

Report to Council



Date: March 7, 2022
To: Council
From: City Manager
Subject: Rotary Centre for the Arts – Value for Money Review
Department: Active Living and Culture

Recommendation:

THAT Council receives, for information, the report from Cultural Services dated March 7, 2022, regarding the Rotary Centre for the Arts Value for Money Review.

Purpose:

To provide Council with an overview of the results from the Value for Money Review report for the Rotary Centre for the Arts and to advise of next steps.

Background:

To demonstrate greater accountability for its use of public funds, the City performs reviews of ongoing projects and programs as a best practice in support of rigorous economic governance.

Value for Money (VFM) reviews provide an objective, professional and systematic examination to ensure business elements such as, financial, human and physical resources, are managed with due regard to economy, efficiency and effectiveness. The process involves project/program selection, establishing the specific project scope, sourcing a qualified independent professional, preparation (by the independent professional) of draft and final reports, delivery of an executive summary to the City Manager and reporting annually at the year-end Audit Committee meeting.

The Rotary Centre for the Arts (RCA) opened in November 2002 and is operated by the Kelowna Visual and Performing Arts Centre Society (KVPACS) under terms and conditions outlined through a lease and operating agreement (L&O). The current agreement commenced January 1, 2013 for a 10-year period and includes 2, 5-year renewal options. The City provides an annual operating grant to KVPACS for programming, administration and maintenance of the building. While the City and KVPACS share responsibility for maintenance, KVPACS is expected to perform the majority of operational maintenance.

The RCA provides significant contributions to the creative sector of Kelowna; it is the community centre for arts and culture. Key facility features and activities operated by KVPACS include a 326-seat theatre, a bistro, 12 leased artists' studios, various rental spaces for short and long-term rentals and an abundance of all-ages arts and cultural activities offered through direct programming and community partnerships.

In 2020/21, Financial Services commissioned MNP to conduct a VFM Review of the RCA. The objectives of this review were to develop a report addressing the following:

- Drivers of budget vs. actual variances at KVPACS
- Necessary changes to budgets or assumptions within budgeting for KVPACS, if any
- Stakeholder interview results from the City as well as KVPACS by key topic/risk/issue
- Recommendations regarding change(s) to the current operating and funding models, if any
- Recommendations related to the lease and operating agreement, if any
- Results of comparisons with other lease and operating agreements
- Other recommendations to strengthen operations or the funding agreement with the City.

The KVPACS Board and the RCA staff welcomed the opportunity to participate in this review. They took on a collaborative approach and were active participants throughout the review process. Upon completion of the report by MNP, the results were presented by City staff to the KVPACS Board of Directors and a written response from the KVPACS Board was provided including an action plan for implementation.

Discussion:

The review identified opportunities for consideration by the City, as well as KVPACS, for long-term financial sustainability as well as operational performance. They are as follows:

1. **Operating Grant not CPI Adjusted:** The current annual operating grant received from the City is fixed with no adjustment linked to inflationary considerations such as the Consumer Price Index (CPI). The negative effect is that the purchasing power of the grant decreases each year because of inflationary increases to expenditures.

RCA Response: Annual CPI adjustments would help close the gap on the decreased purchasing power due to inflation on overall operating costs.

Action Step: City staff have reviewed and will recommend inclusion of annual adjustments in line with the CPI during the upcoming renewal of the Lease and Operating Agreement (Q4 2022).

2. **Lease Rates:** Lease rates are significantly below current market value. KVPACS should immediately begin market rate adjustments for each tenant regardless of tenure in their respective leased space.

RCA Response: It was the early vision of the RCA that studio space for artists should be an affordable space for artists to create with lease rates set at approximately 75% of current market value. However, over an almost 20-year period, rate increases have not kept pace with the ever-rising commercial lease rates in downtown Kelowna.

Action Plan: A market-rate evaluation was conducted to compare similar commercial lease rates in downtown Kelowna in 2019 and 2020. KVPACS has created a 5-year lease increase schedule that is currently being implemented.

3. **Repairs & Maintenance:** KVPACS and the City should establish consistent annual expectations of repairs and maintenance including tracking of work performed in order to meet the expectations within the L&O as well as maximize the useful life of existing infrastructure.

RCA Response: The language in the agreement is complex and not easily understood. It is further complicated by the reality of how maintenance requests are treated today vs. what is described in the L&O. Hence the desire for clarification by all parties.

Action Plan: In 2021, a committee was struck to work on this issue. The committee met in August 2021 to clarify the terms of the L&O, what has taken place in past years regarding maintenance, and to discuss repair expenses and tracking. This discussion and work are ongoing.

4. **Financial Acumen:** At the time of the report, the financial knowledge and acumen of KVPACS staff is not considered advanced, with most employee backgrounds and experiences limited to arts (exception of Executive Director and Finance). KVPACS should undertake training of staff on minimum expectations for financial considerations, recording and reporting as this is necessary to build bench strength and limit negative consequences to financial results from operational activities.

RCA Response: There is an emphasis that new hires have the financial acumen necessary to perform their work including prior budgeting experience. The staff members are also involved in the analytics for the prior year's performance, projections, forecasts and goal setting for revenues in their areas. The Executive Director and Finance Director have been developing and implementing this new process.

Action Plan: The City of Kelowna Recovery and Sustainability Grant will be used to explore new revenue generation models for the Society. Additionally, the RCA is applying to Canadian Association for the Performing Arts (CAPACOA) Presenter's Capacity Building Program (PCBP), which provides project funding to CAPACOA members who want to build on their organizational capacity, support research projects and seek out mentorships.

5. **Financial Performance:** Tracking of financial performance needs to be adjusted to reflect the true financial results for each operational area. At present financial results for operational areas do not reflect the overhead necessary to operate (e.g., payroll expenses). KVPACS should review and create both an understanding of the ratio of employee time and other overhead expenses to be allocated and then to track actual performance and financial results for decisions related to these activities (continue as is, adjust course, cancel offering).

RCA Response: The RCA's new approach is to drill down and evaluate the operating costs and related overhead for each program/offering and evaluate its effectiveness. It is to be considered that not all program outcomes are measured financially as programs also support our mandate, vision and the overall goals and objectives of the City of Kelowna 2020-2025 Cultural Plan.

Action Plan: Camps and community programs were evaluated in March 2021 and positive results show that new goals have been or are being met. Starting with the 2021-2022 budget, each manager was given accountability for their budget area. Managers are responsible for final reports for programs that summarize whether the program met its goals, advanced the organization's mission and if it was fiscally positive.

The RCA has not run programs at a net loss under its new management. An example of financial improvement in our programs in 2021 was the RCA's Arts Blast Summer Camps, which saw a sharp increase in registrations and revenues. By moving to more profitable 5-day camps, 2021 Arts Blast Summer Camp total revenues exceeded expectations.

6. **Liquidity Risk:** The financial performance of KVPACS is impacted by its ability to generate positive cashflow. KVPACS will need to enhance the rigor of budgeting, tracking of financial results and linking of key decisions to key financial goals to ensure this financial risk is sufficiently mitigated.

RCA Response: Liquidity presented less of a risk in the last fiscal budget for the RCA in which 10 of the last 12 months were cash positive. To continue to operate in a cash-positive position requires a full exploration of past performance in all areas of the operation.

Action Plan: A plan to reduce liquidity risk will be developed over the next three years. This will involve discussions for such financial strategies with KVPACS' auditors. All internal policies will be reviewed and updated with liquidity risk in mind. For example, HR policies for the time in lieu or other areas that may have outstanding payables.

7. **Bistro:** It is not considered financially viable to continue operation of the Bistro under the management of KVPACS. KVPACS should continue its search for a long-term outsourced operator for the Bistro and rely on a fixed source of revenue from sub-leasing.

RCA Response: KVPACS is continuing its search for a long-term outsourced operator for the Bistro. The RCA has no intention to go back to the previous operating model.

Action Plan: Several serious proposals are currently under consideration, KVPACS will have the space leased by early 2022.

8. **Grants vs. Self-Generated Revenue:** KVPACS should evaluate self-generated revenue as a long-term solution focus as opposed to grants. This does not negate the need to look for grants, however, the strategy should be on self-sustainment first. KVPACS is recommended to explore opportunities to participate in organizational learning related to the operation of a social enterprise of which community grants/opportunities are periodically available.

RCA Response: RCA will prioritize revenue development that is not grant-dependent. However, we score high on the scale of self-generated revenues (70% versus the national average for similar organizations of 60%).

Action Plan: The City of Kelowna Recovery and Sustainability Grant is earmarked to explore revenue-generating models for the RCA. Additionally, the RCA will explore further core funding opportunities such as the BC Arts Council and the Canada Council core funding, two granting bodies the RCA does not currently receive supporting funds from.

- 9. Value Proposition & Communication:** The value KVPACS brings to the community needs to be identified, measured and communicated with all key stakeholders to continually build support for the RCA and its programs.

RCA Response: RCA recognizes the need to communicate its impact on the community and have clearly defined goals to ensure the organization is delivering on its mission.

Action Plan: The KVPACS Board Strategic Committee identified Key Performance Indicators in 2021 and an appropriate platform for sharing this information is currently being explored. In 2020 and early 2021, past data was analyzed for meaningful impact metrics. The next steps include an examination of the organization's current situation with an assessment survey for the Board and leadership staff. A Fundraising and Donor Stewardship Development Plan is in progress and will further identify key messages and communication strategies which will continue to build support for the organization and its programs

- 10. Knowledge Transfer:** Knowledge management tools such as knowledge maps, flow charts, business processes and other tools are necessary to facilitate knowledge transfer to new employees. Staff turnover has created an information gap. Building internal documentation will protect against the risk of loss of critical knowledge on operations, key relationships and strategic priorities.

RCA Response: Knowledge transfer and attention to human resources strategies are key priorities and are recognized as critical to our centre's success. Tactics include mentorship, cross-training, work shadowing, and guided experience.

Action Plan: Standard Operating Procedures are being created along with the implementation of supporting technology for information storage. To reduce staff turnover, strategies were introduced in 2020 that include supporting a revised benefits plan, the addition of an EAP Program, enhanced team building, and improved communication across the organization. In 2021, all human resource documentation and policies were updated including a compensation study, a revised HR Handbook and Core Protection Policy documentation.

- 11. Capital Improvement Fund (CIF):** CIF funds should be earmarked, tracked, and used for the purposes for which they are collected. Internally reserving funds for future capital improvements is also particularly important to ensuring KVPACS is eligible for capital grants as many have a matching component.

RCA Response: Moving forward, the RCA will formalize a Capital Improvement Fund (CIF) Plan which will include a 10-year capital plan for future specialized equipment needs.

Action Plan: RCA has created a reserve account for the collection of the CIF. The Board plans to review the opportunity to add a portion of fiscal year 2020-2021's net profit to offset what was previously used for operational expenses.

- 12. Donations:** KVPACS should strategically prioritize a renewed approach to pursuing and securing donations as a revenue source.

RCA Response: There is room to grow donor income from 1.7% to as much as 8% of total revenue in the long term. The 2021-2022 budget targets donor revenue to increase to 5% in year one, and targets for 2022-2024 will gradually increase closer to 8%.

Action Plan: The RCA has implemented a donor platform in June 2021, developed a Case for Support to strengthen their call to donors and obtained a BC Gaming License to open more opportunities. Additionally, the Executive Director has participated in various related training opportunities and the RCA will be hiring a Development Officer to take on these initiatives, with support from the Board's Fundraising Committee.

City staff will continue to monitor the progress toward implementation of the recommended action items through multiple points of contact with the organization including: the annual Strategic Partnership Reporting Framework, ongoing staff participation at meetings of the Board of Directors (monthly), lease and operating grant renewal discussions and ongoing partnership development that takes place through our daily operations.

Conclusion:

The VFM Review provided practical recommendations to the City and the KVPACS Board that will improve the operational and financial stability of the organization in the coming years. As described above, progress has already been made and there are plans in place to continue moving forward. We look forward to continuing our ongoing partnership with the RCA and their ongoing service to residents of Kelowna.

Internal Circulation:

Divisional Director, Financial Services
Divisional Director, Active Living and Culture
Corporate Finance Manager
Partnership Manager

Considerations applicable to this report: N/A

Considerations not applicable to this report:

Legal/Statutory Authority
Legal/Statutory Procedural Requirements
Existing Policy
Financial/Budgetary Considerations
External Agency/Public Comments
Communications Comments

Submitted by: C. McWillis, Cultural Services Manager

Approved for inclusion: JG

cc: