

GRANT AND SUBSIDIES AUDIT - ADMINISTRATION RESPONSE

RECOMMENDATION

That the May 8, 2023, Financial and Corporate Services report FCS01823, be received for information.

Requested Council Action	Information only		
ConnectEdmonton's Guiding Principle	ConnectEdmonton Strategic Goals		
CONNECTED This unifies our work to achieve our strategic goals.	N/A		
City Plan Values	N/A		
City Plan Big City Move(s)	N/A	Relationship to Council's Strategic Priorities	Conditions for service success
Corporate Business Plan	Managing the corporation		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> Administrative Policy A1476: Municipal Funding Arrangements Administrative Directive A1460: Grants and Other Contributions 		
Related Council Discussions	<ul style="list-style-type: none"> N/A 		

Executive Summary

- The Office of the City Auditor conducted an audit of grants and subsidies provided to external agencies, organizations, and individuals.
- The objective of the audit was to determine whether Administration is managing grants and subsidies to achieve value for money invested in the community. The review included the processes for all grants and subsidies the City provides to external parties: from tax subsidies to incentivize construction, to grants for community cultural programming.
- Administration accepts the recommendations in the City Auditors' Grants and Subsidies Audit report.

GRANTS AND SUBSIDIES AUDIT - ADMINISTRATION RESPONSE

- Administration is in the process of implementing the City Auditors' recommendations and will continue its work addressing the recommendations in 2023, with an estimated implementation date Q1 2024.

REPORT

The City provides funding to support external agencies to achieve the goals of ConnectEdmonton and City Plan. These municipal funding tools available to the City to advance the organization's strategic priorities take many forms including grants, subsidies, sponsorship, rebates and operating support. Depending on the specific scenario, Administration may advance one, or a combination, of these funding tools. The scope of this audit was limited to grants and subsidies.

Grants

The City offers a broad range of grant funding opportunities each year that are available to communities, businesses and business associations, individuals, non-profit organizations and community leagues. Grants are competitively awarded based on a set of eligibility criteria, and generally relate to more formalized programs intended to achieve specific outcomes. Grants are administered through formalized grant programs where Administration selects an applicant based on whether they meet specific eligibility criteria, applicants follow a formal application process, and Administration uses a formal selection process to decide which applicant receives the grant funding.

Examples of grant programs include:

- Affordable Housing (e.g., Affordable Housing Investment Program)
- Community League Infrastructure
- Community and Safety Wellbeing
- Heritage Conservation
- Brownfield Redevelopment

Subsidies

Subsidies are municipal funding arrangements provided to external organizations often in the form of operating support. Under the current Administrative Directive A1460 - Grants and Other City Contributions, subsidies are a type of contribution that do not meet the definition of a grant, sponsorship or rebate. Subsidies are not competitively awarded and as a result the process to provide the funding is more discretionary than grants. Similar to grants, the City offers subsidies to a range of recipients, including boards and commissions (city agencies/external agencies), and for affordable housing initiatives (e.g. shelter and day service supports, Rapid Housing Initiative projects).

One specific form of subsidy funding are subsidies to boards and commissions. This specific form of subsidy funding includes subsidies to boards and commissions such as the Edmonton Public Library, Explore Edmonton, Edmonton Arts Council, Reach Edmonton, GEF (Greater Edmonton Foundation) Seniors Housing, and Edmonton Unlimited. The level of investment for subsidies to boards and commissions can be recommended by Administration (for instance, as part of the recommended 2023-2026 draft operating budget); however, the final determination on the

GRANTS AND SUBSIDIES AUDIT - ADMINISTRATION RESPONSE

desired outcomes and the related scale of the subsidy provided is typically done by Council through its decision making processes.

Guiding documents for grants and subsidies

For all grants and subsidies, the recipients' use of municipal funding must be transparent, accountable, and consistent. These standards ensure that the City's risks are well-managed and that taxpayers receive value for their tax dollars.

All municipal funding to boards and commissions is guided by:

- Administrative Policy A1476 - Municipal Funding Arrangements, which sets guiding principles for developing funding programs and approving funding proposals and agreements; and
- Administrative Directive A1460 - Grants and Other Contributions, which establishes practices for administration of grant programs and other contributions. These procedures ensure accountability, effective oversight, and reporting of outcomes achieved.

Administrative Policy A1476 was approved in March of 2021 and was developed to recognize the many different forms funding allocations can take and was intended to set high level principles for the allocation of municipal funding. Administration intends to replace Administrative Directive A1460 with separate guiding documents on grants, sponsorships, rebates, and donations.

Administration has identified a need to establish different guidance for different funding arrangements, depending on the governance and decision-making authority associated with each agreement. For grant and subsidy programs which fall under the delegated authority of the City Manager, Administration can establish the requirements of the grant or subsidy program, evaluate the outcomes of the programs and make recommendations for any required changes to City Council. For subsidies to boards and commissions, which often relate to funding that City Council directs as part of the budget process, Administration will establish requirements for outcome reporting within agreements that enable the provision of information in a manner that allows Council to evaluate whether the outcomes of the funding have been achieved.

Audit Findings and Recommendations

The timeframe of the audit's review was from 2018 to 2022. Over that time period, the City provided a total of \$811 million in grants and subsidies, the large majority of which were subsidies, totalling \$712 million; grants accounted for the remaining \$99 million of contributions.

The Office of the City Auditor found that the City's governing documents for municipal funding to external organizations align with best practices. Based on these governing documents, municipal funding agreements are drafted between the City and each funding recipient and clarify the allowable use of the funds and the requirements for reporting, including outcome reporting. Governing documents require that all funding to external parties has clearly defined objectives and aligns with the City's strategic plan, stated corporate outcomes, and other approved corporate plans.

GRANTS AND SUBSIDIES AUDIT - ADMINISTRATION RESPONSE

The audit also found that, in practice, not all grants and subsidies complied with the City's governing documents. Some business areas that administer the grant and subsidy funding were not aware of these governing documents or lacked training on how to use them. There was also limited monitoring and reporting on compliance with these governing documents and guidance related to outcome reporting.

The audit resulted in three recommendations for Administration:

- Recommendation 1: That the Financial Services Branch train business areas on the requirements of the grants and subsidies governing documents.
- Recommendation 2: That the Financial Services Branch monitor and report on business areas' compliance with the grants and subsidies governing documents.
- Recommendation 3: That the Financial Services Branch develop guidance for evaluation of and reporting on the outcomes of grant programs and subsidy payments, and monitor and report on the evaluations that business areas conduct.

Administration accepts the Office of the City Auditor's recommendations. Administration will begin implementing the recommendations in 2023 with the following actions, which have an anticipated completion date of Q1 2024:

Clarify Guidance

- Integrate governing documents (Administrative Policies A1476 and 1460) to clarify specific guidance by type of funding arrangement and increase the clarity for internal and external stakeholders.
- Clarify differences between subsidies and grants within the governing documents.
- Elaborate and provide clarity on roles and responsibility related to internal monitoring and compliance of grants and subsidies in accordance with the governing document. This would include shared responsibilities between the Financial Services branch, business areas, and the Legal Services branch.

Develop and Implement Compliance Monitoring

- Develop and implement monitoring activities that will be performed by the Financial Services branch and business areas, as well as reporting to track compliance with the documented requirements of grant programs or funding agreements.
- The governing documents will outline the frequency of the monitoring activities to ensure grants and subsidies are reviewed on a timely basis. This includes ensuring that grant and subsidy agreements are properly developed and designed across the City, considering inclusion of justification for funding amounts, recipient selection and terms, and conditions that align with City strategies and objectives.
- Develop a tracking system of all grants and subsidies to aid in the process of monitoring compliance with governing documents.
- Monitoring activities will include a step to ensure evaluation and reporting on outcomes is completed on a timely basis.
- Develop a process to report on those grants and subsidies that are not in compliance with the requirements provided in the governing documents. For example, this process would provide a means for Administration and Council to understand which organizations have and have not

GRANTS AND SUBSIDIES AUDIT - ADMINISTRATION RESPONSE

met the reporting requirements, including providing outcome reporting, as per the related funding arrangements.

Outcome Reporting

- Establish a framework and guidance to evaluate the outcomes intended to be achieved for grants and subsidies provided to external organizations. This may include standardized reporting provided by external organizations to the City to help assess if the grant program or subsidy payment supports the achievement of the desired City strategy and intended outcomes. Although the governing documents include requirements for grant program and subsidy evaluation and reporting, the City does not currently provide written guidance for how to perform evaluations and prepare reports.
- Establish a process and reporting mechanism on outcomes reporting for grants and subsidies to Council and/or committee.
- Clarify roles and responsibilities related to evaluation and reporting, including who should perform the evaluations, how and when to report on them, and who should be responsible for making future funding decisions based on the outcomes reporting.
- Administration will evaluate whether the recipients of municipal funding have achieved the desired outcome of the grant, subsidy or other municipal funding agreement. This may also lead to recommendations by Administration for continued funding for these grant recipients.
- For the subsidies provided to boards and commissions that are approved by Council as part of the budget process, Administration will provide a framework to support consistent and timely outcome reporting for recipients of these specific subsidies, and will track compliance with funding arrangements. This outcome reporting can then be used by Council to decide on future funding amounts for these organizations.

Training

- Develop ongoing training on governance related to grants and subsidies, that will include:
 - Roles and responsibilities, including for both the City departments managing the grant or subsidy program, as well as the recipients.
 - Walkthrough of governing documents with City staff who are involved in distribution of funds to external organizations.
 - Proper accounting/coding of grants and subsidies.
 - Proper documentation of decisions and justifications for selecting recipients for funding.
 - Requirements of what should be included when developing funding agreements for amounts disbursed to external organizations.
 - Examples of how to review a recipient's compliance with all the terms and conditions of grant programs and subsidy agreements, which will support recipient accountability for achieving the intended outcomes of the funding.

COMMUNITY INSIGHT

Administration understands that the individuals and organizations that are applying for funding have differing levels of experience and comfort with the processes detailed in the report. Some

GRANTS AND SUBSIDIES AUDIT - ADMINISTRATION RESPONSE

have advanced grant application and administration practices, and some are working on developing this capacity. As Administration implements these recommendations, it will be important that the processes are simple, transparent and equitable including the use of plain language and supporting application resources. To help inform this work, the Financial Services branch, in partnership with the business areas that are provisioning and administering funding, will gather input from stakeholders when developing and implementing the process improvements contemplated above.

GBA+

GBA+ will be completed when developing and implementing process improvements for recipients of grants and subsidies who may be impacted by the process improvements. Some of the City's grants and subsidies support equity-seeking groups, who work to identify barriers to equal access, opportunities and resources due to disadvantage and discrimination. The City's Diversity and Inclusion Framework, the Art of Inclusion¹ states that it is important the City's "processes and practices are fair for everyone." This objective will be considered, especially for developing the reporting requirements for groups receiving City grants and subsidies.

¹ edmonton.ca/public-files/assets/document?path=DI_ArtofInclusion_Final.pdf