs and associated asset management processes

- The City developed and started to put in place a lease management framework; however, it had not been fully implemented
- Key processes, including monitoring and documenting operator performance against lease requirements were not in place
- The City did not effectively manage its childcare, cultural and social non-profit leases

City strategies

- The City had strategies for the childcare, cultural and social service groups
- Strategies included objectives for the City to provide spaces to non-profit organizations:
 - *Making Strides: Vancouver's Childcare Strategy*
 - *Making Space for Arts and Culture*
 - *Spaces to Thrive*
- We have no recommendations in this area as the audit criterion was met

Metrics

- Two out of three service groups defined metrics with targets and reported on progress towards strategic goals
- However, one service group did not have metrics defined
- Within this service group's strategy was a goal to improve the City's qualitative and quantitative data and metrics

The City should define performance metrics and targets for non-profit leasing in its social services portfolio to enable monitoring and tracking of progress toward meeting the strategic objectives outlined in its approved strategies.

Non-Profit Lease Management Framework (NPLM)

- In 2020, the City developed a framework for non-profit lease management with guiding principles for:
 - operator selection
 - lease monitoring
 - issues management
 - lease renewals
- While some elements of the framework were in place, full implementation was not complete
- No implementation plan

The City should fully implement its Non-Profit Lease Management (NPLM) Framework by developing supporting processes, procedures and templates. Implementation should include developing a project plan that identifies responsibilities for executing the plan, timelines for implementation and a deadline for completion.

Funding model for childcare initiatives

- *Making Strides: Vancouver's Childcare Strategy* guides the City's involvement in supporting childcare
- No funding model to recover costs from senior-level governments that provide funding for childcare initiatives
- E.g. improved alignment between the City's childcare leases and the Province's \$10-a-day program could help the City recover a portion of costs
- Recovered funds could be used for a variety of purposes, including investments in furthering Vancouver's childcare infrastructure

Recommendation 3

The City should review its funding model supporting childcare initiatives to ensure better alignment with senior-level government initiatives.

Non-profit lease listing

- The City manually maintained its list of childcare, cultural and social non-profit leases
- The list required the input of multiple departments
- We noted that compiling the consolidated list required extensive manual effort

The City should evaluate its current processes for storing and managing lease information to determine if it can more efficiently and effectively maintain an accurate, comprehensive list of childcare, cultural and social non-profit leases to better enable effective tracking and monitoring of the non-profit lease portfolio.

Operator selection

- The City conducted a competitive process for selecting new operators for available spaces
 - Opportunities were posted publicly and evaluated bids using set criteria
 - Bids were presented to City leadership and Council for approval
- However, there were inconsistencies with the document retention practices by each service group

The City should ensure that adequate and consistent document retention practices are in place across all service groups involved in the selection of non-profit lease operators to support the principles of open, transparent and accountable decision-making.

Lease requirements

- Lease agreements included reasonably defined requirements for both the City and the operator
 - Public Service Requirements (PSR) outline the public benefits to be provided by the operator
 - Service Level Agreements (SLA) outline responsibilities for maintenance and repairs
- We have no recommendations in this area as the audit criterion was met

Lease monitoring

- The City did not conduct formal lease monitoring against lease agreement terms during the audit period
- The City engaged with operators, but did not systematically document these assessments
- While the City started to review some operator submissions, this was not completed by the end of the audit period

The City should ensure it takes a systematic approach to monitoring lease requirements for all operators by implementing a formal lease monitoring process including the documentation of the results of periodic reviews.

Operator priority status

- Priority status allows an operator have first rights to available spaces
- Only one operator with priority status, but priority status has not been formally reviewed or re-approved by Council since 2011
- The City had not defined how frequent priority status should be reviewed

The City should determine how often it reviews an operator's priority status and when to seek Council approval. The review process should be informed by the results of performance monitoring activities identified in Recommendation 6.

Lease renewals

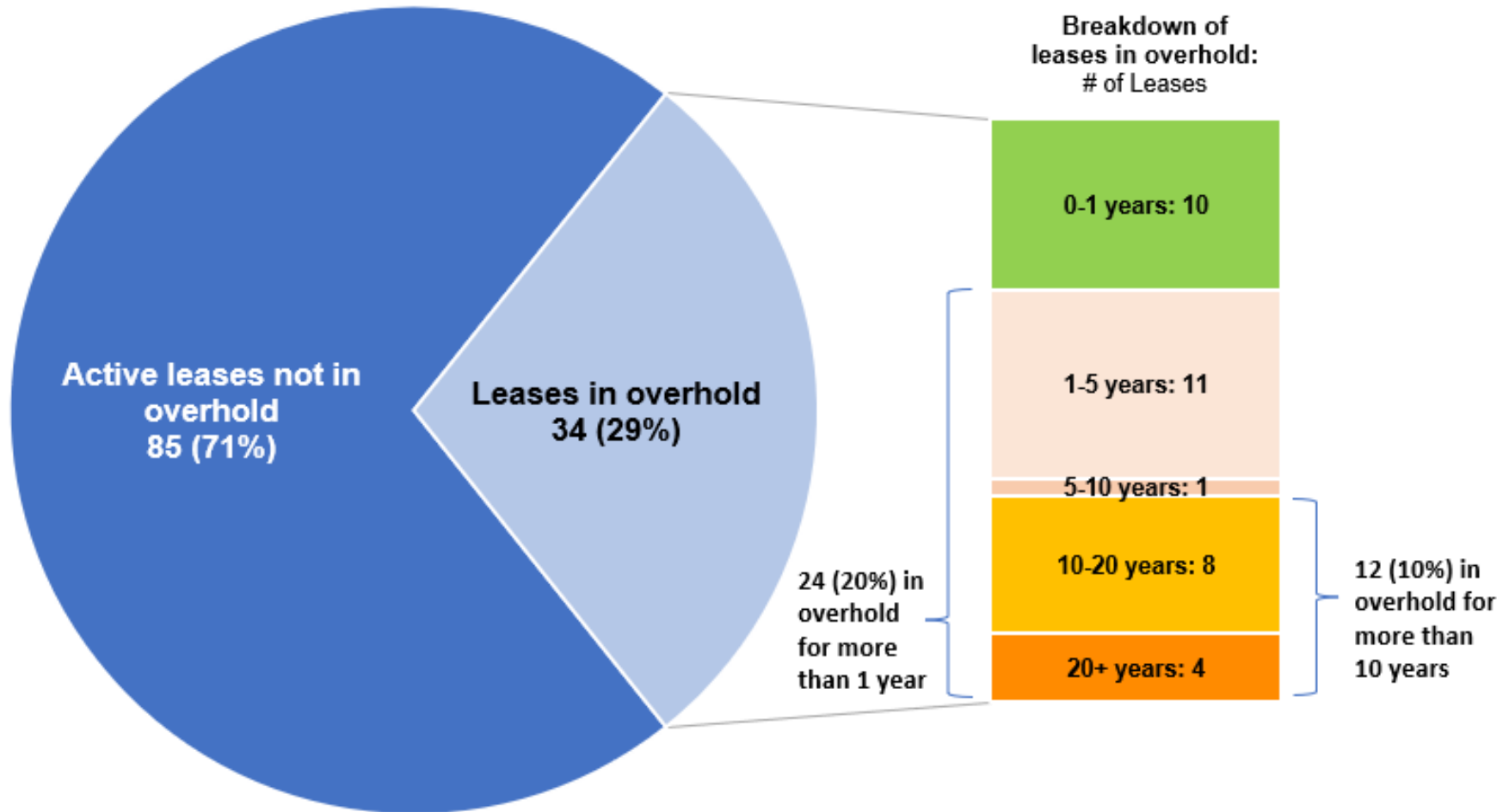
- The City indicated it did not have concerns with operators with which it renewed leases
- However, it did not have documented assessments of operator performance to support lease renewals
 - Lease renewals with options: leases renewed based on understanding of operator performance
 - Expired lease renewals: rationale to renew provided and Council approval obtained

When renewing non-profit leases, the City should include in the renewal rationale the outcome of formal operator performance monitoring, including an assessment of the delivery of intended public benefits and whether there is continued alignment between the use of the space with City strategies and priorities.

Lease overholds

- “Overhold” occurs when a lease expires and the tenant continues to occupy the space
- Generally permissible under the terms of the City’s lease agreements
- Overholding for extended periods in effect bypasses Council approval for lease grants
- Brings ongoing risks

Number of childcare, cultural and social non-profit leases as of September 1, 2023



The City should reduce the number of leases in overhold for longer than one year and implement policies and procedures to limit the number of leases in overhold and the length of the overhold period. This includes:

- Establishing a priority and timeframe for addressing all leases currently in overhold;
- Establishing primary accountability for managing overhold leases; and,
- Annual reporting of all leases in overhold to Council for review and approval.

Reporting

- Public and Council provided with information on childcare, cultural and social non-profit leases
- Reports included information about:
 - the number of leased facilities
 - gross floor area leased
 - the number of operators
- However, information on the full extent of financial support to non-profit operators was not included

The City should provide Council with information on the full extent of the City's financial contribution to non-profit organizations receiving lease grants. This reporting should include information such as:

- Estimated operating and capital maintenance costs for each lease to be incurred by the City, to inform leasing decisions;
- Actual maintenance and capital costs incurred by the City;
- The full value of the City's financial contribution to each operator (e.g., maintenance, lease grant, operating grant); and,
- Other pertinent information as identified by Council.

- THAT the Auditor General Committee receive the Auditor General’s report “Childcare, Cultural and Social Non-Profit Leases”, dated June 2024
- FURTHER THAT the report’s ten recommendations be endorsed

Questions