June 26, 2007

Value-for-Money Audit/ Organizational Review Final Report
Toronto Waterfront Revitalization Corporation

OLIVER WYMAN

Delta Organization & Leadership

Horwath Orenstein LLP

Contents

Tables

Figures


```
┌─────────────┐
│             │
│             │
│             │
│      1      │
│             │
│             │
└─────────────┘
```

Executive Summary

Introduction

The Toronto Waterfront Revitalization Corporation (TWRC or the Corporation) has been created to undertake a comprehensive revitalization of the Toronto waterfront lands for the use and enjoyment of the people of Toronto, while fostering economic growth and re-defining how the City, Province and country are perceived by the world.

TWRC's vision states that the Corporation will work with the community and public and private sector partners to,

> *"…create spectacular waterfront public spaces, cultural institutions and diverse and sustainable commercial and residential communities that offer a high quality of life second to none…"*

The revitalization of Toronto's waterfront provides an excellent opportunity to ensure that Toronto remains among the best places in the world to live, work and visit. Revitalization is seen as a key to the City's future prosperity and Canada's envied standard of living.

Oliver Wyman – Delta Organization & Leadership Limited[1], in partnership with Horwath Orenstein, was engaged by TWRC to conduct a Value-for-Money Audit (VFM Audit or Audit) and Organizational Review (the Review). Oliver Wyman – Delta Organization & Leadership was the overall project lead, responsible for ensuring that the expectations and requirements of TWRC were fully met, while also leading the Organizational Review. Horwath Orenstein led the VFM Audit.

---

[1] On May 9th, 2007 Mercer Delta Organizational Consulting changed its name to Oliver Wyman – Delta Organization & Leadership.

The purpose of the project was:

- To determine the extent to which TWRC has provided value for money in executing its mandate and programs

- To provide the TWRC with the information necessary to assure TWRC that it has the organizational capability to meets its goals and deliver its future programs

The project was divided into two separate work streams: a Value-for-Money Audit and an Organization Review. The work under each stream was coordinated and, where appropriate, integrated. The terms of reference for the project were initially identified in the request for proposal. They were then finalized in consultation with the TWRC Steering Committee and in light of input from representatives of the three governments.

The scope of work for both the Audit and the Review included working with the three governments to get their input and suggestions for change and/or improvement. The scope did not include a detailed review of the capacity or capabilities of the governments, or their agencies, to take on additional responsibilities, especially as they relate to the ongoing delivery of services. It also did not include a review of the existing governance model.

The detailed results of the VFM Audit and Organizational Review, and recommended action, are documented in this report. Key findings and recommendations are summarized below. A complete summary of the recommendations as they relate to each of the areas considered in this project is provided at the end of this report (refer to Appendix A).

Key Findings and Recommendations

In brief, the story is clear. TWRC is seen as providing value-for-money. The existing organizational structure, with some "tweaking", works. There are existing mechanisms and processes, whether led by TWRC, or required by governments, that are undermining the ability of TWRC to successfully deliver on its mandate. And, TWRC needs to work closely with each of its government stakeholders in a manner that meets their specific expectations and requirements.

But there is more to this story. The following highlights our key findings and recommended action.

TWRC is Providing Value-for-Money
Based on the detailed review of the procurement, executive compensation and project management functions and processes of the Corporation, it has been concluded that TWRC is providing value-for-money. It is also recognized that the Corporation is still in the early stages of its development and as a result, a number of its policies, procedures and processes are still evolving.

Having drawn this overall conclusion, there are a number of specific recommendations for improving organizational performance that should be further considered and potentially implemented as described below.

Progress Has Been Made on the Waterfront Yet Expectations are Mounting
There are several notable achievements on the waterfront to date…precinct plans, zoning by-laws, environmental assessments, improvements to the water's edge at John and York Quays, construction of a watercourse facility in the Western Beaches, world-class design competitions, confirmation of funding arrangements…to name only a few. Despite these accomplishments, there are increasing expectations and pressures on TWRC "to do something" especially as it moves more from planning to implementation in the different precincts and other key areas of the waterfront.

There is Overall Support for TWRC's Strategic Direction
The three governments appear to generally support TWRC's overall strategic direction in revitalizing the waterfront, given the approved funding arrangement, the Five and Ten-Year Plan and the recent discussion of strategic priorities by the Board and the governments.

A key challenge to TWRC, and the three governments, in successfully achieving the objectives and outcomes of revitalization are some of the mechanisms and processes that have been introduced to manage the activities of the corporation. One example of this is the contribution agreement process which is described in the VFM Audit "as hindering TWRC's ability to deliver projects". Without changes in areas such as the contribution agreement process, the chances of successful revitalization are significantly reduced (note specific comments and recommendations below on the contribution agreement process).

Attracting Private Sector Investment is a Priority
There is a clear focus and expressed priority by the three governments on generating private sector investment in addition to land development revenues. Private sector investment was described as one of the key reasons for creating the Corporation. It potentially includes, besides the sales of land, such initiatives as public-private partnerships and alternative financing models. TWRC is not seen as making much progress in this area, lacking overall leadership, even though the district energy initiative is viewed as positive step in this regard. TWRC, on the other hand, has suggested that these alternative types of investment might be premature and/or not feasible under the current business model.

It is recommended in this report that TWRC should develop and communicate an explicit strategy, along with establishing a lead organizational accountability, for attracting/ generating private sector investment on the waterfront which goes beyond the sale of lands. This strategy should be reflected in TWRC's overall planning and budgeting process and include a clear definition of what potentially could, or should, be included as part of its private sector investment strategy.

TWRC's has Defined Its Role in Leading the Revitalization
TWRC has described its role as "master developer" which it defines as leading, overseeing and coordinating, with the three governments and their agencies, the planning,

preparation and sale of publicly owned lands for future development. Ultimately, all of this activity is seen as supporting the overall public policy agenda.

Even though the term "master developer" is not actually reflected in the Act governing the Corporation, it's being used as a working definition. It's not intended to understate the important role of TWRC in developing healthy, sustainable communities with parks, affordable housing, cultural and tourism amenities and employment. Rather, it is intended to clarify TWRC's specific role as it works with its key stakeholders, including the development community which will be a key player in the overall revitalization.

It is recommended in this report that TWRC ensure that the three governments, and other key stakeholders, have a common understanding of the intent and implications of the "master developer" role.

Continuing to Focus on, and Improve, the Ongoing Working Relationships with Governments Will Contribute to Faster and More Successful Revitalization
TWRC currently works closely with the three governments and where applicable, their agencies. The working relationships with the secretariats are generally described as supportive and collaborative while recognizing that the level of involvement and engagement with each secretariat may vary. For example, given the regulatory and infrastructure review and approval requirements of the City, and the fact that the City will own, operate and maintain much of the new infrastructure and public spaces developed along the waterfront, it's important that there be ongoing coordination between TWRC and the City. This will ensure that the revitalization activities move forward in a timely, cost effective and integrated manner. It is important that this difference be reflected in planning for, and managing, the ongoing working relationship with the City. Similarly, TWRC needs to work closely with the Provincial secretariat in meeting the Province's specific objectives and timelines given its focus on "relentless implementation" in the West Don Lands and beyond. This could include consideration of the potential of a stronger master developer and land management role for TWRC in future phases of the West Don Lands revitalization, as recently suggested by the Province.

In light of the above, it is recommended in this report that TWRC:

- Proactively manage its ongoing working relationship with the secretariats to ensure that both TWRC and government expectations and requirements are being identified, considered and, to the extent possible, met. This should include confirmation of roles and expected working relationships given that the level of involvement and engagement with each secretariat may vary.

- Provide sufficient organizational capacity to mange the linkages with external stakeholders

- Define a set of operating principles that will guide and facilitate the overall working relationship and interaction with, and between, TWRC and the three governments and their agencies

The Role of the Board Should be Confirmed

The Board has an important role to play in effectively managing government relations. It should build on the productive discussions that are understood to have recently taken place between the TWRC Board and government representatives. As a result, it is recommended in this report that the role of the Board, and the extent of its accountabilities and decision making powers in delivering on TWRC's mandate and the five and ten-year plans, be confirmed in light of the funding and approvals mechanisms currently in place with the three governments.

The Requirements and Implications of the Existing Memoranda of Understanding Need to be Understood and Addressed

The Memoranda of Understanding (MOUs) between TWRC and the Ontario Realty Corporation (ORC) and between TWRC and the City/TEDCO will place significant demands on the TWRC and its stakeholders as the Corporation moves from planning to a much greater focus on implementation and development. As a result, TWRC needs to fully appreciate, and meet, the requirements and obligations under the existing MOUs to ensure that there are no unintended delays in moving forward. A key concern is that if TWRC and its stakeholders do not streamline and rationalize the land development and sale processes, there is a risk that private sector interest and investment will be discouraged. No doubt, this is a negative outcome that TWRC and its government stakeholders wish to avoid.

While respecting the overall intent of each MOU, it is recommended in this report that:

- "Swimlane" diagrams be prepared for each MOU in order to clarify and confirm expectations and requirements, and specifically, who, does what, by when, and to identify non-value add activities that might be eliminated

- The document approval and decision process be streamlined by establishing target timelines for task completion by all participants and adopting an automatic escalation protocol

- Consideration be given to creating a standardized MOU template

Existing Committees and Task Forces Should be Reviewed

TWRC staff are currently involved in multiple committees and taskforces (20+) which are driven by various objectives, requirements and priorities. These committees are placing significant time demands and pressures on TWRC staff, which could potentially distract from the Corporation's primary focus in getting "shovels in the ground". It's not clear how the requirements and expectations of the various committees and task forces are coordinated with TWRC and/or whether or not there is a continuing requirement for all of them.

It is recommended in this report that TWRC's involvement in the various committees and task forces be coordinated and/or consolidated to the extent possible (while recognizing that the MOUs have specific requirements in this regard). This should include consideration of the role, and ongoing need, for a given committee or task force in light of expected future demands and requirements.

The Role of the Intergovernmental Steering Committee Should be Confirmed
The Intergovernmental Steering Committee (IGSC) was originally created with the purpose of advancing the overall waterfront initiative. Its responsibilities include considering and making recommendations to amend the priority projects, making recommendations on the long term structure of the Corporation, and developing and recommending eligibility criteria for projects.

The current role of the IGSC, in terms of its ongoing focus and operations, is not clear. It also appears to be meeting infrequently. It was suggested in the previous Governance Review (2004) that IGSC act as the linking mechanism between the three governments and the Corporation, providing advice not approvals, and that TWRC should be a formal member.

It is recommended in this report that the role of the IGSC be clarified and confirmed, especially as it relates to the coordination of the interface between the secretariats, and TWRC, and that consideration be given to formally including TWRC as part of the Committee's meetings, potentially as a member.

Even Though TWRC is Providing Value-for-Money, There are Opportunities for Improvement
While recognizing that TWRC is providing value-for-money, the Audit outlines a number of specific recommendations to improve the performance of the organization. This includes a particular focus on existing processes and activities which are seen to be delaying the timely advancement of the overall revitalization plan and target objectives.

In this report, it is recommended amongst other things that TWRC:

- Expedite the procurement process through the continued implementation of an organization-wide scheduling system and a master procurement schedule, improved internal coordination and establishing firm timelines and escalation processes

- Improve project management through the implementation of a standard cost system; aligning project cost estimates to the long-term plan; negotiating an operating line of credit; investigating and developing plans to address the underutilization of funds; better managing Eligible Recipients (ERs); and formally closing project files

- Continue to work with all three governments on finding mutually agreeable alternatives to the indemnification clause included in the contribution agreements. As noted in this report, one solution that has proven effective to date is securing approval from the three governments to obtain the appropriate level of insurance in special circumstances and then claiming this expense as an eligible cost.

- Work more effectively within the existing contribution agreement process by changing the focus of the contribution agreements to a project, not phase, level; funding feasibility studies from corporate, not project, costs; submitting contribution agreements well in advance of the project start date; and ensuring that TWRC have sufficient staff available to prepare and monitor the agreements

As noted in this report under "Management Response", TWRC is already taking action on a number of these recommendations. In some cases, there may be specific approvals required from the three governments to undertake certain activities (e.g., negotiating an operating line of credit, raising revenues or creating subsidiaries).

In addition to the Audit, the Organizational Review, which included a detailed review of government linkages and processes, also identified opportunities to improve TWRC's performance in the above areas. Specific recommendations include:

▪ Integrate procurement, where appropriate, with land sales and marketing in order to strengthen the TWRC's ability to attract private sector investment in land development

▪ Clarify accountability for project management and delivery of major projects by establishing a point person to manage the linkages across functional areas and between TWRC and its partners (refer to the "Lead Integrator" role in the recommended organizational design)

▪ Confirm corporate and project-specific priorities and measures as part of the annual planning process

▪ Ensure that as program management is internalized, roles and responsibilities are clearly defined and communicated, including for Eligible Recipients (ERs)

▪ Improve the contribution agreement process by:

– Board members working with their respective governments to actively encourage them to make changes in the process

– TWRC/the governments adopting an automatic escalation protocol in the event of a delay

– TWRC/the governments conducting a detailed review of the existing process with the objective of streamlining where possible

The areas considered above are felt to be critical to the future success of the revitalization effort. However, there is great concern that unless changes are implemented, the TWRC will not be able to fully deliver on its mandate.

It is also recognized that TWRC is not alone in some of the challenges it's facing as a transfer payment recipient. For example, others have expressed concern about the administrative burdens placed on transfer payment recipients which led to the separate review recently conducted by the Federal government.

TWRC should work closely with the governments to conduct a detailed review of each of the above noted areas, in light of the detailed results of the Audit and Organizational Review, to identify and implement improvements. This should include leveraging the experience and best practices of the governments in these areas, where appropriate.

The Existing Organizational Design Can Work
TWRC has designed and implemented an organizational model that is predicated on having a small and experienced senior team working together, drawing on external resources as required, to achieve the overall revitalization objectives. Based on the detailed review of the existing organization, it has been concluded that the current model generally works with some "tweaking", noted below, and that the TWRC should continue to move forward with some form of a matrix organization given the benefits to be derived. Significant re-organization is not called for at this time.

The key changes under the recommended organizational design include the following:

- Project accountabilities are combined with functional accountabilities by establishing a "Lead Integrator" role in order to create a broader focus, perspective and accountability on/for the priority projects identified by the Board while preserving functional/technical expertise. "Lead Integrators" are assigned to specific projects while recognizing that the "leads" could vary over the life of a project.

- Common project management functions and expertise are consolidated under the VP, Construction Management (such as project control and scheduling and contract management and scheduling) to ensure consistency and efficiency across all projects

- All corporate services are clustered under the VP, Corporate Services/CFO to ensure consistency and efficiency in the approach, delivery and management of these services. This includes a dedicated lead for human resources (with dotted line to CEO for strategic plans and initiatives).

- A new role is established in the Office of the CEO which is intended to provide strategic support to the CEO and the organization in the development and integration of corporate/other strategies (e.g., economic development, tourism, revenue attraction) and in initiating/leading other strategic/project opportunities which are critical to the overall revitalization

The Way Forward is Becoming Increasingly Clear
Progress is being made on the waterfront. Priorities are being defined. Action is being taken. The spirit of cooperation appears to be strong.

Clarifying roles, processes and key linkages are part of the normal evolution of a growing organization. TWRC has made significant progress in this regard. Implementing selected changes in key areas of its operation and structure should position it well for future success.

2

Introduction

Purpose of Report

The purpose of this report is to outline the results of the Value-for-Money Audit (VFM Audit or Audit) and Organizational Review (the Review) that were conducted on behalf of the Toronto Waterfront Revitalization Corporation (TWRC or the Corporation). The purpose of the project was:

- To determine the extent to which TWRC has provided value for money in executing its mandate and programs

- To provide the TWRC with the information necessary to assure TWRC that it has the organizational capability to meets its goals and deliver its future programs

The consulting project team consisted of Oliver Wyman – Delta Organization & Leadership and Horwath Orenstein. Oliver Wyman – Delta Organization & Leadership was the overall lead for the project, responsible for ensuring that the expectations and requirements of TWRC were fully met, while also leading the Organizational Review. Horwath Orenstein led the VFM Audit.

The project was completed under the direction of a TWRC Steering Committee, which consisted of members from the existing TWRC Board. The senior management team of TWRC was actively engaged throughout the project.

Terms of Reference

The project was divided into two separate work streams: a Value-for-Money Audit and an Organization Review. The work under each stream was coordinated and, where appropriate, integrated. The terms of reference for the project were initially identified in the request for proposal and then finalized in consultation with the TWRC Steering Committee and in light of input from representatives of the three governments.

The scope of work for both the Audit and the Review included working with the three governments to get their input and suggestions for change and/or improvement. It did not

include a detailed review or analysis of the capacity or capabilities of the governments, or their agencies, to take on additional responsibilities, especially as they relate to the ongoing delivery of services. It also did not include a review of the existing governance model.

The scope for the Organizational Review was expanded during the course of the project to include a detailed review and analysis of the linkages with government and the opportunities for improvement.

There was ongoing coordination between the Audit and the Review. Any recommendations stemming from the Audit that had organizational implications were considered as part of the detailed organizational analysis and in the development of specific recommendations.

Value-for-Money Audit

As outlined in the project terms of reference, the purpose of the Value-for-Money Audit was to ensure that the following goals are attained by TWRC:

- Protection of the Corporation's and hence, the governments' assets

- Effectiveness in achieving the mandate of the Corporation

- Cost efficiency

- Compliance with policies set by the Corporation, and with those agreed to with the three governments

- Revenue/investment generation

In addition, where the Audit identifies areas not meeting the above goals, an identified objective was to ensure that the ensuing organizational review comes up with process improvement recommendations.

The Audit focused on the following areas:

- The procurement process which included specific consideration of the following:

  – The proper allocation of services internally versus externally

  – The appropriate use of competitive procurement versus sole-sourcing

  – The processes used for selecting consultants

  – The degree to which RFP's correctly identify the scope of work required, including an assessment of contract change orders or scope changes

  – The effectiveness of the procurement process post-procurement, including the degree to which deliverables are aligned with requirements

–   The reliability of project cost estimates in relation to the actual costs incurred in producing those deliverables

In the Audit, the last two sub-points regarding post-procurement are discussed in the review of project management (refer below).

▪   The executive compensation process which included the review of the process in light of best practices

The scope for the review of the executive compensation process was refined during the Audit to include identifying processes in place at TWRC to ensure that the Corporation obtained, evaluated and retained the best talent at the executive level and to look at best practices with respect to the involvement of the Corporation's Compensation Committee in supporting these objectives.

▪   The overall project management approach and practices which included specific consideration of the following:

–   The process for creating and approving TWRC business plans

–   The funding model for the TWRC business plan

–   The structure and process of funding the TWRC through contribution agreements

–   The use of Eligible Recipients (ERs)

–   Budget forecasting

–   Scope definition

–   The management of timelines of individual projects

–   Attracting private partners and investment

The Audit covered the period from 2003 to the present. Upon commencement, it was identified that TWRC had many recently implemented processes and newly hired employees. As a result, the Audit focused on the period from January 1, 2006 to November 8, 2006 where information was more available and most relevant.

Organization Review

The terms of reference for the project described TWRC as moving from planning to implementation. It was also stated that in order for TWRC to fulfill its mandate of "revitalization", and not just redevelopment, it would need to enhance or create core competencies in economic development and content programming in a way that leverages and complements existing capabilities in the three governments. As a result, it was indicated that the Organization Review needs to assess the future requirements and current capabilities to provide the Board with an actionable plan for the future that enhances TWRC's ability to deliver.

It was also indicated that the Organizational Review should include a review and recommendations in the area of procurement and project management in light of the VFM Audit and the history of TWRC in this area and the environment under which it must operate.

It was further stated that the recommendations for improvement may apply to the TWRC and its stakeholders and the collective management and process framework.

Approach

The Value-for-Money Audit and the Organizational Review were conducted in parallel with ongoing integration and coordination as appropriate, particularly with regard to the recommendations resulting from the Audit that had specific organizational implications and requirements. The overall approach is outlined in the following diagram. Key steps and activities related to each stream of work are summarized below.

Figure 1: Project Approach
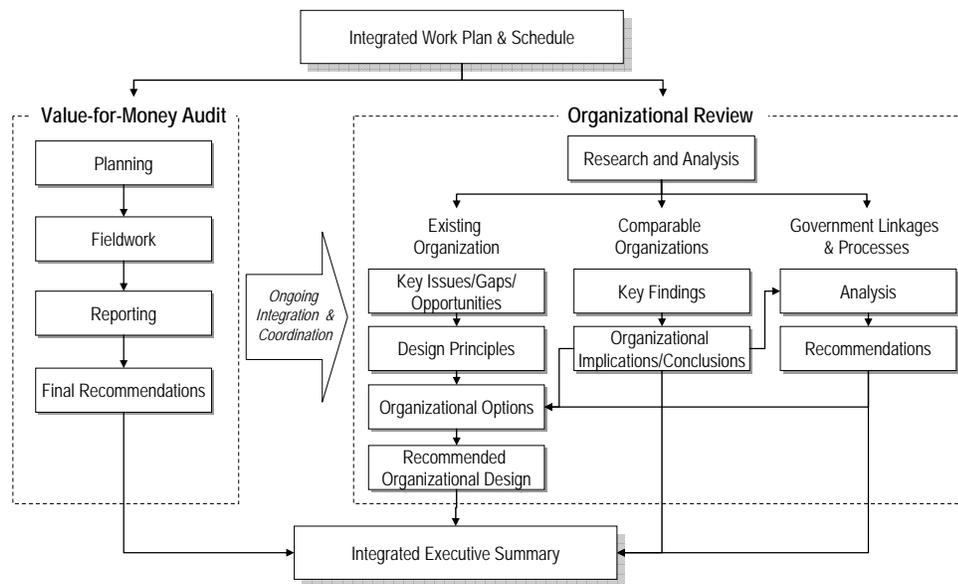
Value-for-Money Audit

The Value-for-Money Audit was designed to examine the following:

- The adequacy of management systems, controls and practices, including those intended to control and safeguard assets, to ensure due regard to economy, efficiency, and effectiveness

- The extent to which resources have been managed with due regard to economy and efficiency

- The extent to which programs, operations or activities of an entity have been effective

The key objectives (economy, efficiency, and effectiveness) are defined as follows:

- **Economy**: The acquisition of the appropriate quality and quantity of financial human and physical resources at the appropriate times and at the lowest cost

- **Efficiency**: The use of financial, human and physical resources such that output is maximized for any given set of resource inputs, or input is minimized for any given quantity and quality of output provided

- **Effectiveness**: The achievement of the objectives or other intended effects of programs, operations or activities

The Audit has been planned, performed, and reported on in accordance with the professional standards for assurance engagements, encompassing value-for-money and compliance, as established by the Canadian Institute of Chartered Accountants.

This value-for-money audit was completed in three phases: planning, fieldwork, and reporting.

Planning Phase

An audit plan was developed which outlines the objectives and scope of the audit, as well as the criteria and procedures to be employed.

- Audit programs were developed that determined the appropriate audit tests and procedures to be performed. Each audit criterion has its own set of audit tests and procedures to determine economy, efficiency and effectiveness, compliance to agreements, and if the audit objectives were met. The planning phase also included:

  – Discussions with key personnel at TWRC and the Steering Committee

  – Discussions with Oliver Wyman – Delta Organization & Leadership

  – Review of relevant documentation, such as current agreements, project status reports, procurement policies, etc.

  – Assessment of audit risk

Fieldwork

The fieldwork phase concentrates on gathering sufficient audit evidence to support any findings regarding the economy, efficiency, and effectiveness of the Corporation.

- The fieldwork for the audit was conducted at TWRC's office. Procedures included:

  – Interviews with key TWRC personnel

  – Interviews with key government officials

  – Interviews with the Board of Directors

– Review of supporting documentation, such as procurement files, contract files, project documentation, budgets, business plans, etc.

– Review of previous assurance and consultant reports prepared in prior periods

– Physical observation of practices at TWRC

Reporting

The reporting phase begins after sufficient audit evidence is gathered. The auditor summarizes all the findings and evidence in report format. There is no set reporting requirement for a value-for-money audit. Reporting requirements vary based on specific situations and nature of entities.

▪ The audit findings were analyzed and the audit report was prepared. The reporting phase included:

– Discussion and analysis with Oliver Wyman – Delta Organization & Leadership

– Completion of audit programs and conclusions prepared on each audit criteria and objective

– Analysis of the findings and formulation of recommendations

– Discussion with key TWRC management on the findings and their response

– Discussion with the TWRC Steering Committee on the findings and their response

– Preparation and presentation of draft and final audit reports

As part of the Audit, three internal audit reports prepared by TWRC's internal auditors, PricewaterhouseCoopers (PWC), were reviewed and relied on:

▪ Contribution Agreement Compliance (April 2006)

▪ Eligible Recipient Procurement – Toronto and Region Conservation Authority (September 2005)

▪ Eligible Recipient Management (May 2005)

Where recommendations in these reports related to the VFM Audit, a follow-up was conducted on the current status of these findings and recommendations and the findings were incorporated into the applicable sections of the Audit.

Organizational Review

The approach to the Organizational Review involved a number of key steps and activities:

- Reviewing background material[2] in order to identify potential organizational implications and/or requirements. This included, in addition to the results of the Value-For-Money Audit, the Annual Report, the Business Plan, the Development Plan and Business Strategy, Contribution/Other Agreements, and the PWC Risk Management Report.

- Conducting interviews with the TWRC Board and staff and the three governments which included:

    – 4 Board Members (including the former acting and current Chair)
    – 10 staff
    – Representatives from the three government secretariats
    – Senior management representatives from each level of government (and members of the Intergovernmental Steering Committee) – Executive Director, Treasury Board of Canada Secretariat; Deputy Minister, Ministry of Public Infrastructure Renewal (PIR); City Manager

- Determining the key issues, gaps and opportunities to be addressed in the development of organizational options

- Identifying and analyzing comparable organizations to determine the common themes, and unique elements, that have enabled these organizations to successfully deliver on their mandates and target outcomes

- Conducting a detailed review and analysis of government accountability requirements and the existing government linkages and processes and developing recommendations to improve these linkages and processes

- Developing a set of organizational design principles which were used to develop and evaluate organizational options

- Conducting a detailed analysis of various organizational options, including the existing organizational structure

- Working with the TWRC Steering Committee and senior management to identify the recommended organizational option, as well as to review and discuss other potential improvements to the overall functioning of the organization

> *The next chapter of the report outlines key elements of the environment in which TWRC currently operates and provides an overview of TWRC's current strategic direction and priorities, as well as some of its key achievements.*

---

[2] A list of documents considered in the Review is outlined in Appendix B.

<div style="border:2px solid black; width:120px; height:120px; text-align:center;">
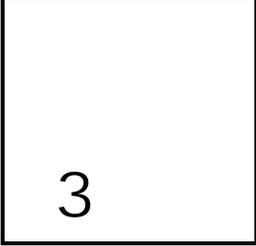
3

</div>

Understanding TWRC's Operating Environment

Background Considerations

The Toronto Waterfront Revitalization Corporation has been created[3] to undertake a comprehensive revitalization of the Toronto waterfront lands for the use and enjoyment of the people of Toronto, while fostering economic growth and re-defining how the City, Province and country are perceived by the world.

TWRC's vision states that the Corporation will work with the community and public and private sector partners to,

> *"…create spectacular waterfront public spaces, cultural institutions and diverse and sustainable commercial and residential communities that offer a high quality of life second to none…"*

The waterfront transformation is expected to span 30 years. TWRC is mandated to oversee an estimated $17 billion in redevelopment over that period.

TWRC was established as an interim corporation in November 2001 by the Government of Canada, the Province of Ontario and the City of Toronto and was operational by February 2002. The Provincial government passed Bill 151, the TWRC Act, in December 2002, creating a permanent, independent corporation governed by a Board of Directors composed of representatives appointed by all three governments.

TWRC has grown during the past five years from one employee to more than 30 employees. It's currently in the process of increasing its staff to over 60 employees (targeted for completion by March 31st, 2007) as it moves project management in-house and prepares for increased activity related to the development of the West Don Lands, East Bayfront and Central Waterfront Public Realm.

---

[3] TWRC's existing mandate, mission and vision are outlined in Appendix C.

The scope of TWRC's mandate is immense, covering over 2000 acres of land on the Toronto waterfront. It represents one of the largest waterfront revitalization projects in the world. By comparison, the Canary Wharf development in London, England covers approximately 97 acres.

Business and Operating Context

The City of Toronto's Central Waterfront Secondary Plan sets out the specific land use and development policies that apply to all areas of the waterfront. The report from the Toronto Waterfront Revitalization Task Force, "Our Toronto Waterfront" and the City's report, "Making Waves", outline the broad overall objectives for the waterfront. TWRC's Business Plan and Development Strategy and the Five-Year Forecast and Ten-Year Plan 2006-2015 set out the financial and development assumptions, as well as specific objectives and priorities. The Board is currently working with the three governments in reviewing its strategic priorities for 2007-2008.

There are various other reports that have also defined the future direction, focus and operations of the waterfront and TWRC. These include the precinct plans for West Don Lands and East Bayfront and the Memoranda of Understanding (MOUs) with the Province/ORC and the City/TEDCO.

TWRC has also defined its role, and therefore the specific value that it is expected to add to the waterfront, as that of a "master developer" which means leading, overseeing and coordinating, with the governments and their agencies, the planning, preparation and sale of publicly owned lands for future development. The TWRC sees this role as ultimately being carried out in support of the overall public policy agenda.

It is understood that the focus of TWRC is shifting from one of planning to a greater focus on implementation. The design of the organization during the planning stage enabled a strong focus on the all of the functions and elements required to meet the short term organizational objectives (e.g., creating the precinct plans). At the same time, TWRC was working with the various stakeholders to introduce systems and structures to effectively manage the business of the organization. Moving to implementation, where the primary emphasis is on creating value through the development and sale of land, increases the need for development expertise, while potentially changing some of the demands and expectations on other areas of the organization.

It is also important to not lose sight of what TWRC has accomplished to date…precinct plans, zoning by-laws, environmental assessments, improvements to the water's edge at John and York Quays, construction of a watercourse facility in the Western Beaches, world-class design competitions…to name only a few. In the 2005-06 Business Plan TWRC indicated that it would start delivering the kind of results the public expects from revitalization such as major parks and recreational facilities, waterside destinations and new sustainable, downtown communities that are affordable for everyone. This project is intended to build on this success while ultimately providing an organizational design that will enable TWRC to successfully meet its goals and objectives in the future.

Another key accomplishment of the Corporation has been working with all three governments to plan out the details of much of the $1.5 billion funding committed to Toronto's Waterfront. When combined with the plan to raise an additional $0.3 billion through land sales, it brings the total funding to $1.8 billion. TWRC has secured, through detailed contribution agreements, approximately 30% of this commitment. It is also currently overseeing the planning, design and construction of over 20 projects.

Figure 2: Project Status by Tri-Government Investment

*Total Funding Allocation per Long Term Plan: $1.8 Billion

Unallocated
13.2%

Completed
2.3%

Not Started
11.3%

Indefinitely On-
hold
11.5%

In-progress
61.5%

Temporarily On-
hold
0.1%
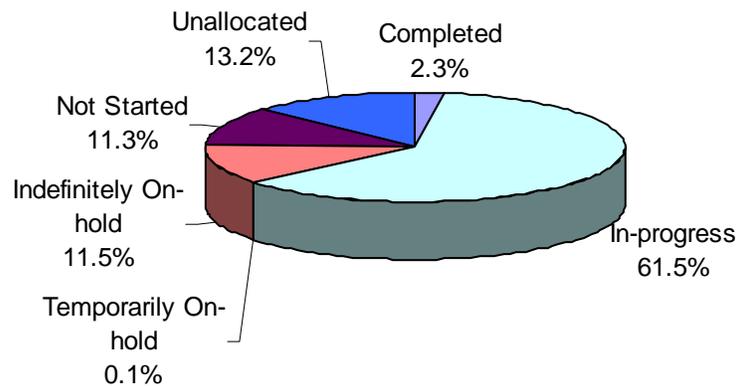
Without reviewing and confirming the status of every recommendation outlined in the original Governance Review[4], it appears that the three governments generally support TWRC's overall strategic direction in revitalizing the waterfront. Evidence of this includes approved funding arrangement, the five and ten-year plans and the recent discussion of strategic priorities by the Board and the governments[5]. However, a key challenge appears to centre around execution and the mechanisms and processes that have been introduced to manage the activities of TWRC (e.g., contribution agreement process). Specific recommendations to address these challenges have been made in both the VFM Audit and the Organizational Review.

TWRC's Stage in Enterprise Life Cycle

TWRC is currently expanding its core business from planning and smaller scale project management to implementation and development. As the Corporation continues to grow and expand, its strategic direction, organizational design and government linkages and processes become increasingly important.

---

[4] Refer to report entitled "Review of Alternative Governance Structures and Delivery Models" (September, 2004)

[5] The Federal government has noted that although it has indicated its willingness to confer increased operational powers on the TWRC on an incremental basis, it didn't formally respond to the 2004 Governance report and has not endorsed the recommended "empowered corporation" model.

The present timing of this project provides an opportunity to consider TWRC's approach and experience to date and implement changes that will improve its overall functioning. At the same time, it should be recognized that TWRC is still in the early stages of its development as a fully functional organization and as a result, a number of its policies, procedures and processes are still evolving. The recommendations outlined in this report are intended to support TWRC in successfully moving forward.

The next chapter of the report outlines the detailed results of the value-for-money audit, including recommended actions and management's response to these recommendations.
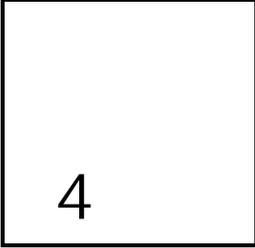
4

Value-for-Money Audit

Introduction

The purpose of the VFM Audit was to determine the extent to which TWRC has provided value for money in executing its mandate and programs. The Audit focused on three areas:

- Procurement Process

- Executive Compensation Process

- Overall Project Management Approach and Practices End-to-End

The Audit was originally intended to cover the period from 2003 to the present. However, upon commencement of the Audit, it was indicated that TWRC had recently implemented new processes and hired new staff. As a result, it was decided that the Audit would generally focus on the period from January 1, 2006 to November 8, 2006 where information was more available and most relevant. The completion of some procedures did require the Audit to go back to 2003 and that previous audit reports be considered.

The detailed analysis of each area, and recommended action, are presented in this chapter of the report. Management's response to the recommended action is also included.

As noted earlier, Horwath Orenstein led the VFM Audit. Recommendations that had specific organizational implications and requirements were further considered in the Organizational Review. All of the recommendations that were identified in the Audit are summarized in Appendix A, along with the recommendations identified in the Organizational Review.

Procurement Process

Introduction

The review and comments on TWRC's procurement processes have been broken out into the following areas in this report:

1. Planning and Scheduling

2. Timing and Tracking

3. Procurement Volume

4. Sole-sourcing

5. Services provided internally versus externally

6. Change orders

TWRC's procurement department is responsible for procurement administration and was historically responsible for the contract administration functions of the Corporation. Its primary goal is to ensure that TWRC has ready access to those services and supplies required to carry out its mandate. The department is responsible for ensuring that the procurement of services and supplies is done in an open and transparent manner and through the development of contracting arrangements that leverage the best value from vendors. Strategically, the department is concerned with optimizing product costs, simplifying transactions, streamlining processes and managing consumption within the context of complying with the three governments' procurement policies for fairness, openness and transparency as required by TWRC's contribution agreements with the governments.

The procurement director, hired in January 2006, has already established several improvements related to policy and procedures. These include the development and approval of a new procurement policy to guide the Corporation's activities in this area, which came into effect on April 1, 2006; development of a Procurement Tracking Schedule, implemented in February 2006, to better plan and track the status of the Corporations procurement needs thereby ensuring that services and supplies are available to the Corporation when they are needed; and the creation of a Procurement Checklist, in August 2006, to confirm the proper completion of all aspects of the procurement process. Our audit scope focused on these new policies and procedures and their implementation up to November 8, 2006.

The Audit identified many accomplishments in TWRC's procurement practices, these include:

- Well-structured policy and procedures are in place and are followed

- Key personnel have been hired

- A strategic focus on

    – optimizing costs

    – simplifying transactions

    – streamlining the process

    – managing consumption

- A procurement tracking schedule has been created by the Department to support the better management of the procurement function

- A reasonable mix of internal and external resources have been used by the Department to support the growth in the Corporations activities

The Audit also identified a number of areas in the procurement process that are not under TWRC or the procurement department's control. Securing funding of the Corporation's activities through the mechanism of contribution agreements often result in project delays. These delays have a particularly notable impact on the procurement department, since confirmation of funding often governs when procurement may be initiated, and the timing of such confirmation is generally unpredictable. Project Management resources have not always been adequate to define procurement scopes on a timely basis.

Overall, the Corporation's procurement practices were found to have provided value-for-money. Proactive improvements have been made. However, some areas have been identified to increase the value-for-money provided by TWRC.

1. Planning and Scheduling

The project planning process, which is the responsibility of project managers in consultation with the vice-presidents, and the procurement process are closely intertwined. Delayed procurements have the potential to delay their respective projects, while project delays (caused by a variety of factors both within and more often outside the TWRC's control) have the potential to delay procurements.

To be effective, the procurement department must be provided with the appropriate information to control the process of procuring goods/services/construction. Our observations indicate that this has been a challenge to TWRC. To respond to this challenge, the director of the procurement department created a spreadsheet schedule to track procurements needed throughout the year. This schedule was then verified through weekly meetings held with the project manager and vice-presidents. We believe this is an excellent system for updating the schedule and enabling the department to receive timely information and better plan to meet upcoming procurement needs. However, the weekly meetings have since moved to a monthly basis thereby leaving the procurement department with less of an opportunity to receive timely, formal input into their procurement tracking schedule.

In addition to scheduling input, decisions as to what work is to be included in a procurement must be finalized by the vice-presidents and extensive data must be compiled by the project manager in order for the procurement documents to be prepared. With respect to procurement of professional and similar services for assignments of average size and complexity, this input is needed approximately six weeks in advance of the scheduled document issue date to ensure enough time is available to:

- Establish the appropriate scope and budget of the procurement

- Prepare the Request for Proposal (RFP) or other form of procurement document

- Complete internal and external document reviews.

The table on the next page summarizes examples of mis-alignment between the information in the procurement tracking schedule dated November 8, 2006 and the TWRC's readiness to undertake the specific procurements listed. The table exemplifies how the procurement department is affected by other areas of the organization, such as project management functions and funding, in delivering its mandate.

The procurement tracking schedule is designed to list when procurement document planning input information is due (Input Due Date) and when the procurement document should be ready to be issued (Issue Date). The procurement schedule further lists the status of the input received to date, to determine how far along the procurement document is in the process (Input Status). Based on the analysis, we integrated the effect of the contribution agreement (CA) status into the table. This column indicates whether a contribution agreement exists or not for the particular project. Of note, services cannot be procured if a contribution agreement is not executed.

In our sample, five of ten planned procurements had been delayed owing to a delay in executing the respective contribution agreement (see Contribution Agreement section below for additional comments); however documents for four of these five procurements were being prepared ahead of obtaining contribution agreement approval. This is a proactive approach to planning and meeting timelines.

The five remaining procurements had a contribution agreement in place, but the corresponding procurement documents had not been issued for varying reasons.

Table 1: Misalignment on Projects

Issue Week	Issue Date	Input Due Week	Input Due Date	Project	Input Status	CA Status
45	Nov 6/06	41	Oct 13/06	East Bayfront RA/RM Plan	Overdue	Not Executed
45	Nov 6/06	41	Oct 13/06	West Don District 1 & 3 Public Realm Design	90% rec'd	Executed
45	Nov 6/06	41	Oct 13/06	Canada Square Feasibility	90% rec'd	Executed
46	Nov 13/06	42	Oct 20/06	West Don District 1 & 3 Infrastructure Design	90% rec'd	Executed
46	Nov 13/06	42	Oct 20/06	District Energy Engineering RFP	90% rec'd	Not Executed
46	Nov 13/06	42	Oct 20/06	Sherbourne Park Design RFP	90% rec'd	Not Executed
47	Nov 20/06	43	Oct 27/06	Lake Ontario Park RA/RM Plan	Overdue	Executed
47	Nov 20/06	43	Oct 27/06	Central Waterfront Land Survey	Overdue	Not Executed
47	Nov 20/06	43	Oct 27/06	Central Waterfront EA	Overdue	Not Executed
47	Nov 20/06	43	Oct 27/06	Unwin Avenue Extension Infrastructure EA	90% rec'd	Executed

Week 48 and onwards also show input is overdue for all procurement documents. This issue has been compounding and will continue to do so into 2007, as RFPs are not issued and become delayed in the process. (See Procurement Timing and Tracking and Procurement Volume sections below for additional comments).

A contributing factor to the above issues is that there is no integrated organization wide scheduling system of all project timelines, including procurement timelines, available for the procurement department to use in their planning. A master project schedule was not created as TWRC treated each project independently. TWRC did not previously have the software and the staff resources to create this schedule. To help address this, TWRC has recently created a Program Controls and Risk Management department charged with implementing an organization-wide scheduling system. This will provide the Procurement department with the necessary customized procurement tracking schedule.

Based on the above, procurement does not have all of the information it needs to properly plan and execute the procuring of goods/services/construction. In addition, in some instances, the department receives short notice on procurement needs and then is responsible for creating a procurement document as fast as it can. While no examples were found of ineffective procurements as a direct result of these tight timeframes, we are concerned that insufficient turnaround time could result in an ineffective procurement document for complex services and ultimately cause change orders (see below for change order discussion). This would impact resources and the procurement department's ability to service and deliver on a timely basis. The procurement department must allow

sufficient time for procurement document development and review, submission preparation and receipt, evaluation of submissions and contract execution, including negotiation of terms where necessary. (See Timing and Tracking section below).

Historically, the procurement department has been reactive instead of structuring the process. Intuitively this impacts the cost of the process, both internally and potentially externally. Costs increase internally as the process becomes inefficient. Inefficiencies are created when the procurement department must react to unpredictable schedules or is not given sufficient advance notice of changing needs. Externally, vendor bids could potentially increase if scope definitions and procurement levels are not defined properly. A proactive approach would allow the procurement department to build in timelines to obtain appropriate information for the documents being created and manage resources for when there are known deadlines that require additional attention at any given point in time.

The lack of timely, coordinated information input from other departments in TWRC is affecting the ability of the procurement department to deliver services in an efficient, effective and economical manner.

Recommendations

- TWRC should continue with the implementation of the organization-wide scheduling system that is currently being worked on by the Program Controls and Risk Management department to better manage all aspects of its projects including the procurement of professional/construction/other services required on these projects.

- A master procurement schedule, showing the target dates for procurement-related activities and the actual progress achieved, should be generated by the organization-wide scheduling system to serve as a communication tool for future procurement planning with project managers and subsequent progress tracking

- The procurement and program controls and risk management departments should hold weekly meetings with project managers and the vice-presidents to verify all procurement needs and ensure that they are integrated into the master schedule

- All future project procurement requests should be initiated through the master procurement schedule. The timing of both the procurement department's activities and the development of document content by others should be driven from this schedule.

- The procurement department should create a list of minimum requirements that need to be covered in the procurement process from staff requesting the services to ensure that all necessary information is gathered on a timely basis

Benefits of Implementing Recommendations

- A master work procurement schedule will help ensure deadlines are met by providing a central document to track data and procurement issuance dates

- Accurate procurement input data will save both the procurement departments' and other departments' time and money. This will eliminate excessive back and forth editing and ensure vendors have sufficient information to bid on the work to be performed.

- The procurement process will be streamlined, resulting in deadlines being met and projects more likely to be completed on time and without change orders

Management Response

TWRC concurs with the concern that inadequate scope definition is a significant root cause of change orders and increased contract costs. TWRC has, in fact, delayed release of procurement documents in order to ensure that the proper project scope is in place. TWRC agrees with the recommendations of the Audit to improve the planning and scheduling of the procurement activities of the Corporation and will continue with its plan to implement an organization-wide scheduling system to further enhance its ability to ensure procurement services are delivered on time and in an efficient manner.

TWRC will ensure that all relevant information is included in its new organization-wide scheduling system and that it is continuously verified through review and discussions with its project managers. In addition, customized reports will be developed and generated to support the various needs of stakeholders involved in the Corporation's projects including the specific needs of procurement and the program control and risk management departments and a list of standard information needs for successful procurements will be developed and implemented to help ensure the completeness and timeliness of the procurement process.

Bi-weekly operations meetings, involving project management, project controls, and procurement staff, have been instituted by TWRC. The agenda for these meetings includes discussion of both project scheduling (inclusive of procurement scheduling) and procurement matters.

2. Timing and Tracking

The procurement department's policies and procedures are designed to reduce the number of activities required in the process and the time required to complete these activities.

TWRC does not monitor and track the time it takes to complete activities in the procurement process. For purposes of our audit we asked the procurement department to estimate what they believed was the average time it took to complete certain activities. We then analyzed these activities and the averages for reasonableness.

Procurement Document

Procurement receives scope definition, technical information, and detailed submission content requirements to incorporate in the procurement documents (Request for Qualifications, RFPs, and Tenders) from project managers and/or vice-presidents. The quality of this information is dependent upon the amount and quality of project planning

(scope definition, cost estimating, etc.) undertaken prior to developing the procurement documents. (See Project Management section for detailed discussion of these areas).

Preparation of the procurement document is an iterative process; multiple drafts are typically prepared as comments from various internal and external stakeholders are reviewed and addressed. We have been advised that on average, it takes approximately one month for project managers to prepare the data and two weeks for the procurement department to finalize and assemble the procurement document and obtain the necessary sign-offs (approximately 30 business days in total).

Submission Period

We found the RFP submission procurement area to be effective. The process is structured and allows for a standard time to be allocated for most procurement. The estimated average activity time is 20 business days.

The procurement document is released to the public with a set response date, usually providing one month's time for bidders to prepare and submit proposals. During this time, briefing meetings are held, evaluation teams are identified, and the procurement department answers questions and issues addendums as necessary.

Completeness Check

With minor exceptions, the completeness checks are performed satisfactorily.

When the submissions have been received, a completeness check is performed. This check determines if the submission meets all of the mandatory requirements as set out by the procurement document. The estimated average time for this activity is approximately two business days.

This activity is a very important one to ensure responses have met mandatory requirements. It should be completed within two business days of the receipt of submissions.

Evaluation

With only one exception noted, the evaluation of submissions is performed satisfactorily. Documentation of the evaluation process contained in the procurement files is adequate and appropriate for selecting consultants however, formal notification documentation is not included in the file.

The submissions that meet the completeness check are forwarded to the evaluation team to be scored. This includes both technical and financial scoring, where applicable, and may include an interview component. The estimated time for this activity is between five and 25 business days, depending upon the complexity of the assignment, the composition of the evaluation team, and the number of proponents to be interviewed.

We found one example where the evaluation activities took longer than the estimated maximum.

We also found that formal notification documentation, such as letters or emails, sent to successful and unsuccessful bidders are not included in the file. This documentation should be included in the files to ensure the process is open, fair and transparent.

Draft and Signing of Contract

Our review of RFP files found that the drafting and signing of contracts has been satisfactory. However, based on interviews performed we have found that this area could be one where significant delays may happen in the future. (See Indemnity section below for additional comments.)

Once the successful proponent has been notified, the contract is drafted and sent out to be signed by all parties. The estimated average time for this activity is 25 business days.

We have been advised that TWRC has experienced delays when attempting to finalize and execute certain recent contracts. As TWRC procures detailed design and construction services, it is meeting with increased concern over certain standard contract terms, included for reasons of compliance with contribution agreements. We see two impacts. On one hand, the project can be delayed, as work is not started until the contract is signed. On the other hand, work may begin while the negotiations are ongoing, with contract execution taking place after the fact. The second impact, if it were to happen, could have immense consequences if certain health, safety or other issues arise on construction sites. Although we are not aware of any such occurrences, the potential of such incidents should be considered.

Table 2: Comparison of Contract Start and Execution Dates

Procurement ID	Procurement Name	Successful Proponent	Contract #	Contract Date	Start Date
05/06-35	Corporate Tax Services	PricewaterhouseCoopers	188	05/05/06	03/20/06
06/07-14	Central Waterfront Design Competition	West8 - DTAH	198	N/A	06/02/06
05/06-40	Financial Model Review	KPMG	203	05/19/06	05/08/06
06/07-15	External Audit	Deloitte and Touche	227	N/A	06/30/06
06/07-15	Internal Audit	PricewaterhouseCoopers	234	10/23/07	08/04/06
06/07-11	Value-for-money Audit and Organizational Review	Oliver Wyman – Delta Organization & Leadership	262	11/07/06	09/27/06

The above chart documents the instances where work was performed (Start Date) in advance of contract execution (Contract Date). These contracts are for professional services and similar work.

Procurement Process – Overall Timing

Regarding overall timing, we suggest that the TWRC can become more efficient by implementing vendors of record (VOR) and standing offers to pre-qualify service providers and consolidate multiple smaller procurements for similar ranges of services.

The procurement department estimates it takes approximately 20 weeks to complete a procurement project. We noted the actual time spent, excluding procurement document preparation time, (since we could not compare any times to actual) is approximately 14 weeks. When the estimated averages are compared to our testing, all files are below that benchmark. We understand that each procurement project has unique features that make it difficult to plan and estimate timing. However, we believe that the activities in the process should have reasonable standard times allocated to them and the above time frame can be shortened.

The procurement policies and procedures manual allows TWRC to either establish its own VOR list or use VOR lists established by its stakeholders. TWRC has not used these techniques extensively in the past as its contracted program management team was also able to provide a wide range of specialized services that would otherwise have had to be individually procured.

We believe, based on our own experience, TWRC could improve the caliber of invitation lists, reduce the number of RFQs required and shorten the length of RFPs by using VORs and Standing Offers.

Tracking

The procurement department is experiencing difficulty managing the timing and volume of procurement demands.

In August 2006, a procurement checklist was developed. The checklist is detailed and outlines the required procedures in the procurement process. The checklist requires sign-off initials when each procedure is completed. However, the checklist does not provide a field for sign-off date when the procedure is completed. In the review of RFP files, we did not see this checklist in use. The Procurement Checklist is a good tool to use and the effort to create it should not be wasted. Not using the checklist could result in procedures being missed and not completed which could impact the transparency of the process. Tracking time may help to more accurately identify process bottlenecks.

Timing is not tracked, as there are limited resources and staff. Procurement process flow charts and procedures do not exist. Procurement has not determined typical time ranges for certain areas of the process to be completed and this impacts procurement planning. By not evaluating the process, improvements cannot be made to increase the economy, efficiency and effectiveness of the process.

Recommendations

Procurement should make process improvements that will streamline their activities and reduce the amount of time required to prepare the average procurement document. The following items are seen as areas of potential improvement to the process:

- The project managers and vice-presidents must provide detailed work scopes and budgets to the Procurement department on a timely basis to support preparation of the procurement document

- A procedural requirement should be implemented to have the completeness check on proposal submissions performed no later than two days after submissions are received. This should be monitored through the procurement checklist.

- A procedural requirement should be implemented to have the evaluation performed no later than, for example, 15 business days after submissions are received. This would provide ample time for the evaluation committee to mark both technical and financial content and to conduct interviews, if necessary. This should be monitored through the procurement checklist.

- A procedural requirement of, for example, 15 business days should be implemented to have the contract drafted and signed, unless further negotiation is required. The department uses contract templates, which is a great tool in reducing the time required to sign a contract.

- Work should not begin before a contract is signed

- In order to improve times, the department needs to track times. A field for sign-off date should be included on the procurement checklist for each procurement document to be tracked through the system. The data obtained from the checklist will be beneficial for planning procurement schedules and timelines.

- The requirement for the procurement checklist should be added to the policies and procedures manual to ensure it is included in each procurement file

- VORs should be created by TWRC to shorten procurement activities and times. A procedural requirement should be implemented to encourage the use of the VOR lists whenever possible and appropriate.

- All evaluation decisions and communications should be made formally and documented in the procurement files

Benefits of Implementing Recommendations

- Monitoring the duration of procurement activity, the master procurement schedule and procurement checklist will allow for analysis to be performed and ultimately create opportunities for time savings, enable better tracking and greater levels of transparency

- Establishing and/or using a VOR list will save time and money when procuring services. In effect, TWRC won't have to "reinvent the wheel" each time they procure to find qualified vendors for routine services.

- Reducing time to process a procurement document will allow the department to service other areas of TWRC better by meeting their needs of quality and timely documents and ensure there are no delays to projects because of Procurement

- Having a contract in place prior to commencement of work by any vendor will reduce any potential risks to TWRC

- Ensuring adequate documentation is kept in procurement files will ensure the process is open, fair, and transparent

Management Response

TWRC agrees with the recommendations of the audit and is presently developing procurement documents for vendors of record and standing offers as part of its transition plan of moving the project management function in-house.

As the Corporation brings the program management function in-house, it has recognized and scheduled the need for over 15 vendors of record or standing offers to be in place by the end of March 31st, 2007. It has hired an additional procurement manager and external consultants to increase procurement resources to ensure this deadline is met.

TWRC agrees with the recommendations to fully implement the use of its developed procurement checklist and to track the time required to complete various procurement activities so that it can continuously monitor the quality and timeliness of its procurement processes. TWRC will also implement procedures to ensure that all evaluation decisions and communications are maintained in its procurement files.

3. Procurement Volume

The procurement department should have the resources available to serve and deliver the mandates set forth by the TWRC. Procurement is having difficulty managing the timing and volume of the corporation's procurement demands.

In the most recent period from January 1 to November 8, 2006, TWRC competitively procured approximately 35 purchases or services (90 contracts were executed during the year). This equates to almost one procurement document per week. During this time, the procurement department had four employees: a director, manager, administrator, and a contract specialist.

Figure 3: Number and Total Value of Contracts by Start Date
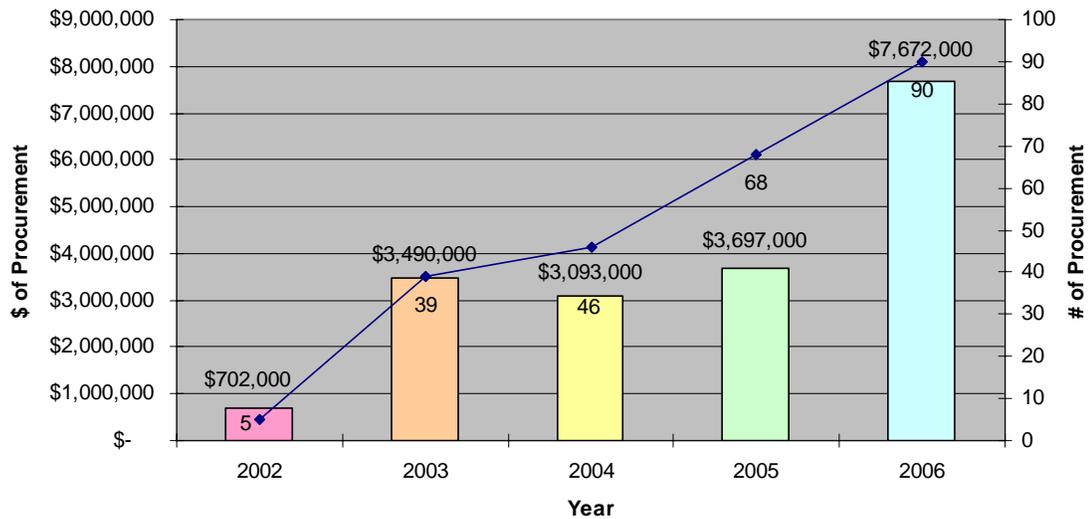
The procurement department plans to issue a large number of procurements in the next couple of months and into 2007. Of significance are 10 procurements during the week of November 27, 2006 and 15 procurements and/or standing offers during the week of December 4, 2006. Other weeks have an average of three to four procurements planned to be issued, for a total of 44 procurements to be issued by the end of 2006. Based on the current staffing level in the procurement department it would be difficult to complete the scheduled procurement documents in the timeframe identified considering the process timings highlighted in the prior section.

The following are a selected sample of the procurements that are scheduled to be issued:

- To be issued Week 48 (starting November 27, 2006)

  – East Bayfront Phase 1 Infrastructure and Public Realm Design

  – Martin Goodman Trail Port Lands Construction

  – Interim Sports Field Construction RFQ

  – Leslie Street Phase 2 Construction

- To be issued Week 49 (starting December 4, 2006)

  – Pier 27 Design RFQ

  – Architectural Design Standing Offer

  – Construction Management Standing Offer

  – Land Surveying Standing Offer

- – Structural Engineering Standing Offer

- To be issued Week 50 (starting December 11, 2006)

    - – Soil Manager RFQ

    - – Health and Safety RFQ

    - – District Energy Architect RFP

    - – Don River Park Construction RFQ

The procurements listed above were not issued in the time frames indicated in the procurement schedule. Only one delayed procurement, (East Bayfront Phase 1 Infrastructure and Public Realm Design), was on the critical path of its respective project. Although this particular procurement was in turn delayed by an external cause (unexecuted contribution agreement due to proposal revisions), there is potential for a procurement delay to be the root cause of a project delay. The delay in issuing the standing offers listed above could affect TWRC's ability to obtain a short-list of vendors when the Corporation is ready to proceed on various projects. The purpose of standing offers is to shorten the procurement process, have a list of pre-qualified vendors available for quick response times, reduce costs and achieve best value-for-money.

Recommendations

- The procurement department should ensure their schedule reflects current project requirements by consulting with the appropriate TWRC departments. If the timelines in the schedule are accurate, they must prioritize procurements, hire additional staff and correct inefficiencies in the processes identified above as soon as possible.

Benefits of Implementing Recommendations

- Correcting inefficiencies now, will result in a more streamlined process. Without additional staff and improved processes, there will be too many procurement documents to be processed in an effective manner and the current system will become overrun (assuming volume will remain the same or increase).

Management Response

TWRC has already recognized the need for additional staff in the procurement area to deal with its expected increase in project activities as it moves into the construction stage of its mandate and the need for additional services required at this time to support its transition of the project management function in-house.

In December 2006, the Corporation hired an additional procurement manager and contracted additional help externally to respond to the amount of work envisioned in the procurement area. In January 2007, a new contract specialist was hired to replace the previous contract specialist who had transferred to the construction department of the Corporation. In January 2007, the Corporation also contracted further additional help to

manage the increase in the procurement activities associated with phasing out the contracted program management team.

TWRC has also contracted two part-time procurement specialists to support the temporary need for additional procurements required in supporting the transition of the project management function in-house.

TWRC will closely monitor the procurement activities and resource requirements over the next three months to ensure that it can maintain its ability to provide quality procurement services.

4. Use of Sole-Sourcing

While strong efforts have been made to eliminate sole-sourcing, there are circumstances where it has continued, particularly in situations where there was no alternative vendor. TWRC has worked to reduce the level of sole-sourced contracts awarded for goods and services where alternative vendors exist.

TWRC's procurement policy and procedures addresses sole-sourcing by providing for limited exemptions to competitively procuring goods and services. For example, Section 3 of the policy and procedures reserves the right to offer a contract to a sole supplier in certain extraordinary circumstances. Internal policy requires a competitive process for procurements over $25,000. This is more stringent than typical best practices in the public sector for most services. Contribution agreements require competitive bids for anything over $75,000.

We have organized the following discussion into two sections. The first section discusses sole-sourced contracts where it was determined that there was 'no alternative available'. The second section deals with sole-sourced contracts where there was an 'alternative available'.

"No Alternative Available"

In 2006, the TWRC used Section 3 of their internal policy to exempt five contracts from tendering. The total of these five contracts is approximately $530,000, which approximates to 6.5% of total contracts entered into in 2006. These five sole-sourced contracts are described as follows:

- Toronto Police Services, contract #233, value of $263,279. These services were required for the road closures at the Quay to the City event. The services were sole-sourced because there were no legally permissible substitutes, as the Toronto Police were required to perform these services.

- Toronto Hydro, contract #175, value of $93,482. These services were required for the removal and relocation of hydro poles, lines and equipment in the West Don Lands. The services were sole-sourced since there were no available substitutes, as other companies are not permitted to move Toronto Hydro property

- Harbourfront Centre, contract #211, value of $89,073. The Harbourfront Centre provided services for the Quay to the City event that took place on Harbourfront property. The services were sole-sourced since there were no available substitutes as the events used Harbourfront facilities.

- Treasurer, City of Toronto, no contract #, value of $33,300. These services were required to supply, install and remove advisory signs for temporary road closures in the West Don Lands. The services were sole-sourced since there were no available substitutes as the City is required to control road closure signs.

- CBS Outdoor Canada, contract #249, value of $50,900. CBS Outdoor has the exclusive arrangement with the Toronto Transit Commission (TTC) for streetcar and other TTC property advertising. TWRC purchased services and advertising space on streetcars to promote the Quay to the City event.

These five sole-sourced procurements could not be competitively run since there are no alternative companies providing the required services. For this type of sole-sourcing, the Government of Canada has recommended that TWRC place a "Pre-Solicitation Notice" on MERX website. Publishing this document would meet the criteria of the process being open, fair and transparent. This recommendation is consistent with public sector best practices. TWRC has not implemented this recommendation as of the date of this audit.

"Alternatives Available"

TWRC entered into one contract during 2006 that could have been competitively procured, as there were potential alternative vendors available to provide the services required. The Corporation contracted with Hutchison Management International, contract #183, for a value of $168,500. This company has been working with the TWRC on the Intelligent Community project, and was contracted to continue with the implementation of the plan previously developed by Hutchison. These services were sole-sourced for reasons of continuity and for the specific expertise and contacts that the supplier had with respect to the implementation of broadband technology. Subsequent to this contract, the principal of the company has been hired as a part-time employee of TWRC.

Based on TWRC policies and procedures, this contract should have been competitively procured. However, TWRC built a strong business case on why they proceeded to obtain this service based on specific circumstances.

Sole-Sourcing Comparatives by Period

The chart below illustrates a comparison of sole-sourcing levels by period. Overall, sole-sourced procurement decreased in 2005 and 2006 compared to 2001 through 2004. On closer inspection of 2006, TWRC is reducing its exposure to sole-sourcing contracts where there are alternatives.

Also, the increase in sole-source contracts where there were no alternatives increased mainly due to the Quay to the City event completed in the year. The issues of sole-

sourcing appear to be constrained and are not recurring across all projects. Management has been prudent in its efforts to limit these events.

Figure 4: All Contracts
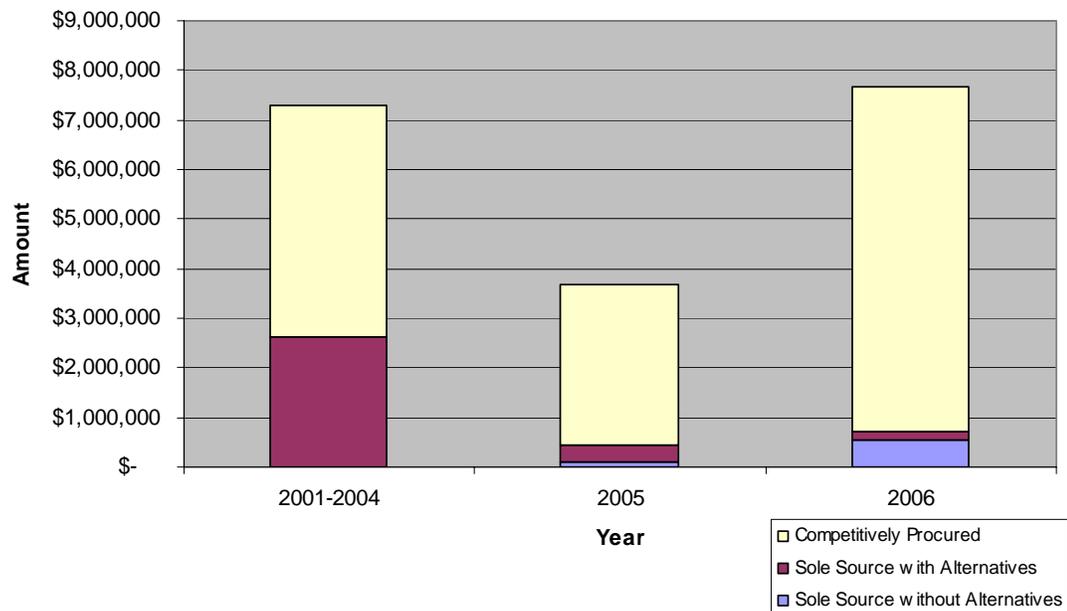
Overall

Based on the business case developed for each sole-sourced contract identified, TWRC was operating with sound business judgment in terms of selecting vendors to perform the required services. Sole-sourcing inherently decreases internal process costs, reduces time to engage a vendor and provides efficiencies.

Internal procurement policies and procedures provide for the use of sole sourcing in extraordinary circumstances for procurements above $25,000. This is in contradiction of the Contribution Agreement which does not provide for exceptions to sole source procurements above $75,000. Sole-sourcing creates a relationship of distrust with the government and the public. This relationship increases oversight time, government costs and absorbs TWRC staff time.

There is no clear validation of whether costs and experience obtained from the sole-sourced contract (where there could have been a potential alternative vendor), achieved value-for-money as no other bids were received on the specific scope and objectives procured.

To eliminate issues identified above, TWRC should ensure both internal policies and procedures and external requirements are followed which will ensure an open and transparent procurement process is followed.

Recommendations

We cannot definitively evaluate whether the above advantages and disadvantages are balanced or if one outweighs the other. With this in mind, the following is recommended:

- TWRC should amend its procurement policy and ensure their policies and procedures are in line with the Contribution Agreements

- Based on internal policies and procedures, any procurement over $25,000 and below $75,000 must be competitively run unless it is signed off by the CEO of the Corporation after a review of the reasons for sole-source has been completed. For procurements greater than $75,000, if procurement cannot be competitively run, because there are no alternative vendors, we recommend that a Pre-Solicitation Notice be placed on MERX website for a certain amount of time (15 days was used as an example by the Federal government, however this time is flexible and can be set by TWRC).

Benefits of Implementing Recommendations

- The procurement process will be more open and transparent

- The three governments and the public will place more trust into TWRC's procurement process and the value-for-money being provided

Management Response

TWRC has written to the three governments in November 2006, requesting that certain categories of suppliers (for example, government agencies and monopolies) and certain circumstances (for example, emergency safety or environment services) be exempt from the criteria around sole-sourcing as it agrees that no alternatives exist in these circumstances. TWRC has not received a response to this request at this point.

TWRC agrees with the recommendation to provide 15 days pre-solicitation notice on MERX for both categories of sole-source contracts and will implement this policy immediately.

5. Internal versus External Services

An assessment of internal skills, expertise and organizational capabilities are to be performed prior to external procurement of services. In the past, all goods and services required by TWRC were procured from external vendors and consultants. As TWRC grows, it is becoming more economic and efficient by retaining full-time employees. This has continued up to the present time, with project management being the most recent service brought in-house.

As an example, the external project management services are currently being transitioned into TWRC. In previous years the equivalent of 15 full-time staff were procured through the external program manager's contract. TWRC had estimated that seven project managers and two assistant project managers were needed to be hired initially to replace the external service providers and implemented a plan in September 2006 to hire these

staff. TWRC estimated that the remaining portion of the external project management contract represented the procurement of technical services such as environmental remediation and soil management, and is in the process of developing VORs and standing offers to cover these types of services in the future.

While TWRC does not have the ability to breakdown accurately how much of the work in the past was project management versus technical services under the external project management contract, it is expected that the move of the project management function in-house, at this time, will save money. The decision to move the project management function in-house was to build the necessary internal infrastructure as the Corporation moves into the next stage of its mandate. It is expected to be more cost efficient in the future and to provide the Corporation with greater control over this key aspect of its business.

For the transition to be successful, TWRC's new personnel will have to possess the project management skills and expertise that are similar to or better than that received from the external project management team thereby improving the value of this service to the Corporation.

TWRC was expected to recruit staff over a four month period ending December 2006 through an accelerated hiring process allowing for overlap between the external and internal project managers of one to two months. As of January 2007, TWRC had hired two construction project managers, one junior construction project manager, one planning project manager, one procurement manager and one contract specialist. All of the approved positions in the transition plan have been publicly advertised by TWRC and are expected to be filled by March 31st, 2007.

While TWRC has made progress on their recruitment and procurement transition plan there is still a risk to the Corporation that these plans may not be completed be March 31st, 2007. As a result, some of the external project managers may be expected to stay on board longer than the March 2007 transition date if TWRC has not completed all transition activities and knowledge transfer.

Figure 5: Spending on External Services
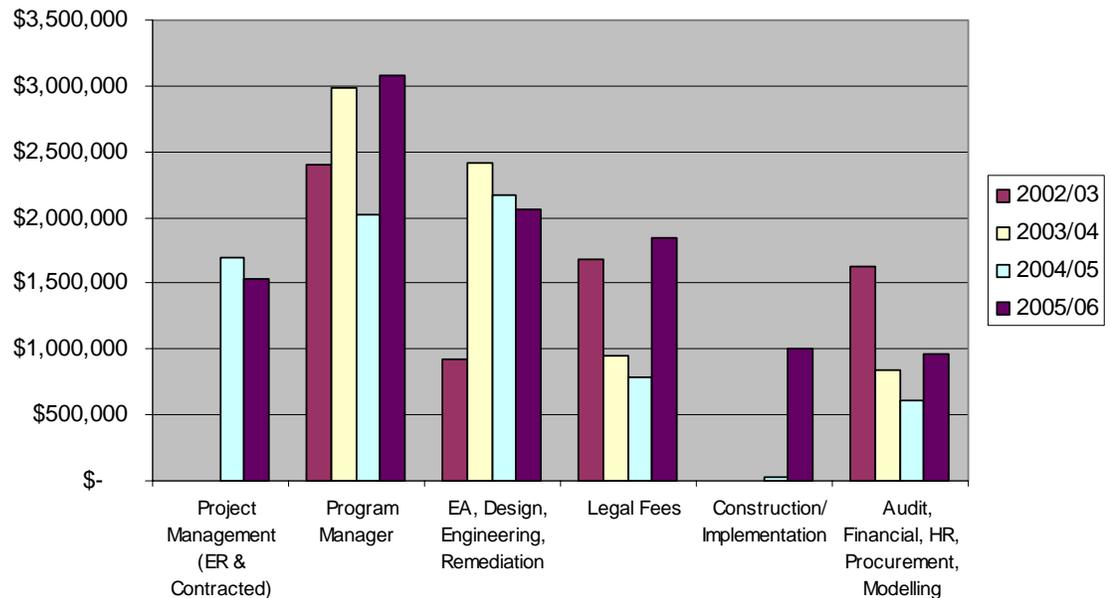
Upon review of the expenditures shown in the above chart, we did not find any areas not already identified by TWRC where external services should be brought internally. For example, the external legal consultants are highly-qualified and specialized in various fields. As an organization, TWRC would not be expected to bring in this level of expertise in-house. We also reviewed the current internal services and did not find any areas where it would be beneficial for TWRC to obtain outside help.

As TWRC moves forward, we believe that they should consider adding staff to market and brand TWRC's vision of revitalizing the Toronto Waterfront and to support the Corporation's future plans for partnering with the private sector and for possible investment generation. Alternatively, these services could be provided from an external consultant if they would provide better value-for-money. These alternatives will be discussed further in the organization review portion of this report.

Recommendations

- TWRC continue to assess all services procured for consideration as to internal skill, expertise and capability. TWRC should review all upcoming scheduled procurements and establish if there are certain skills that could be honed internally in the organization. Cost-benefit analysis comparing external costs to internal costs (wages, systems, overhead, qualifications of personnel, etc.) should be done, where applicable, to determine the best value-for-money for the organization.

- TWRC should consider either hiring marketing staff or an external consultant to promote TWRC's vision to ensure TWRC generates successful private sector participation and investment attraction

Benefits of Implementing Recommendations

▪ Working to increase and rely on internal skill sets will reduce the dependence on outside consultants, saving TWRC money and increasing the value and accountability of staff

▪ A sales and marketing force, either internal or external, will provide TWRC with resources to promote TWRC's mandate of generating private partner and investment attraction for future funds and sustainability

Management Response

TWRC agrees with the recommendations of the audit and will continue to evaluate the choice between hiring staff or contracting vendors for its service needs. TWRC will take into consideration various factors impacting this decision including the cost versus benefits of these services, the associated risks, and the nature of the Corporation's mandate and the timing of its activities. TWRC continues to believe that it must develop in-house expertise in its core areas of responsibility and to contract out those services where the cost of acquiring required technical expertise cannot be justified by the amount of work within the Corporation. This decision will be revaluated on an ongoing basis as the Corporation's activities increase over the next couple of years.

TWRC has advertised for the manager of marketing and branding position and is expected to have the position filled by the end of February 2007.

6. Change Orders

Change order policies and procedures for initiating, processing and approving change orders are being followed. However, we do have concerns over the pre-procurement planning that may be resulting in a higher number of change orders for specific projects.

It will never be possible to define scope, schedule, and conditions of work ahead of time with 100% accuracy, so the need for change orders will never completely be eliminated. TWRC's goal should be to accurately prepare project scopes and define schedules, design parameters, working conditions and interfaces with stakeholders and other parties in order to minimize change orders and ultimately project costs and internal process costs.

Before assistance is sought from suppliers of consulting services, the need for those services should be justified and detailed requirements established for the assignment, to the extent possible. For example, while assignments for initial planning work may be somewhat open-ended, and more suited to a "time and expense" payment arrangement, wherever possible, mandates should be sufficiently detailed to obtain comprehensive, firm pricing. From this, clear procurement documents, including objectives, scope, deliverables, timing, and progress reporting must be established. If procurement details are not well-defined, financial offers from different sources may not be directly comparable, making it more difficult to fairly evaluate them. Incomplete definition of the required services can also lead to unnecessary change orders.

TWRC has not made a practice of tracking and summarizing the reasons behind contract change orders, therefore no statistics were available for our review.

As of October 2006, a total of 248 direct contracts had been issued since TWRC's inception (excluding 13 eligible recipient delivery agreement contracts). 170 of these contracts were for services relating to one or more specific projects, such as design professionals and construction (project contracts), while the remaining 78 were for services to support the general activities of TWRC, such as computer and accounting professionals (corporate contracts).

Forty out of the 248 contracts were subsequently amended in order to increase the original contract value. Thirty-two of these were project contracts (19% of project contracts issued) while eight were corporate contracts (10% of corporate contracts issued). No credit change orders were issued.

The total value of project contracts increased 8.7% when compared to the total original contract value, while the total corporate contract's value increased 6.8%.

Investment in pre-procurement planning will reduce the likelihood of scope changes after contract execution. If the scope of contracted work is not well-defined, is not accurate and comprehensive data and background information is not made available for pricing purposes, change orders are likely and along with them, the possibility that premium prices may be negotiated and paid for the portion of work not procured under competitive conditions. This flows directly from the contribution agreement and initial proposal made to the three governments, as the budget and scope are determined at this point.

For example:

- Two change orders were approved for contract #173 for Two Artificial Turf Sports Fields in the Port Lands to increase the scope of work and accordingly, the contract value. During the RFP stage, proponents were advised of the existence of investigation reports, which would be made available to the selected consultants. There was reluctance to distribute copies of these reports due to the sensitive nature of their contents. Although proponents were advised that additional testing might be necessary to meet environment requirements, they lacked sufficient information to understand the extent of such work and to provide firm pricing. Once the consultant had an opportunity to review the available reports, they concluded that additional work was required to the site, such as well drilling, sampling and soil remediation. The original contract value was for $345,215 and increased to $506,293 after the two change orders, a 47% increase.

- Three change orders were approved for contract #143 for Detailed Design and Construction Management of the Martin Goodman/Lake Ontario Trail to increase the scope and the dollar value of the contract. Additional work was required for surveying, civil structure engineering and drilling of boreholes from unknown site conditions. The RFP specifically mentioned that no surveying work would be necessary. The original contract value was for $179,186 and increased to $301,104 after the three change orders, a 68% increase.

▪ Three change orders were approved for contract #17 for the East Bayfront Precinct Planning. The original contract value was for $499,976 and increased to $714,546, a 43% increase. Significant updates to the original designs and documents produced under this contract were required to respond to issues and counter-plans raised by stakeholders such as Toronto Economic Development Corporation.

Project scope definition and careful communication with other parties working on a project are key areas in which effort must be invested in order to reduce the number and magnitude of change orders as the project progresses. (See the Project Management section below for additional comments).

Recommendations

▪ TWRC track change orders in order to categorize their cause, such as by revision to scope of work, unforeseen/changed conditions of work, inaccurate or inappropriate estimates, delay in external party and/or timing changes. This recommendation is in line with PricewaterhouseCoopers Internal Audit Report on Eligible Recipient (ER) Management, dated May 2005.

▪ Procurement should create a guidance document to assist TWRC staff requesting the services in providing appropriate detail for the technical portions of the procurement document. This will help to streamline document production and to ensure vendors are provided with sufficient information to prepare comprehensive proposals for the work to be performed.

Benefits of Implementing Recommendations

▪ Tracking will enable TWRC to analyze the causes of change orders and then to design and implement measures to avoid unnecessary change orders

▪ A well-defined scope will save time overall and would provide more accurate information for the procurement document to be prepared. Ultimately, this would reduce the number of change orders required and save money, in internal process and in paying premiums to vendors.

Management Response

TWRC agrees with the recommendations of the audit and will develop, as part of its planned implementation, estimating, costing, and control systems which we expect to be in place by March 31st, 2007.

TWRC has already developed sample sections/components for procurement documents and distributed these to guide project managers' efforts in drafting input for upcoming procurements. Procurement will create a generic guidance document/requirements list to support further improvements in the procurement of services.

Executive Compensation Process

Introduction

The second area reviewed and evaluated during this value-for-money audit was to determine whether TWRC's executive compensation processes aligned with best practices. Our findings took into consideration the size and maturity of TWRC in identifying applicable best practices of other Corporation's of size, maturity and mandate. In determining best practices we reviewed those practices followed by organizations in the public and private sector. Our findings in this report have been structured into the following areas

1. Obtain, evaluate, and retain the best talent

2. Compensation Committee mandate

Our audit scope was to focus on new policies and procedures recently introduced by TWRC in these areas and to compare these with best practices. Our audit identified positive features that TWRC has adopted and implemented in these areas:

- Retaining external Human Resource (HR) advise on hiring, evaluating and retaining executives

- Increasing use of best practices

- Planning For Success (PFS) performance management process developed and implemented by the Corporation

- Benchmarking of virtually all executive positions

- Strategically hiring based on corporate objectives

TWRC was established under its own Provincial legislation in 2002. By 2004, TWRC employed four executives; a chief executive officer (CEO), a chief financial officer, vice-president of public affairs and vice-president of government relations. In December 2004, TWRC commenced working on HR policies and procedures to lead future growth.

Performance evaluations for executives were originally based on management by objectives whereby an annual performance review was completed based on the executives key objectives set out by the CEO. In 2005, the Corporation hired an external HR consultant to create a more structured performance evaluation system. At the same time, the role of the consultant was to establish formal benchmarks for all executive positions and program managers (replacing the previous informal process), which were soon to be hired in-house to manage projects.

TWRC has managed and developed its human resources policies and practices to date through a combination of an external HR consultant and an internal employee. The HR consultant was used to create a job evaluation program; job descriptions; a total reward and recognition program; and establish HR policies and procedures. The internal

employee spends about 30% of their time on the HR role. The HR function is under the direction of the CFO.

By the end of 2006, TWRC had eight executives earning a combined base salary of $1,467,000 including; a chief executive officer (CEO), a chief financial officer, vice-president of public affairs, vice-president of government relations, vice-president of design and planning, vice-president of development West Don Lands, vice-president of East Bayfront and a vice-president of Construction. TWRC will have all the eight executive positions benchmarked by March 2007, and are expected to have all key HR policies and procedures in place by this date.

We have defined value in the executive compensation process by the following:

- The internal value of the executive position to the organization through a process of job evaluation

- The value of the executive position in the market by conducting salary surveys and collecting other external comparative data points

- The value of the person in the executive position through performance management

As a best practice, TWRC should adopt appropriate policies to obtain, evaluate and retain the best available talent. Executives will be attracted to a strong organization. This strength is shown through achieved results and the internal culture of the organization.

1. Obtain, Evaluate and Retain the Best Talent

Obtain the Best Talent

The hiring process is effective in ensuring TWRC obtains the best talent, which translates into value-for-money in the persons employed as executives.

TWRC has been proactive in setting proper job responsibilities and defining scope of work for key executive positions prior to search. This ensures TWRC has gone through the thought process of deciding who is needed in the organization and what traits the person requires to fill the role in the organization. The Compensation Committee of the Board of TWRC has been actively involved in providing an independent opinion in setting the direction for hiring these executives.

We have reviewed position descriptions and compared them to key objectives described in the PFS model as well as the qualifications and work experience of the people hired. All persons that have been hired as executives have met the criteria set by TWRC.

TWRC's process to obtain the best talent has evolved over time to using qualified executive recruiters for all executives hired by the Corporation. Since 2002, TWRC has obtained these executive recruiters through an open, fair, transparent, consistent, and competitive manner.

Evaluate the Best Talent

In June 2005, TWRC developed a performance evaluation model called Planning for Success (PFS) under the guidance of the former Compensation Committee Chair. The PFS process is divided into three stages – objective setting, interim feedback and evaluation. The PFS process is used in annually evaluating all employees of TWRC, including executives. The model is based on best practices and when completely rolled out will provide value-for-money in the evaluation of key executives.

Objective setting involves writing down and agreeing upon the key objectives for each executive in April after the business plan is confirmed. These objectives are to align to each executive's specific job responsibilities as well as ensuring TWRC strategic goals and objectives are accomplished.

Interim feedback is provided in October to review the work completed by the executives up to that date and to see if the work in progress is consistent and aligned with key competencies. At this time, revisions are made to the executive's objectives if required.

Evaluation is the final stage of the PFS, which occurs in March, where executives fill in their achievements over the period of one year under each key, agreed upon objective. The CEO prepares a rating of each executive. The CEO and the executive meet and discuss the PFS for the year.

Annual bonuses are based on stretch objectives outlined in these evaluations, and are put forward as a recommendation to the Compensation Committee. Our review of the stretch objectives that have been used in past years for bonus measurement could, however, be stronger. At present, the CEO completes the overall review. The Compensation Committee approves the recommendations annually at the committee meetings. This process is in line with industry practice.

TWRC has made strides in developing and implementing this PFS evaluation tool. This evaluation system will be effective in future years in evaluating all executive's performance. However, we have found that TWRC has not met all of the standards with regards to the efficient and effective use of this PFS model, which is normal in most organizations just implementing a new performance evaluation process.

For example, three of the four executives recently hired in the middle of 2006 have not yet completed the objective setting stage of their PFS model. These executives should have completed their initial objective setting shortly after their initial hire date. This is a critical planning tool to ensure they understand their goals and objectives and how they are aligned with TWRC corporate objectives to allow them to perform and be accountable for their duties.

At present, TWRC is in the process of setting the key and additional objectives for all executives. Also, TWRC is focusing on implementing and adopting the PFS model more elaborately and extensively to track the performance of these executives. Presently, the PFS model does not provide meaningful stretch objectives to evaluate the value-for-money of performance bonuses paid to the executives.

Retain the Best Talent

Overall, TWRC has been developing a plan to ensure they retain their executives. The strategic hire of an HR consultant to provide perspective and expertise and to spearhead these policy changes has improved the processes in place. Due to timing of implementation, we have found areas where TWRC could have provided additional value-for-money.

Our review of best practices shows that the Compensation Committee must not be solely dependent upon management when developing compensation packages for management. They, not management, should direct external advisors to provide both perspective and expertise. The Compensation Committee should oversee the process to make sure that external advisors provide the required deliverables on time. TWRC should have appropriate policies and procedures in place for all staff.

TWRC is expecting significant projects to be completed over the next 10 years according to their business plan. Retaining key personnel will be extremely important to the organization's future success. Professional pride must be instilled, and an environment created that would allow senior management to feel valued, challenged and empowered.

To retain top executives TWRC will want to build values such as:

- Balance work and outside life

- Meaningfulness of work

- Greater clarity and vision from leaders regarding their future role and that of TWRC

- More flexibility and fewer administrative restrictions on managing

- Trust among employees

- Quality of employees' relationships with their supervisors or managers

Compensation is very important to executives. Although it is only one element, it becomes increasingly important if other elements such as confidence in leadership, sound corporate management and the intangible rewards of public service, potentially weaken.

In August 2005 the external HR consultant performed benchmarking for all executives and presented it to the Compensation Committee for approval. The Compensation Committee decided to include a broader sector of crown corporations and agencies that deal with similar land issues as TWRC in the peer group researched. After completion of the first set of benchmarking, we have been advised that the Compensation Committee directed management to hire another outside consultant to extend the peer group from a smaller database to an extended database of more than 500 companies. This second HR consultant's report covering all eight executive positions is expected to be completed by March 31, 2007 as well as recommendations to the Compensation Committee on the targeted percentile to be used to support staff retention.

Based on best practices, TWRC should have formally benchmarked salaries before all executives were hired and periodically update these benchmarks to ensure that their compensation practices remain competitive. Our review identified that five out of eight executives were hired prior to the finalization of the formal process of benchmarking salaries that is now underway. Although benchmarking was not completed prior to the hiring of certain executives, TWRC made best efforts in gauging the market for all positions required within the organization. The formality of obtaining external advice on executive compensation is seen as a best practice as it makes the process more transparent and provides best value-for-money to the public.

TWRC is currently taking the necessary steps to be proactive in benchmarking executive salaries for possible future hires including the possibility of hiring a chief operating officer pending the results of the organizational review.

Our review of the benchmarking (based on a median of the benchmarked group) completed in December 2005 showed how TWRC's current pay scale for the current executive group as at December 2006 is approximately 13% or $173,088 higher than the total benchmarked salaries dated December 2005. This benchmarking has not been updated or consistently applied across all executive positions. The benchmarking was completed at three different times during the year with different data used for comparison and different criteria used for evaluation. This difference is reasonable and shows that TWRC has been prudent in setting the pay levels of the executive group even prior to the completion of formal benchmarking.

We have received comments that compensation packages may not be viewed as competitive with the private sector. An executive recently took a position in the private sector for a more lucrative compensation package as discovered in our interviews with management. This fact supports the need for the organization to consider both public and private sector compensation packages.

Compensation is not the primary driver, but addressing the salary issues should be the first priority in an overall review of management, retention and recruitment of executives. TWRC must adopt or adapt private sector, business-like solutions, and need to balance pressures to reduce government expenditure against the need to pay people what they are worth. Competitiveness is essential; the base salary of executives should be compared relative to salaries outside the public sector if the government wants to attract and retain prime recruits.

Recommendations
- As TWRC is operating with public funds and in a public environment, the organization should consider not only recruiting persons with private sector experience but also have a balance of persons on staff with public sector experience

- TWRC should review the linkages to organizational needs and ensure bonuses are paid based on stretch objectives that are linked to specific TWRC objectives to move the organization ahead

- Personnel should be trained and monitored closely by management and the Compensation Committee in the preparation and delivery of the PFS model until such time it is operating effectively

- TWRC should continue to benchmark salaries in the future. The Compensation Committee should recommend the appropriate level of benchmarking based on reports provided by external consultants, which should include a balance of private and public sector organizations and consider the total compensation package.

- TWRC must implement a management infrastructure to ensure the performance pay system is perceived as transparent and is used properly. The human resource function must become an integral part of the senior management team and be strategically linked to the business planning process.

- TWRC should continue to build internal HR resources as it grows in size

Benefits of Implementing Recommendations

- Building a team of private sector and public sector personnel will help move the organization forward as both environments are different in operations. Each team member can provide context to others when situations arise that may not be familiar to the others.

- Linking bonuses to key objectives will ensure value-for-money is achieved in the bonus portion of the executives' compensation and the reward and recognition will motivate individuals and reinforce desired behaviour

- Benchmarking salaries will ensure TWRC is competitive in the market place and ensure value-for-money is received from executive positions

- The use of the PFS model in holding executives accountable will enable the organization to operate more effectively and fulfill its mission

Management Response

The Corporation agrees that public sector, as well as private sector experience, is important in its executive team. Six out of the eight executives currently with TWRC have had significant public sector experience and responsibilities at some point during their professional careers.

TWRC will continue to develop and refine stretch targets for executive bonuses that tie them directly to the Corporation's mandate and objectives.

TWRC has had an external consultant complete a thorough review of the results of the PFS 2005 process in November 2006, and will be taking forward their recommendations designed to refine the PFS process for all TWRC staff to the Compensation Committee in March 2007. Expected recommendations include increasing the number of categories of performance from three levels to four levels to allow the Corporation to reflect various levels of performance in the future remuneration of employees. TWRC will complete a review again in 2007 to ensure that all recommendations are implemented.

TWRC is in the process of finalizing the benchmarking of all executive positions. The results of this benchmarking will be presented to the Compensation Committee in March 2007. In addition, TWRC is developing a HR Policy for approval by the Compensation Committee that includes the targeted level of compensation against other employers and the timeframe for how often these benchmarks should be updated. TWRC is in the process of updating job descriptions and benchmarking its entire staff prior to hiring new staff.

TWRC, given its size to date, has relied on the use of an HR consultant for a significant portion of its work in this area. TWRC has had its HR consultant draft a job description for a full time or part time HR manager position in December 2006 and is in the process of determining when best to proceed forward with this position. TWRC requested its HR consultant in September 2006 to develop additional HR policies for the Corporation including policies related to: learning and development; compensation; delegation of authority; travel; pay for professional designation; sick leave; other leaves, and vacation. TWRC is ensuring that the costs associated to developing, implementing and maintaining these policies are properly covered in the annual budget process for the Corporation. TWRC is also in the process of improving its annual budget process to enhance its tie of resources required to produce results and to ensuring proper financial and HR delegations of authorities to ensure that managers have great access to managing the activities of the Corporation under their control.

2. Compensation Committee Mandate

The Compensation Committee of TWRC's board was mandated with defined responsibilities including developing the compensation structure for TWRC and making recommendations to the TWRC board on the compensation for the CEO and other officers.

The Compensation Committee is to review the key objectives set for the officers and to ensure they are aligned with TWRC's strategic goals and objectives. It appears, based on the information gathered, there has been heavy reliance on the CEO to implement the PFS. The committee must work harder to live up to its mandate.

The below table summarizes the committee mandate and our respective observation.

Table 3: Review of Compensation Committee Mandate

Compensation Committee Mandate	Observation
The committee shall approve an annual Committee work plan and agenda for a forthcoming fiscal year no later than at its meeting at which it reviews its final financial reporting and disclosure report for the prior fiscal year.	Based on our review of committee meeting minutes and discussion with management, no information is available with regards to a committee approved work plan.
Annually, and more frequently if appropriate, review and approve corporate goals and objectives relative to the compensation of the CEO and other officers and assess the performance of the CEO in light of those goals and objectives; and	The review and approval of corporate goals for key executives should be presented to the committee at the beginning of the fiscal year. We have not been provided with meeting minutes that addresses approval of these corporate goals. Compensation Committee does approve the bonus recommendations made by CEO on annual basis, which has been separately identified in the mandate.
Secretary shall distribute the minutes of the meetings to the members and other directors of the Corporation after approval thereof by the committee chair.	The committee minutes for 2005-2006 annual meeting held on May 03, 2006, was prepared and approved by the committee during our fieldwork in late October 2006. In our opinion, the time it took to prepare these minutes was excessive. Also, 2004-2005 annual committee meeting minutes were provided but not approved by the Compensation Committee.
Committee shall review and approve the terms of the employment agreements and severance arrangements of the CEO, officers and employees of the Corporation	There is no evidence in the information provided that the Committee approved the terms of employment arrangements for the newly hired officers.

We have also noted a disconnect in the communication and understanding of progress between TWRC and the Compensation Committee. The Compensation Committee was not provided with up-to-date information in terms of the PFS implementation progress. Based on interviews, the committee was of the understanding that the PFS model implementation was more advanced than it was.

Recommendations
- The Compensation Committee clearly document the annual review of officer compensation

- Progress meetings be implemented to ensure clear, communication and understanding of HR progress between management and the Compensation Committee

- The role and responsibilities of the committee should be reviewed with consideration given to the organizational requirements and industry best practices

Benefits of Implementing Recommendations

- Documenting key decisions performed in deliverance of the committee's mandate will allow for transparency in the process

- Ensuring delivery of the committee's mandate will provide TWRC with best value-for-money as stakeholders rely heavily on this oversight Management Response

Management Response

TWRC agrees with the three recommendations made regarding the Compensation Committee. Quarterly Compensation Committee meetings will be held to ensure the following:

- The annual review of officer compensation

- Approval of any changes in the terms of employment of staff including vacation and benefits provided by TWRC

- The review and approval of the final executive benchmarking exercise now being completed by the Corporation

- The review and approval of all developed HR policies

- The review and approval of the recommendations arising out of the external review of the 2005 PFS process

- Review of all of the other responsibilities identified in its mandate.

Minutes of each quarterly meeting will be prepared and approved at the next meeting by the committee and then distributed to the board.

Overall Project Management Approach and Practices End-to-End

Introduction

The third area reviewed and evaluated during this value-for-money audit was TWRC's project management approach and practices. Our findings have been structured into the following areas:

1. Budget Forecasting and Scope Definition

2. Business Plan Process and Funding Model

3. Contribution Agreement

   A. Length of Contribution Agreement Process

   B. Indemnification Clause

   C. Sunset Provision

4. Use of Eligible Recipients

5. Management of Project Timelines

6. Completion of Projects

7. Private Partner and Investment Attraction

8. Project File Documentation

Our audit identified many accomplishments in this area. These include:

- Budgets and forecasts are prepared by TWRC

- A long-term funding plan has been prepared and approved by all three governments

- TWRC has started more than 30 projects that will span more than ten to fifteen years and has started to see some of its projects completed or nearing completion after three years

- TWRC has shown efficient and effective delivery based on information and resources available

- TWRC has implemented key hires

- TWRC is adapting to the three government frameworks under which it operates

Project management is a critical process within TWRC. There are specific steps or practices that must be performed in order for projects to be successful as follows:

- Scope – Before undertaking any project, TWRC should gather evidence to support the value of a project in meeting the Corporation's vision, mandate and key objectives. Given the size and duration of some of TWRC's projects (for example, $100 million to be spent over 10 to 15 years) a feasibility study should be performed on major projects to gauge the potential of the project, risks, benefits and impact before any activities are started.

- Planning – TWRC should develop a budget and business plan that is reasonable in attaining the planned deliverables as identified in any feasibility study. TWRC should determine short-term and long-term goals and milestones in the project schedule. During this stage, it is critical for TWRC to improve communications, build in stakeholders needs and timing requirements and obtain buy-in from the various stakeholders to keep the team focused.

- Execution and control – TWRC should manage the team by formally meeting on a regular basis and work closely to keep communication open. TWRC should use a structured process to monitor and track changes in scope and keep critical information centrally stored. All team members must collaborate to maintain a high level of effectiveness, as every party will have to understand their responsibilities.

- ▪ Closure – TWRC must conduct a postmortem on every project to make sure that it has achieved the intended goals and deliverables. This is the time to review any issues that will improve future processes for the next projects. TWRC should be sure to collect all project issues that caused delays or restructuring of project focus and implementation. This will include looking at the degree to which deliverables are achieved, the estimated project costs and the actual project costs.

TWRC has historically hired external consultants to complete the above steps. Over the years, this has proven to be positive for TWRC, as they have been able to leverage the expertise of the external consultants and focus on the planning and design of their mandate. However, it has become evident over the past year, that as the organization moves toward implementation of projects TWRC can achieve greater value-for-money by managing its projects internally.

Budget forecasts, scope definitions, business plans, funding requests and procurements are required in conjunction with contribution agreements. The contribution agreement is an invaluable document to TWRC's business success. Without the data within the contribution agreement, projects would not be able to be financed, planned, implemented and completed. Project information must be compiled and prepared with as much reasonableness and consistency as possible to ensure a project that is realistic and feasible is achieved.

Below we have identified areas where improvements in the project management area would provide best value-for-money to TWRC. This would be a good time to implement these recommendations as TWRC is in the process of establishing new policies, procedures and processes.

1. Budget Forecasting and Scope Definition

TWRC should plan in such manner that the projects outlined in the long term plan reflect current cost estimates in order to avoid any future changes to contribution agreements, either due to project budget increases, scope definition increases or due to the inherent nature of taking on projects of such magnitude or duration.

TWRC has been efficient and effective in delivering the scope of work based on the information and resources available. However, TWRC has faced challenges in this area. Changes to scope definition and budgets are largely due to inaccurate initial project planning, the initial budgets that TWRC was provided upon establishment and the lack of a standard cost estimating system in the Corporation.

The following discussion is broken down into two areas – TWRC Priority Projects and Other Projects as listed on the long-term plan.

TWRC Priority Projects

In 2001, when TWRC was established it accepted four projects, called the Priority Projects, with pre-defined or initial budgets from the three governments. Over the period of five years, TWRC, with the approval from governments, added other projects that

combined with the priority projects totalling $1.5 billion. All of this funding is planned to be contributed from the three governments.

There have been project cost revisions to three out of the four priority projects' initial budgets to reflect current cost factors such as annual price escalations, contingencies and taxes. The other priority project, initially budgeted at $61 million, does not include the above allowances as it is expected that detailed Port Lands preparation will take place over a longer period of time.

Figure 6: Priority Project Budget Analysis

	Union station platform	Mouth of Don EA	Front Street Extension	Portland Preparation
Initial Budget	58.0	3.0	170.0	61.0
Revised Budget	89.3	4.2	198.0	61.0
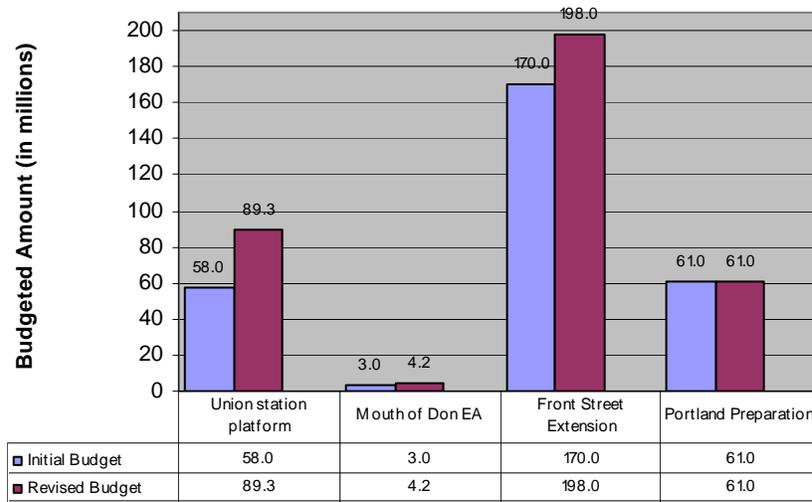
These changes amended the TWRC long-term plan and required changes to the contribution agreement and corresponding approvals from the three governments. The increase in budgeted costs is simply being reallocated from future projects where the contribution agreements are not in place. In the future, TWRC could continue to accept projects with pre-defined budgets. This could affect the spending and scheduling of all projects, including procurement activities. As a result, projects may not be completed without obtaining other funding or generating sufficient private investment dollars within the timeframe the project is required to be delivered.

Other Projects Outlined in Long-Term Plan

Over the last three years TWRC has added many other projects to their mandate as outlined in their long-term plan. The cost estimates for these projects were prepared in-house with the help of external program managers or TWRC's Eligible Recipients (ERs) if applicable. TWRC does not currently have a centralized standard cost estimating system in place. The program controls and risk management department is in the process of researching the implementation of various cost estimating systems in TWRC. There have been some revisions to these project cost estimates to reflect current project costs and scope definition. Some of these revisions are outlined in the chart below:

Figure 7: Changes in Long Term Plan Funding

*All amounts are in thousand of dollar.

Changes in Long Term Plan Funding

	Mouth of Don EAs	Harbourfront - Water's	Port Union	Mimico	Naturalization of Don River	Sustainability Strategy	Pier 4 Rehabilitation	Interim Sports Fields/Fea	Regional Sport Complex	Western Beaches Watercour	Martin Goodman Trail -	Waterfront Project Secretariat	Unallocated Fund	East Bayfront	Unallocated Revenues	Revenues
2005	$3,000	$18,600	$15,998	$6,501	$85,860	$29,499	$-	$5,200	$16,000	$27,000	$20,103	$7,518	$102,604	$115,165	$107,937	$186,434
2006	$4,187	$18,455	$29,000	$10,600	$65,945	$30,000	$1,500	$5,000	$19,000	$24,000	$28,314	$7,216	$94,665	$210,303	$144,508	$318,143

Between 2005 and 2006, TWRC increased the funding for certain projects by decreasing allocated funds from other projects. If TWRC continues to re-allocate funds, certain planned and unplanned projects may not have the appropriate funding remaining to be started or completed. For example:

- The Naturalization of the Don River project was reduced from $86 million to $66 million in 2006. An Environmental Assessment (EA) for this project is underway. In parallel, a design competition, which will provide design input to the EA is being held. It is expected that the cost estimate for the preferred alternative design identified for this project could be over the earlier estimates. The EA work will provide a recommended approach for the project and depending on which option is selected, an estimate of the costs to develop the project may demonstrate that the $66 million is not sufficient.

TWRC should do feasibility studies (if the project value warrants one) well in advance of project commencement to appropriately define the project scope of work involved. Initial long-term plans and budgets should be amended appropriately based on re-defined scopes. This will reduce change orders in the future.

TWRC has entered into separate contribution agreements to complete required feasibility studies in some cases where it was difficult to determine the scope of the project. This is affecting the timing of completing specific projects, as the contribution agreement process is lengthy and the value of going through this process for small dollar amounts is not effective.

Any project where the initial project cost estimation was not accurate will lead to unnecessary delays in the project if further funding is needed to complete the project. Also, a change in scope definition and increase in project cost estimation leads to required revisions of the contribution agreement which requires a substantial amount of time to get approved.

Recommendations

- TWRC should continue with researching the implementation of a standard central cost estimation system and that it be applied consistently across projects

- TWRC should make appropriate revisions to the project cost estimates and amend the long-term plan to reflect these current costs estimates

- The long-term plan should be reviewed to ensure that all projects included in the plan have sufficient cost estimates attributed to them and that the overall funding plan is reasonable, otherwise, funds may need to be re-allocated from other projects which could cause some projects to have their scopes delayed or not included at all within the $1.5 billion government's commitment

- TWRC should perform feasibility studies (where project value or risks warrants one) to ensure projects are reasonably scoped and estimated

- Funding for feasibility studies should be requested by TWRC through the corporate costs contribution agreement on an annual basis to ensure that monies are available up front in helping TWRC improve its costing and scoping of projects prior to proceeding with a contribution agreement. This will enable TWRC to prepare contribution agreement proposals with accurate information and will reduce change orders when the project has been started.

Benefits of Implementing Recommendations

- Implementing a centralized cost estimation system will standardize budgets across TWRC

- Including feasibility study costs in the corporate costs contribution agreement will save time in performing these studies, as a separate feasibility contribution agreement will not need to go through the lengthy process

- Performing feasibility studies for each project (where project value or risks warrants one) will ensure that all projects are accurately budgeted and scoped and will save time and costs as change order requests diminish

Management Response

TWRC agrees with the recommendations of the audit and will continue to implement a standard central cost estimation system expected to be in place in fiscal 2007/08.

TWRC will also review all significant projects to ensure that the current estimate is reasonable and will implement in fiscal 2007/08 system enhancements to allow for sensitivity analysis of all of its significant projects based on a variety of risks the Corporation is expected to occur. TWRC will also put in place a monitoring system to ensure that appropriate actions are taken to the risks that do occur.

TWRC is currently completing a strategic planning exercise with its board to identify priority projects that support the Corporations' stated vision and mandate. Based on the

results of this exercise the Corporation will develop current cost estimates for each project and will communicate to the three governments its request to amend the long term funding plan accordingly.

TWRC will request funding through its corporate costs contribution agreement to allow it to develop better forecasts and budgets including external review of cost estimates for reasonableness and feasibility studies as appropriate.

2. Business Plan Process and Funding Model

TWRC has requested funding on a timely basis. The information received from TWRC executives and external program managers is reasonable and TWRC has been efficient in adopting the request for funding process. However, TWRC has been underutilizing the funds they received. The current restricted funding model is becoming an inefficient model in managing funds. This issue will become more significant in future as more projects are started and larger sums of money are requested. In addition, the funding model is affecting TWRC's ability to deliver projects as TWRC does not have any flexibility in managing funding. This increases the potential for underutilization of funds as TWRC has no alternative under the current contribution agreement structure.

The program management team or the ER provides input for the quarterly budgeted cost estimates, which are the primary source of information for the request for funding. The estimates are incorporated in the annual budget and approved by the board. The long-term plan is generated from all the information contained in the annual plan and forecasts the future year funding requirements accordingly.

TWRC presents any quarterly over and under spending on a variance report to the finance and risk management committee. Based on our review of the documents, there has been an extensive under utilization of funds. TWRC identified the following reasons that have occurred on a consistent basis to explain the under utilization of funds:

Table 4: Under Utilization of Funds

Reason	Example	Amount Under Spent
Certain costs pertain to future years but were anticipated in the current year (over-optimistic scheduling)	Union Station Second Platform - due to the delay in the construction of the lower level interceptor	$3.487 million in second quarter 2006/07
Delay in securing contribution agreement funding	Delay in Sherbourne Park contribution agreement execution	$1.616 million in second quarter of fiscal 2006/07
Delay in finalizing the terms of reference for environmental assessment	Delay of Tommy Thompson Park implementation due to a 12 month process to obtain the environmental assessment approval	$705,000 in second quarter of fiscal 2006/07
Delay in land acquisition - pending approvals and discussions with the three governments	Delay in initiating street-scaping works due to delay in City of Toronto approval for intersection design	$406,000 in second quarter of fiscal 2006/07
Delay in initiating certain activities of the projects as estimated due to complications in certain aspects of a project	West Don Lands is behind schedule for various factors including delay of berm construction and resolving issues with ORC	$5.821 million in second quarter of fiscal 2006/07

The causes for variances need to be analyzed and addressed. TWRC should develop action plans to improve the above situations as these issues impact the organization as a whole. Delays in these above areas can have the impact of delaying procurement activities and initiating change orders to extend contribution agreements and contracts and to amend scopes and budgets.

Funds allocated for a specific project can only be used for those projects. This restriction is imposed by the contribution agreements. The funds cannot be utilized and allocated against other projects. This leads to an inefficient use of funds available (we have noted approximately $36 million available in the bank account at June 30, 2006). TWRC does not have control over the management of the funds because of the structure of the contribution agreement and the request for funding models.

In one instance, we have noted that the City and the Province have provided flexibility to TWRC to temporarily "co-mingle" funds. There was a temporary over funding for West Don Lands which was applied to the shortfall experienced in corporate costs due to the lack of a finalized contribution agreement for these operating costs. Once the contribution agreement for corporate costs is signed, it is understood the Federal Government will flow funds for their portion of corporate costs and funding will be restored to the West Don Lands project.

While this 'co-mingling' of funds was effective in this situation, it is in contravention of the contribution agreement signed by all parties. It is also only effective in the current situation where TWRC projects are in over funded positions. When TWRC addresses cash flow planning and implementation issues, there will be minimal funds to "co-mingle".

To provide flexibility in funding, other organizations in the same field as TWRC have access to an operating line of credit. Having access to additional sources of funds under less strict conditions could allow TWRC to manage funds required for future quarters. In the current funding model, there would be a general bias towards requesting more funds than required for the upcoming quarter to ensure that specific funds are available for a particular project. Whereas, with other alternatives of funding available to them, the bias would be one of conservatism, as any shortfall in funding could be made up from other sources.

In some instances TWRC has not spent the requested funds in a particular fiscal quarter as a result of not receiving prompt billings from its Eligible Recipients or not promptly processing them for payment. In other cases money was requested on the basis that a particular decision (for example, a contemplated land acquisition) was to occur and the decision did not happen.

Recommendations
- TWRC and the three governments negotiate the use of an operating line of credit. This will likely reduce the dollar amount of cash flow requested and ensure only

funds that will likely be spent are requested thereby reducing TWRC's cash flow needs.

▪ TWRC develop action plans to rectify the causes of under utilization of funds as described above

▪ TWRC be proactive in continuing to work with the three governments on finding mutually agreeable options and solutions to increasing TWRC's flexibility to manage project funding

Benefits of Implementing Recommendations

▪ Rectifying the identified causes for underutilization will ensure that projects will be completed on time with the requested funds.

Management Response

TWRC agrees with the recommendations of the audit and will again approach the government to receive the ability to have an operating line of credit with them.

TWRC will continue to work in the meantime with its project managers and eligible recipients to update cash flow needs on a project by project basis as well as ensuring that all work done by eligible recipients is promptly billed and paid by TWRC.

3. Contribution Agreements

Contribution agreements are important as they represent the legally binding funding mechanism between the three governments and TWRC. A project cannot begin before its respective contribution agreement has been approved and executed. The process of obtaining contribution agreements is very structured and TWRC must be cognitive of the process when planning, developing and implementing the various projects. We have identified issues below that require attention by TWRC and the three governments.

TWRC is not alone in experiencing administrative burden and challenges as a transfer payment recipient (receiving funds from the governments). Based on the volume of contribution agreements required to fulfill the long-term plan in the future, the time required of staff to prepare and monitor these documents will increase. The contribution agreement process is hindering TWRC's ability to deliver projects.

Length of Contribution Agreement Process

Policies and procedures should be designed to reduce the number of activities required in the contribution agreement process and the time required to complete the activities. The contribution agreement process should provide TWRC with the ability to manage their projects with due regard to value-for-money.

The activities performed by TWRC and the three governments require constant communication and feedback to complete each contribution agreement in a timely manner. To date, we have noted many issues in regards to the timing to complete various phases of the contribution agreement process. These extensive timeframes affect the

ability of TWRC to obtain funding and deliver projects. The process has been found to be ineffective from a timing perspective to allow TWRC to move forward with their mandate.

There are various phases and activities that the contribution agreements must go through to become approved and executed by the three governments. This process can take anywhere from six to twelve months, as estimated by TWRC. These timings are very important as the contribution agreement influences other areas of TWRC; especially budget forecasting, scope definition, requests for funding, and procurement of goods and services.

Two areas of the process require an extensive amount of time to complete - the contribution agreement preparation phase and in the execution phase. The preparation phase has been impacted by the time commitment of staff in the Finance department. Currently, the department is staffed with one individual, the Director of Finance. From our observations, it has been difficult for this one person to prepare all finance work, including contribution agreement preparation, and to manage the finance function. The preparation phase consists of two activities – Information Consolidation and Proposal Submission – which normally take an estimated average of three to five months. TWRC has had its real estate analyst assisting the Director of Finance for the past year on contribution agreements but this individual was moved in the fall of 2006 to the West Don Lands and East Bayfront projects.

The chart below breaks down the time required to complete a contribution agreement from the time the first draft is sent by TWRC to the three governments. Although we do not have documentation that supports the time it takes TWRC to plan and get to the first draft, we have been advised that this portion of the phase takes months.

The first portion of the bar shows the time taken for TWRC and the three governments to review and make changes to the contribution agreement. On average, the contribution agreements in the sample that have moved from first draft to final draft (there are three that have only had one draft) have taken an average 195 days to be processed.

The second portion of the bar outlines the execution phase. As at November 8, 2006 there are 10 contribution agreements that await approval. The execution phase consists of receiving approval from government on the final draft of the contribution agreement. This phase normally takes an estimated average of 30 to 90 days. As seen below, the contribution agreements currently in this phase have been outstanding for an average of 58 days. This delays the timeline and deadlines for the respective projects and procurements.

Figure 8: Contribution Agreement Pending Approvals
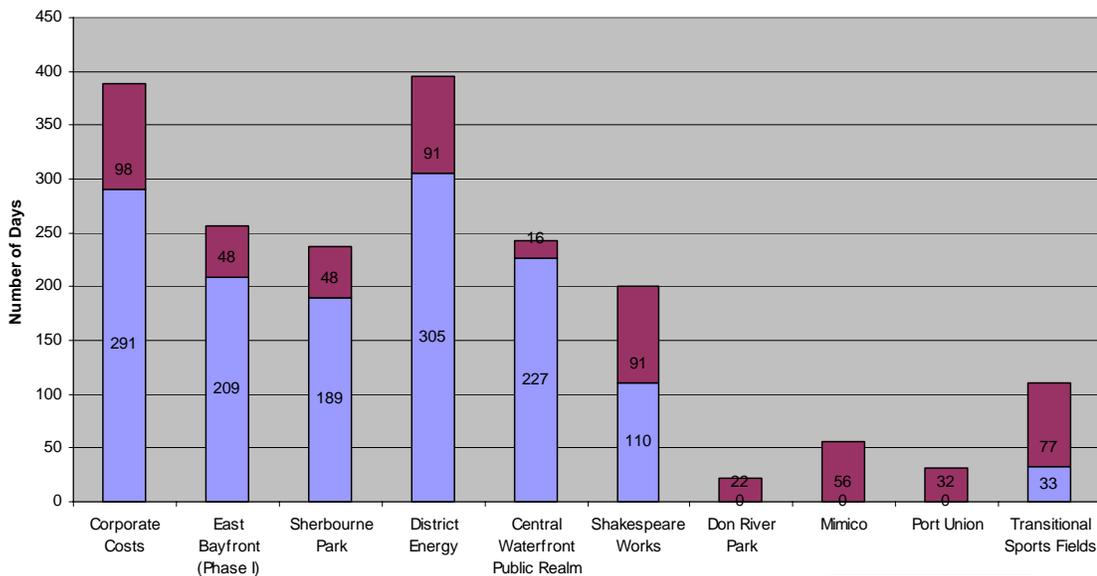
The time taken to execute the East Bayfront (Phase I), Central Waterfront Public Realm (Phase I), Sherbourne Park and District Energy contribution agreements shown in the above chart, have impacted planned procurement (see Procurement section above). For example:

- Sherbourne Park contribution agreement had not been executed as of November 2006. The RFP for the design of Sherbourne Park is currently on hold until the funding is formalized.

- In the Spring of 2006, the design for the Central Waterfront Public Realm (Phase I) project was awarded for which the contribution agreement had not yet been signed as of November 2006.

Based on the analysis above, the time taken to process a contribution agreement appears to not have been taken into account when planning the project. This is an area where TWRC can improve on its planning in the future.

In some circumstances where more information is required to firm up the scope of a project TWRC has requested funding in a series of phased contribution agreements so that it can proceed with the first phase to conduct a feasibility study or complete part of a project while a decision remains outstanding (for example, to expropriate a property in order to move forward with a second phase in the construction of a park). Specifically:

- A contribution agreement proposal has been submitted for the Don River Park Phase I for $2.2 million. The Don River Park Phase II is budgeted at $13.5 million which the contribution agreement is planned to be executed by February 1, 2007, but will most likely be delayed since the amendment to Phase I has not yet been executed. This project, if submitted as a whole, would have been in process to be completely executed.

- A contribution agreement for the Harbourfront Canada Square for a $375,000 feasibility study was approved in September 2006. The contribution agreement for the entire project is budgeted at $25 million to be completed by March 31, 2008. This project, if submitted as a whole, could have been fully approved and executed by now.

By including costs for feasibility studies in the corporate cost contribution agreement, TWRC will have the funds to complete the feasibility study thereby developing one contribution agreement for an entire project. This will reduce the number of contribution agreements going through the process, will develop more accurate budgets and scopes and reduce change orders.

Recommendations

- Contribution agreements should be prepared based on project level and not phase level, unless the phase is significant in dollar value to warrant going through the process

- Feasibility studies should be funded out of corporate costs and not project costs

- Based on the volume of contribution agreements required to fulfill the long-term plan in the future, the time required of staff to prepare and monitor these documents will increase. TWRC should consider hiring an additional resource for this area.

- TWRC should plan to submit contribution agreements well in advance of the project start date which is in line with the above timelines identified

- TWRC should implement a tracking mechanism for contribution agreements. This should include flagging contribution agreements that are over the average process timelines and requiring the appropriate personnel to investigate and follow up with any issues.

Benefits of Implementing Recommendations

- Limiting the number of contribution agreements will allow TWRC greater flexibility in managing funds within a project. In addition, TWRC will generate time savings on internal processes and for project lead time.

- Hiring an additional resource now and training them on how to prepare and monitor contribution agreements will save time in the future when project implementation increases and will help get projects funded faster

- Tracking contribution agreements and installing a flagging mechanism will provide TWRC with control over the process and on each contribution agreement in the process

Management Response

TWRC agrees with the recommendations in the audit and has publicly advertised for two senior financial analysts to work with the director of finance and is currently conducting interviews and expects to have these positions filled by the end of January 2007.

TWRC is in the process of developing its corporate cost contribution agreement for fiscal 2007/08 and has notified all three governments that it intends to request funding as part of this agreement to be able to conduct feasibility studies or to improve its ability to better estimate project scope and costing estimates in advance of developing detailed contribution agreements.

TWRC has requested its internal auditor (PricewaterhouseCoopers) to complete a thorough review of its risk management activities around the development and management of contribution agreements and expects to have recommendations for improvement in this area by April 2007.

TWRC is working with all three governments to develop a tracking mechanism to support continued improvements in the preparation and sign off of contribution agreements.

Indemnification Clause

All contracts entered into by or with the TWRC must include an indemnity clause saving harmless the TWRC and the three governments. While common in the public sector, this is highly unusual in the development business. Vendors have refused to sign contracts with such restrictive unlimited indemnity clauses.

The indemnification clause is affecting TWRC's ability to deliver projects. The open-ended risk they entertain creates a challenge to attract private sector developers.

By not having a strategy to deal with future vendors who will not sign a contract with this clause puts TWRC at greater risk of not delivering their mandate. Clearly, the indemnification clause is designed to protect government assets without regard to the Vendor.

For example:

- RFP #06-07-22, Engineering and Related Professional Services for District Energy System. After three vendors were short-listed from the Pre-Qualification tender, an RFP was issued to procure the services required. Questions were raised by the vendors regarding the indemnification clauses of the contract. Of the three vendors, two did not submit bids because of the indemnification clauses. One of the two vendors that did not bid notified TWRC that they were unable to as the unlimited liability was not in accordance with their corporate procedures. The bid they did receive from the final vendor, included changes that would limit the indemnification.

TWRC sees this as an ongoing issue and have approached the three governments on ways to address this problem. Options are to limit the indemnification to a certain level and for TWRC to obtain insurance up to an acceptable level of coverage. However, this takes

time and adds additional insurance costs to the contract and the project's budget. The District Energy project is delayed for various issues including the above; this could happen to other projects as well.

Our testing found two contracts that did not contain indemnification clauses, these are:

- Toronto Hydro Electric System, contract #175, provision of services to move and relocate hydro poles, lines and equipment. A Toronto Hydro contract was used for this procurement, which did not include any indemnifications. Insurance was not obtained for this contract as it was deemed to be low risk by TWRC.

- CBS Outdoor Canada, contract #249, provision of streetcar wrap advertising for the Quay to the City event. A CBS Outdoor contract was used for this procurement, which did not include any indemnifications. Insurance was not obtained for this contract as it was deemed to be low risk by TWRC.

These two contracts did not include indemnifications since the contracts were signed in the vendor's format. Both of these contracts were sole-sourced since there were no alternative suppliers and TWRC was obliged to accept their terms. We did not find documentation on negotiations between these vendors and TWRC discussing the indemnifications. TWRC should have reviewed these contracts and included either an indemnification clause or obtained the necessary level of insurance to cover any potential claims.

Based on our accumulation of information, we have found that the Federal government makes no exceptions for this clause. The Provincial and municipal governments have indicated that they would try and work with TWRC should the issue arise that a contractor does not want to sign a contract due to this clause.

Not obtaining unlimited indemnity clauses places TWRC in non-compliance with the contribution agreements held with the three governments. It also puts TWRC and the three governments at risk for unanticipated liabilities.

Recommendations

- TWRC continue to work with the three governments on finding mutually agreeable alternatives to the indemnification clause. Solutions proven effective to date include:

  - Securing approval from the three governments to obtain the appropriate level of insurance in special circumstances and claiming this expense as an eligible cost (TWRC should plan for this expenditure when applying for the contribution agreement)

  - Strategically allocate funding by each government. For example, the Federal government could fund projects where this clause would likely not be an issue with vendors, and have the other two governments fund projects where this would be an issue.

- In the interim, all contracts that TWRC enters into should include the unlimited indemnity clause to ensure compliance with the contribution agreements, even if the contract is in a form preferred by the vendor

- Insurance costs be included in project planning and budgeting. This will provide for a contingency in the budget in case the indemnification clause becomes a future issue.

Benefits of Implementing Recommendations

- Coming to a mutually beneficial agreement now will save time and energy in the future when issues arise

- Obtaining contracts with indemnification will ensure TWRC is in compliance with the contribution agreements and will continue a trusting relationship with the Federal Government

- Including insurance costs into budgets will encourage long-term plans and budgets to be accurate and eliminate surprise insurance costs in the future

Management Response

TWRC along with the three governments are currently completing a broad review of the indemnification issue under the direction of Bennett Jones and expect this review to be completed in May 2007.

TWRC will continue to review existing contracts to ensure no exceptions are made to the indemnification clause or will notify governments in those circumstances where it is impossible to receive an indemnification.

TWRC will continue to develop alternatives to receiving a full indemnification from its suppliers including purchasing insurance coverage in those circumstances where the cost of insurance is less than the benefit derived. In the two examples provided in the Audit report, the cost of insurance for Toronto Hydro would have been higher than the benefit given that the work performed by Toronto Hydro related to its own assets with any risk for substandard performance falling only on Toronto Hydro. For TTC- CBS Outdoors, as an advertising contract, there was no insurable risk.

Sunset Provision

Federal funding is committed to March 31, 2008. All federally funded projects must be completed by this date or work and other commitments must stop, prior to the sunset date, until such time an extension is formally approved by the Federal Treasury Board. Some of the contribution agreements currently in place are on hold because construction cannot be completed by March 31, 2008.

The list of projects affected by the sunset provision and total funding associated with it are as follows:

- East Bayfront project is budgeted at $210 million. The Federal commitment to this project is $37 million. The project is budgeted to be completed by 2015. TWRC is requesting the Federal commitment by the end of 2007.

- District Energy (West Don Lands/East Bayfront) is expected to receive $10 million from the Federal government in 2007 but the project is expected to receive funding from the city and province until 2015

- Regional Sports Complex is a $19 million project and is completely funded by the Federal Government. As per the 2006 long-term plan, TWRC has planned to request the funding by 2007 but the Federal Government had not yet received a proposal on this project as of November 2006 and therefore a contribution agreement has not been executed.

- Martin Goodman Trail Phase I and Phase II are substantially funded by the Federal government. The total project is budgeted for $34 million. As of November 2006, there was no contribution agreement signed for either phase. In regards to Phase II, TWRC had not yet submitted a proposal to the Federal Government. This project is planned to be completed by March 31, 2008.

- Commissioner's Park is a project budgeted at approximately $40 million with total funding by the Federal government of $11.5 million. TWRC has received $1.6 million and is expected to receive the balance by the end of 2007 ($9.9 million).

We were advised by the TWRC that the Federal government is investigating the option of providing a three year extension to complete its $500 million commitment to the Toronto waterfront.

The sunset provision significantly impacts the ability of TWRC to complete their mandate. Should projects exceed the March 31, 2008 date, there is significant uncertainty as to whether the Federal government will commit any additional funding, which affects the ability of TWRC to deliver on projects planned and started. If TWRC does not receive a further funding commitment from the Federal government after March 31, 2008, TWRC will need to significantly revise their long-term business plans and budgets and will need to determine other options to generate funds.

Recommendations
- TWRC and the three governments should discuss the future issues the sunset provision will have on the ability of TWRC to deliver its mandate. An option that should be considered includes shifting Federal funding to projects that will be completed by March 31, 2008.

Benefits of Implementing Recommendations
- Addressing the sunset provision will allow TWRC to plan and deliver projects past March 31, 2008

- Shifting Federal funding to current projects will ensure it is spent prior to March 31, 2008

Management Response

TWRC agrees with the recommendation of the audit and is in the process of working with all three governments to ensure the successful extension of the Federal government's $500 million commitment to the Toronto waterfront.

TWRC is working with the three governments to develop alternatives that allow the Federal governments commitment to be made as soon as possible in order to accelerate the Federal funding to the Corporation.

4. Use of Eligible Recipients

In a number of instances TWRC has used other government agencies such as the Toronto Transit Commission (TTC) or the Toronto and Region Conservation Authority (TRCA) to carry out various projects on its behalf. These agencies, which are called Eligible Recipients (ER) are used to complete specialized projects for TWRC where they have a competitive advantage and either have the required expertise or knowledge based on developed experiences or relationships (for example, TRCA's building the breakwater for the Western Beaches Watercourse due to its expertise in water permits) or when the project is part of a larger project being carried out by the ER (for example, TTC's on the second platform for Union Station) or when on completion the project will be passed over to the ER to maintain (for example, TTC's work on Union Station).

TWRC continues to have the overall accountability and oversight responsibilities when ERs are used for project delivery to ensure that the activities of the ER are carried out in accordance with the signed delivery agreements between the ER and TWRC. These responsibilities include:

- Determining the original scope, feasibility and funding of the project

- Ensuring that the project fits within the vision and mandate of TWRC

- Revising the scope or funding as appropriate (for example, reducing the length of the Western Beaches Watercourse to stay within budget)

- Updating project forecasts, estimates and timelines as appropriate

- Ensuring that the overall project scope and timelines are met by the ER and that funding is used only for the purposes specified within the delivery agreement

- Ensuring that all TWRC policies are followed in the implementation of the project (for example, TWRC's sustainability, urban design, and procurement policies)

- Ensuring that all of the governments covenants as outlined in contribution agreements are met

- Receiving and approving certain documents as outlined in the delivery agreement

- Reviewing the work schedules and expert reports on specific aspects of the project where applicable

- Completing a review of the project and its success upon completion and closing out the contribution agreement

Examples of TWRC review and monitoring included changing the scope of the project to stay within budget, as was the case in the Western Beaches Watercourse and agreeing to work required of the lower level interceptor sewer in the case of Union Station.

In the past the review and monitoring of the ER activities was carried out by the TWRC external program management team. These program managers either had the specific expertise (for example, subway infrastructure experience in the case of the second platform at Union Station) or had access to other members of the external project management team for specific issues.

TWRC's oversight responsibilities were also adjusted based on the expertise of the ER (for example, TWRC cut back on its oversight responsibilities when TRCA hired a project manager to implement the Western Beaches Watercourse).

There is an increased risk of the ER not complying with the terms outlined in the Delivery Agreement and the covenants in the contribution agreements as TWRC does not have a structured and consistent process to manage and monitor the ER's activities. It also puts the planned scope of the project at risk.

Recommendations
- TWRC document and follow an ER management and monitoring process that encompasses all requirements from the Delivery Agreements

Benefits of Implementing Recommendations
- Following an ER management and monitoring process will allow TWRC to track the work performed, expenses incurred and the value obtained from the ER

Management Response
TWRC internal auditors reviewed the Corporation's practices with regards to its management of its' ERs and are in the process of implementing their recommendations.

TWRC reviews all of the activities of ERs prior to making any payments and ensures that ERs are in compliance with both the delivery and contribution agreements associated with the specific project.

TWRC will develop specific procedures for its new internal project managers to help standardize the review and monitoring of the work carried out by ERs on behalf of the Corporation.

5. Management of Project Timelines

TWRC should manage and monitor the activities of each project to ensure planned costs, timelines and project objectives are accurately developed and delivered. Plans implemented by TWRC affect stakeholders. According to some City of Toronto

representatives TWRC's planning has not always been sufficiently coordinated with the City of Toronto's appropriate regulatory authorities early on.

There have been instances of duplication of efforts in the planning of projects between the City of Toronto and TWRC resulting in increased costs for both parties. However, these instances were in the early years as the relationships were being established through memorandums of understandings. In order for projects to be approved by City planners, they require specific criteria to be met. With the City of Toronto being a landowner, it has different requirements than the other two governments. These directly affect the process, and therefore, the City of Toronto and TWRC require constant communication on project planning. Working separately, or without ongoing communication and coordination, when planning projects that affect both the City of Toronto and TWRC is not effective in ensuring value-for-money. As of December 2006, a working group has been implemented between TWRC and City to perform annual planning.

TWRC has relied on the external program management team exclusively to monitor and manage the projects being delivered. The program management team coordinated and provided monthly progress reports, including project costs, issues, solutions and budget variances. Based on information provided regarding completed projects, this arrangement was economical, efficient and effective since projects were managed to be completed on time and on budget. However, this arrangement provided TWRC with little control over the management tools used and did not require TWRC to develop these tools and skills internally, such as cost estimating and scheduling.

TWRC is in the process of transition – they are transferring program management services internally by March 31, 2007. The transition process will provide TWRC with control over project management and monitoring. TWRC will need to possess the adequate tools to manage and monitor all projects.

TWRC must have a central scheduling system to manage project timelines. The Program Controls and Risk Management department is in the process of implementing a corporation wide scheduling system. This schedule will list all of the projects planned on one system, listing all scheduled tasks, milestones and completion dates – creating a master schedule and providing much needed integration of individual project schedules. TWRC is also in the process of researching the implementation of a centralized cost estimating system.

By building these tools internally, TWRC will have the capability of effectively managing and monitoring projects. TWRC will require skilled and knowledgeable staff, and adequate time, to allow for knowledge transfer between the program management team and internal staff. We have been advised that the external program management team is equivalent to 15 full-time internal staff members, however, at November 8, 2006, there have been only three new internal project managers hired. TWRC will need to hire project managers as soon as possible to ensure the appropriate knowledge transfer is completed between external project managers and internal project managers.

Recommendations

▪ Based on the decision to bring the project management team internally, TWRC must continue to build their management tools and skills, including the cost estimating and scheduling systems. TWRC must ensure that these systems are compatible with each other and the other various departmental systems and needs of TWRC.

▪ Where TWRC activities affect processes of outside stakeholders, a plan be implemented to ensure all parties are working in close coordination to achieve best value-for-money

Benefits of Implementing Recommendations

▪ Bringing project management skills and tools internally will save TWRC time and money in the long run. During the transition period it is essential that tools such as cost estimating and scheduling systems be implemented and mastered so the skills honed internally are proficient.

▪ Hiring internal project managers in advance of the transition will ensure that adequate knowledge transfer has occurred and projects can continue smoothly once the transition has taken place

▪ By identifying duplicated activities, TWRC will increase efficiencies and will decrease costs and time that was previously spent on these activities

Management Response

As previously noted, TWRC agrees with the recommendations of the audit and will continue with its plan to implement enterprise wide systems to support better cost estimating and scheduling.

As noted above, TWRC has started the process of meeting regularly with City officials to ensure better coordination of activities and will continue to do so.

6. Post Procurement – Completion of Projects

When a project is completed, close-out procedures should be performed to determine the degree to which deliverables are achieved, to compare actual costs to estimated costs and to assess the economy, efficiency and effectiveness of the processes involved. TWRC has expanded its core business from planning and smaller scale project management to increased activity in implementation and large scale development. In the planning phase, TWRC had few full time staff and did not have a primary focus on completion of contracts or projects.

Therefore, close out processes and procedures were not required or developed.

When a contract or project has been completed, an organization should perform certain close-out procedures. This will ensure that no additional payments would be made under the closed contract; actual costs are compared to budgets and analyzed; actual deliverables are compared to the defined scope; feedback on the consultants is

communicated to the various parties in the organization; and any unspent funds are recaptured. Additionally, the processes, policies and procedures would be assessed and any inefficiency would be rectified so as not to be repeated. Ultimately, this would facilitate an assessment of the quality of work, the suitability of the consultant for future work and value-for-money.

As of October 2006, TWRC had completed a few projects. We reviewed two of the recently completed projects: Quay to the City and Western Beaches Watercourse Facility. These two projects went through different closing procedures at their completion. Overall, we found that there is no formal close-out process, policy or procedures in place at TWRC.

Although there are no formal procedures, we did find that there was some analysis performed on completed projects, albeit at different detail levels. For example:

▪ Quay to the City – For 10 days in August 2006, Queens Quay Boulevard was turned into a partial car-free zone to display a preview of the permanent transformation of this area. The project was managed by an external consultant. At the completion of the project, the construction manager prepared and issued a summary report discussing the steps taken and the services delivered to complete the project on time. Additionally, TWRC prepared and issued a separate report to the board of directors discussing results of visitor and business surveys completed, traffic analysis, debriefing with city agencies, and a high level cost review of all elements of the project. The report to the Board also discussed the variances between actual and estimated costs, providing a high-level variance analysis on the amount over budget.

  – For the report to the Board, this level of variance analysis is appropriate. However, for internal purposes, a detailed level of analysis should be completed which includes explanations of under spent amounts and over spent amounts.

  – Additionally, a comparison between the scoped deliverables and the actual deliverables was not completed. This should be completed as it contributes to the measures of the success of a project, whether the objectives of TWRC and the project were achieved and the value of the project.

▪ Western Beaches Watercourse Facility – This project was completed in June 2006 and delivered a new multi-sport watercourse facility west of the Ontario Place island complex in time for Toronto to host the International Dragon Boat Federation World Club Crew Championships. To our knowledge, there have been no summary reports prepared and issued to the Board discussing the achievement of deliverables and providing variance analysis between the actual and estimated costs. TWRC continues to be in discussions with the City of Toronto prior to the completion of this project and has not yet finalized the transfer to the City and the Toronto Parks and Recreation department.

Actual cost information was obtained from TWRC's accounting system. Numerous staff voiced their concern over the poor integration of the current accounting system to the needs for project management and for reporting of actual costs and other project

information. Extracting information from the accounting system is a lengthy process, as staff must manipulate data. Reports are not designed specifically to address the needs of project control and management. This concern will be addressed with the new cost estimating system that is currently being researched. The new cost estimating system will be able to provide and extract the relevant data and to print the appropriate reports.

There is also no formal close-out process, policy and procedures for completed contracts. TWRC is not rating contractors on performance and ability to deliver and assessing value-for-money received by TWRC. It is important for various parties in TWRC to provide and receive feedback on contractors and results of a contract, to ensure that TWRC are receiving the best value for the money spent.

By not performing the various close-out procedures, TWRC could be exposed to a number of significant risks. Payments could be made, either erroneous or fraudulent, to a contract or project that has been completed. Contractors that do not adequately supply deliverables on time and on budget could be hired on numerous occasions. Feedback on processes, policies and procedures could not be received and would continue to not be economical, efficient or effective and not provide value-for-money.

Recommendations
- TWRC develop a formal close-out process, policy and procedures for contracts and projects. Close-out procedures would encompass all departments of the organization; accounting, finance, procurement and operations.

- A Project File Completion Form to be used to track the completion of the close-out procedures

Benefits of Implementing Recommendations
- Implementing a formal close-out process will help TWRC better understand how the project preformed compared to budgeted costs and deliverables and schedule estimates. This will help TWRC create more effective contribution agreement proposals in the future and better estimate costs and time, resulting in fewer change orders and projects delivered on time and within budget.

Management Response
TWRC agrees with the recommendations of the audit and will develop formal close-out procedures for all of its contracts and projects. A Project File Completion Form will be developed by TWRC to be used in tracking the completion of close-out procedures.

7. Private Partner and Investment Attraction
The three governments have identified the generation of private partner and investment attraction as a priority. TWRC should have a strategy to attract and generate private sector involvement and funding.

The TWRC long-term plan currently identifies $1.5 billion in committed funding from all three governments and approximately $0.3 billion in the estimated sale proceeds associated with government owned property in West Don Lands and, East Bayfront.

The expected costs to develop the entire infrastructure on the Toronto waterfront is $4.3 billion of which $1.8 billion is currently committed by the three governments. TWRC must look to the private sector for unique sources of funding beyond land development if it is to meet its objective of revitalizing the Toronto waterfront. This $4.3 billion is required to generate the further anticipated $13 billion of private investment for the build-out of communities.

To date, TWRC has been working with all three governments to allocate the $1.8 billion to specific projects. TWRC's strategy has focused on making the land sale revenues a reality by partnering with private sector developers in the West Don Lands and East Bayfront developments during 2007. The TWRC investment in infrastructure, site preparation (such as soil remediation and flood protection) and the creation of parks and open spaces will make investment in West Don Lands and East Bayfront more attractive by taking away some of the uncertainties of revitalization. TWRC hopes to have a successful RFP in the spring of 2007 with a private sector developer.

TWRC is also looking to both private and public sector partners in the development of such services as district energy and broadband access that are expected to support TWRC objectives while attracting investment.

TWRC is in the process of revisiting the Port Lands revitalization strategy. It was hoped that TWRC would work with the Toronto World Expo 2015 bid team so that the underlying infrastructure created for the World Expo could be used to further the development of the Port Lands. Given Toronto did not end up submitting a bid to obtain the World Expo, TWRC is now working on developing a strategy to attract private sector capital to the Toronto waterfront while ensuring that its vision and mandate of revitalization are met.

Recommendations

- TWRC to continue with its endeavours to partner with private sector developers for the West Don Lands and East Bayfront developments

- TWRC must initiate a creative funding model with the private sector to generate sufficient funds to bridge the gap between the $1.8 billion of committed funding and the required $4.3 billion for infrastructure

- TWRC to develop a marketing and branding plan to promote the revitalization of the waterfront and its attractiveness for developers and investors

Benefits of Implementing Recommendations

- Partnerships with private and public sector developers and investor will provide TWRC with the necessary resources to go forward with many planned projects and will help to revitalize Toronto's waterfront

Management Response

TWRC's approach to attracting private sector partnerships in the Toronto waterfront is focused on creating as much certainty as possible for development through the early investments in local municipal infrastructure, transportation infrastructure, flood protection, soil management, parks and open space, planning and zoning so that the private sector can take these issues into consideration when they respond to the Corporations request for revitalization.

TWRC will also continue to review the development of private/public partnering as part of its plans for such activities as district energy, vacuum waste and broadband services.

TWRC is developing a branding strategy to better support all of its activities and to ensure that its mandate of revitalization is clearly understood by all stakeholders, including possible private partners and investors.

TWRC is participating with the Province and the City of Toronto in an international marketing conference to ensure that domestic and international developers and investors are attracted to the Toronto waterfront revitalization.

TWRC is currently developing a set of long term principles to guide any private sector development in the Toronto waterfront including the Port Lands to ensure that its vision and mandate of revitalization is met in all areas of the Toronto Waterfront under its mandate, thereby ensuring that the priorities of the three governments that fund the Corporation are met at all times.

8. Project File Documentation

Project files should contain all documentation related to a specific project. Projects can be managed by a number of different individuals in a number of different locations depending on whether ER or external project managers are involved.

Throughout our audit, we found it difficult to obtain the necessary information and documents relating to project management. Project management documents are not kept in one location at TWRC. There are no central project files maintained by TWRC, either paper or electronic. Information and documentation collected for a specific project is not maintained in one central place. This is in contrast to Procurement files and Contract files which are created for each individual RFP and contract and are kept in central locations.

As project management is being transferred internally, maintaining detailed project management files will ensure compliance to agreements with the three governments. Specific project files maintained in one central place will ease the finding of documents when needed and in the overall management of TWRC and projects. Project managers would be able to be held accountable and responsible for the management of their assigned projects.

Recommendations

- TWRC establish files for each specific project, either in hard copy or electronically or both as the circumstance dictate. A checklist or table of contents should be established to ensure all documents are maintained in the file, including ER documents and approvals. TWRC should gather all specific project information and documents from the various individuals at TWRC and maintain them in one central location.

- TWRC obtain all project files maintained at external project manager locations. These will need to be reviewed by the new internal project managers before the transition takes place to ensure knowledge transfer.

Benefits of Implementing Recommendations

- Creating project files with all relevant documents, as well as keeping all off-site project files internally, will allow TWRC to have control of all project documentation. This is essential for audits, or if any of the three governments require follow-up information.

- Centrally located project files will ensure that the required project manager knowledge transfer takes place for a smooth transition

Management Response

TWRC agrees with the recommendations of the audit and will ensure that checklists are developed to ensure the completeness of its project files.

TWRC will request all project files from its external project managers and will incorporate them into its project manage files.

> *The next chapter of the report outlines the detailed results of the organizational review. It includes the analysis of comparable organizations, the detailed review of government linkages and processes, and the recommended organizational design.*

<div style="border: 2px solid black; display: inline-block; padding: 40px 60px;">
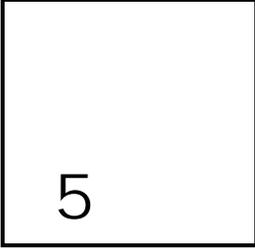
5

</div>

Organizational Review

Introduction

The purpose of the Organizational Review was to provide the TWRC with the information necessary to assure TWRC that it has the organizational capability to meet its goals and deliver its future programs.

As noted earlier, Oliver Wyman – Delta Organization & Leadership led the Organizational Review. The work was coordinated with the VFM Audit. Any recommendations in the Audit that had specific organizational implications, and in particular, those related to procurement and project management, were considered as part of the Review. All of the recommendations that were identified in the Organizational Review are summarized in Appendix A, along with the recommendations identified in the VFM Audit.

The focus of the Organizational Review was on the entire organization. It is also recognized that the recommendations for improvement may apply to both the TWRC and its stakeholders even though the stakeholders were not specifically analyzed as part of this Review.

The existing organization was reviewed in light of Oliver Wyman – Delta Organization & Leadership's model of organizational effectiveness (outlined below). All elements of the organizational model have to be in alignment if the organization as a whole is to be effective. The goal of organizational design is to enable an organization to achieve its targeted results, or outcomes, through the successful implementation of its strategy.

Figure 9: Model of Organizational Effectiveness
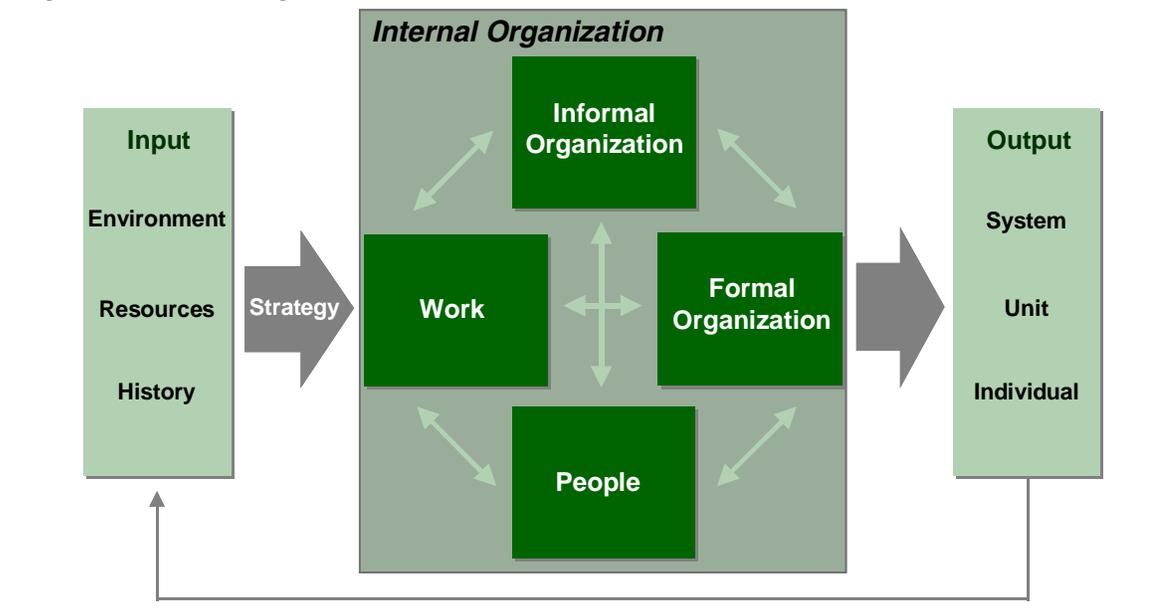
Each of the organizational elements was considered in the interviews with the TWRC Board and staff and with representatives from the three governments. The results of the interviews are summarized below. The interviews results have been combined with the review of background material to identify key issues, gaps and opportunities for improvement in the existing organizational design.

Some of the observations also relate specifically to the areas that were considered in the VFM Audit. These have been flagged in the summary of interview results.

As part of the organizational analysis, other comparable organizations were identified and analyzed. The objective was to identify potential approaches and best practices that should be considered by TWRC as it moves to the next stage of the waterfront revitalization. Key findings have been considered in the development and evaluation of organizational options.

Effective government linkages and processes were seen by TWRC as critical to the future success of the organization. As a result, a detailed analysis of these linkages and processes was completed. This analysis incorporated the results of the analysis of the existing organization and other comparable organizations, and the results of the VFM Audit, in order to identify specific recommendations for future action. Some of the recommendations are stand alone and should be pursued by TWRC as it deems appropriate. Others have direct implications to the organizational design and as a result, have also been considered in the development and evaluation of organizational options.

Analysis of the Existing Organization

Environment

There were a number of factors that were identified through the interviews that could potentially affect the focus and/or operations of TWRC but which it does not directly control. They included:

▪ Political uncertainty was seen to be an unfortunate reality with elections looming, which could lead to changes in governments, and their related priorities, as well as in the secretariats

▪ The processes and focus of a level of government can have a significant impact on the operating effectiveness of the corporation (e.g., the increasing focus on accountability at the Federal level and the demands that can potentially place on TWRC staff)

▪ Changes in the real estate market, or the economy as a whole, could significantly affect of the funding assumptions in the organizational model

▪ There were felt to be heightened expectations for TWRC to "do something", particularly in the West Don Lands and East Bayfront

▪ TWRC now has money "in the bank" but felt that it was constrained in its ability do get things done given some of the existing funding mechanisms and processes

Strategy

The strategic direction for an organization includes its mandate, mission and vision[6], along with its strategic priorities. The strategic priorities are currently under review by TWRC in light of its Five-Year Forecast and Ten-Year Plan and its Business Plan. That said, there were additional observations made during the interviews that should be noted.

▪ As noted earlier, TWRC has described its role as "master developer" which it defines as leading, overseeing and coordinating, with the three governments and their agencies, the planning, preparation and sale of publicly owned lands for future development. Ultimately, all of this activity is seen as supporting the overall public policy agenda.

▪ The corporate priorities, once defined and confirmed, should be aligned with the organizational structure and staffing and resource strategies

▪ It was suggested that there needs to be "shovels in the ground", demonstrable action that "something is happening" and that the initial projects – West Don Lands and East Bayfront – need to be "outstanding successful". It was also suggested that taking immediate action on known outstanding issues (e.g., the berm in West Don Lands) would fit in this category.

---

[6] TWRC's existing mandate, mission and vision are outlined in Appendix C.

▪ There were several factors that were identified as critical to the success of TWRC… delivering on public and government expectations, while achieving overall design principles and standards; being open, transparent and publicly accountable while engaging the community; defining targets and achieving them; and managing the relationship with governments and in particular, with the City

▪ The existing organization was seen to have a number of strengths including the commitment of staff; its relationships with the governments and the development industry; and its planning and design excellence, which includes its approach to public engagement

▪ There is a clear focus and expressed priority by the three governments on generating private sector investment in addition to land development revenues (suggested examples include public-private partnerships, alternative financing models, and "other innovations"). TWRC feels that the primary source of private sector investment will be through the sale of land at higher rates given that it has reduced the risk normally associated with brownfield development and created certainty. The governments, on the other hand, feel that there are other approaches that should be considered and potentially implemented[7].

Internal Organization[8]

As part of the analysis of the existing organization, the different elements that make up the current organization were considered. The key observations and comments under each of the elements are outlined below.

Formal Organization

▪ The role of the Board, and the extent of its accountabilities and decision making powers, in delivering on TWRC's mandate and the five and ten-year plan should be confirmed in light of the current funding and approvals mechanisms in place with the three governments. Particular concern was expressed regarding the number of parties potentially involved in the decision making processes of the corporation. Related to this, it was felt that the respective roles of the Board Chair and CEO should be clarified in light of the confirmed role of the Board.

▪ It was suggested that there is a need for senior position, such as a Chief Operating Officer, which would focus on ongoing project delivery and enable the CEO to better focus on the overall strategic direction, achievement of the target outcomes and managing the key stakeholder relationships (depending on the future role of the Board Chair)

▪ The current organization structure is based on a matrix design yet it was generally felt that how it actually works needs to be clarified

---

[7] This matter was also addressed in the Value-for-Money Audit. Refer to p. 72 in Chapter 4 of this report.

[8] The existing organizational structure and roles and responsibilities are outlined in Appendix D.

- The required number of layers in the organization, and consequent spans of control, should be considered in the organizational design, especially in light of expressed concerns regarding the existing number of senior management positions and increasing costs of administration

- There appears to be an opportunity, and a requirement, to more clearly define, confirm and then communicate organizational roles and responsibilities – both internally and externally

- The move to internalize the program management functions has several organizational implications including the need to clearly define internal roles and linkages, as well as to ensure there is adequate resourcing to support the internalized functions[9]

- Delays and overruns on projects raise questions about clarity of accountabilities, adequacy of authorities and the level of resourcing[10]

- There are specific functional areas in the organization that have been identified as requiring either more resources or dedicated resources to ensure that TWRC can meets its expectations and demands. These include: project management, quality assurance, communications, government relations, human resources, and revenue investment/generation.

- The working relationships with the secretariats are generally described as being supportive and collaborative while recognizing that the level of involvement and engagement with each secretariat may vary

- The ongoing relationships with government need to be proactively managed to ensure that both TWRC and government expectations and requirements are being identified, considered and, to the extent possible, met

- It has been suggested that there may be opportunities to improve TWRC's efficiency and effectiveness by potentially utilizing the resources and expertise of TWRC's government funders (e.g., economic development or infrastructure planning). Moving in this direction would require more detailed examination including a review of the capacity of these other levels to take on additional responsibilities.

Work

- The delivery of elements of the program by others (such as the TTC through the Eligible Recipient process) needs to be actively managed by TWRC to ensure achievement of objectives[11]

- The contribution agreement process is seen as a significant barrier to TWRC effectively delivering projects. The increasing demand and requirements in this area

---

[9] VFM, op. cit., p. 69.

[10] Ibid., p. 22.

[11] Ibid., p. 67.

also have specific organizational implications in terms of staffing requirements in areas such as finance[12].

- The working linkages with the different governments are driven by the five and ten year plan, the contribution agreements and the existing MOUs[13]. It was also noted that at the City level there is felt to be a much greater interdependency and working relationship between the City government and TWRC, especially given their regulatory and infrastructure approval role.

- Even though there are MOUs defining the working relationships between TWRC, ORC and TEDCO with respect to the West Don Lands and East Bayfront, there are concerns that some of the requirements an obligations under these MOUs may result in unintended delays and adversely affect TWRC's ability to effectively move forward in achieving its mandate

- The specific role and working relationship with the City is seen as being more complicated and potentially requiring greater clarification in terms of lead accountabilities in areas such as infrastructure planning and development. There is also concern that TWRC is not appreciating the extent to which the City is trying to streamline its existing processes and accommodate TWRC's specific needs.

Operating Environment

- The culture of the corporation is described as high pace, chaotic, complex and demanding yet offering the potential of a tremendous sense of achievement

- It was suggested that there may be opportunities to better define the expectations and requirements of all staff in building a stronger team

- The challenge of maintaining a private sector/development focus while, at the same time, working effectively and appropriately within a government context, was also noted

- The sentiment was expressed that the TWRC needs to become more "partnership oriented" in working with the different governments in achieving its mandate and target outcomes (while also recognizing that different governments may have different expectations and/o requirements in this regard)

People

- It is felt that the organization needs to provide the right balance of private sector and public sector expertise in order to leverage private sector expertise in successfully delivering major development projects while effectively understanding and working within a government/agency framework and environment

---

[12] Ibid., p. 59.

[13] More details on the existing MOUs between TWRC and the Province and the City are provided in Appendix E.

- The organization has to ensure that it has an adequate level of resourcing in order to achieve target outcomes while meeting expected reporting requirements (e.g., there were several existing vacancies in the organization that need to be addressed; in particular, in the project management area and finance especially as demands from the contribution agreements or additional audits increase)

- In making the transition from using external program managers to internalizing the function, TWRC needs to ensure that it clarifies roles and responsibilities, acquires the right skills and capabilities and has the required level of resourcing[14]

- Building an integrated and cohesive senior management team, focused on a common set or priorities, was seen as critical to the future success of the organization

- There was an outstanding question of how much expertise to internalize versus continue to buy (e.g., environmental expertise)[15]

- There are also perceived gaps in the organization's existing skills and capabilities in areas such as revenue investment/generation (including economic development and animation)

Performance Measures

Several measures were suggested for measuring the overall performance of TWRC. They included:

- Achieving the agreed performance targets (both quantitative and qualitative)

- Delivering projects on time and on budget

- Managing the projects in accordance with the funding conditions and requirements

- Maintaining public confidence and support

- Delivering private sector investment

Organizational Implications of the VFM Audit and Other Organizational Assessments[16]

A number of recommendations outlined in the VFM Audit relate to corporate policies and/or how an area within the organization functions, in terms of ongoing operations, processes followed, tools used and/or resources required, as opposed to the actual design or structure of the given area.

For example, as noted earlier (refer to Chapter 4), there are several recommendations to improve the procurement function such as implementing an organization-wide scheduling

---

[14] Ibid., p. 69.

[15] Ibid., p. 37.

[16] Risk Management Report, PWC, December 14, 2006 - Draft

system, streamlining the process or ensuring ongoing coordination between Program Controls and Risk Management and the Project Managers and Vice Presidents. Similarly, there were several recommendations regarding overall project management. These included the estimating of project costs and how these are reflected in the long-term plan, identifying and addressing the causes for the under utilization of funds and potentially hiring an additional resource to deal with the volume/requirements of contribution agreements.

The process improvements that were recommended in the VFM Audit have been further considered in the detailed review of government linkages and processes (refer to the section of the report entitled "Review of Government Linkages and Processes").

In addition to process improvements, the VFM Audit, and PWC's Risk Management report, suggested that TWRC needs to continue to build its internal human resources function as the organization continues to grow.

The PWC report also identified "organizational design" as one of the "internal causes" of risk and suggested an organizational structure where the VPs of Planning and Design and Construction report to a "C-level executive" who is accountable for getting West Don Lands and East Bayfront completed.

Both of these suggestions have been later considered in the development and evaluation of organizational options.

Key Organizational Issues, Gaps and Opportunities

In light of the interviews with TWRC and the three governments and the review of background material, several issues, gaps and opportunities for improvement in the existing organizational design have been identified. This information, along with the results of the review and analysis of comparable organizations and government linkages and processes, has been considered in the development and evaluation of organizational options.

The key issues, gaps and opportunities identified through the organizational analysis include the following:

▪ There is clearly a pressure on TWRC "to do something" which suggests a greater focus on the delivery of key projects such as West Don Lands and East Bayfront, that are aligned with the long term plan

▪ Private sector investment is seen as a priority by governments yet is not clearly defined, or an explicit accountability within the organization (beyond the primary revenue generator which is land development and sales)

▪ The TWRC needs to strengthen its existing organizational structure:

– The existing organizational layers, identified functional gaps, and level of resourcing all need to be considered in the development and evaluation of organizational options

– TWRC has implemented a combined project-based and functionally-driven organization with expectations of a matrix working relationship but there are some concerns about how effectively this arrangement is working

– The move to internalize the program management functions has several organizational implications including the need to clearly define internal roles and linkages, as well as to ensure there is adequate resourcing to support these internalized functions

– It has been suggested that the organization should consider establishing a COO position to focus on project delivery and allow the CEO to focus more on strategy development and execution

– The role of the Board needs to be clarified/determined given existing funding and approval mechanisms. This includes defining the respective roles of the Chair and CEO.

▪ There are several opportunities to improve the working relationships and linkages with governments (refer to the section of the report entitled "Review of Government Linkages and Processes").

Review of Comparator Organizations

Overview

As part of the Organizational Review, other organizations were considered that could potentially provide insights in terms of analyzing the existing organization and/or in developing organizational options. The following criteria were used to identify organizations that could potentially be considered:

▪ Focus on large scale urban redevelopment (i.e., not a "greenfield" scenario) involving multiple landowners

▪ Occupy a central location within a larger urban area

▪ Involve a collaborative partnership (between) among multiple levels of government

▪ Reflect a broad range of service delivery models (e.g., traditional land development corporations, partnership/collaboration models, municipal-led initiatives, private sector development corporations)

▪ Ideally are in a waterfront setting

▪ Could potentially yield informative insights, based on success/failure, web research, comparability of jurisdiction and suggestions by interview respondents

In light of the above, different types of organizations were considered. They can be broadly grouped as follows:

- Empowered corporation model (e.g., Sydney, Chicago, Barcelona, London)

- Coordinating agency model (e.g., English Partnerships, Liverpool, South Manhattan Development Corporation, Vancouver Olympics, Montreal Waterfront)

- Private sector land development and construction companies

- Other public agencies within Ontario with similar "delivery" mandates (e.g., Infrastructure Ontario, ORC)

Information on the different organizations was complied through the combination of interviews and web research.

Key Observations

Based on the analysis of other comparable organizations, a number of observations and potential conclusions were identified:

- There is no "One Size Fits All" organizational model. Comparator organizations are diverse because their mandates vary widely…Planning, Changing and Maintaining real estate assets.

Figure 10: Potential Areas of Organizational Focus/Mandate
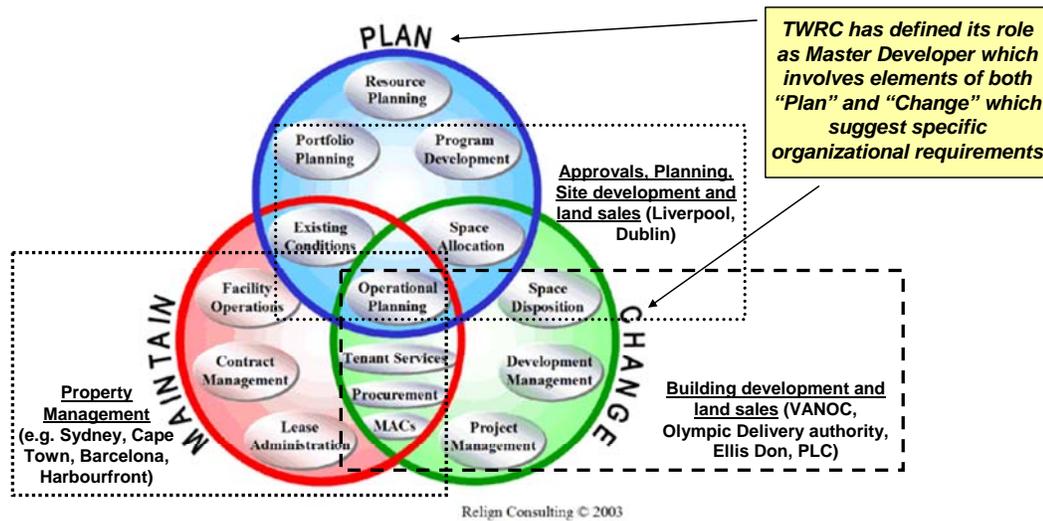
▪ The organizational structure typically reflects the functional skills needed for each stage in land development process as outlined in the following diagram

Figure 11: Land and Building Development Process
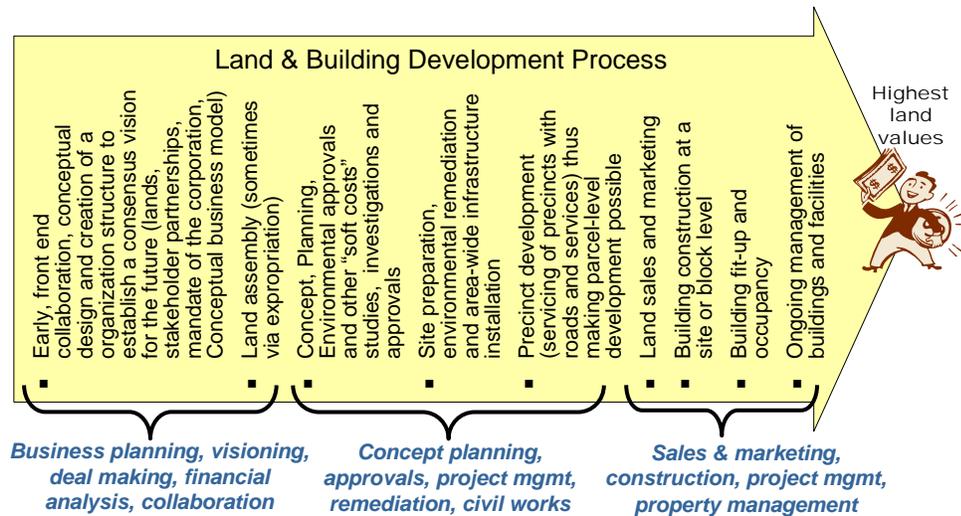
▪ The are numerous organization structures currently in use to achieve large scale urban redevelopment:

– Many corporations use a functional structure – Olympic Delivery Authority, Sydney Olympic Park Authority, Lower Manhattan Development Corporation, San Diego City Centre Development Corporation, Battery Park, London Docklands

– Some use a project-driven organization, especially if the projects are very large and complicated – Liverpool Land Development Company, Concord Adex, Governor's Island NY

– Hybrid models are also used – VANOC, Sydney Foreshore Harbour Authority, VicUrban (Melbourne)

– Some organizations have regional and/or customer-based structures (e.g., "Eastern/Western Canada, or Residential/Office Development) which are not seen as being particularly relevant to TWRC

– Infrastructure Ontario, a crown corporation dedicated to the renewal of Ontario's infrastructure, has effectively adopted a project-based organizational design (supported by corporate services)

The analysis also suggested specific areas that should be considered by TWRC in the development of an effective organization. These include:

- The organizational design should include structures/functional roles that will help to attract private sector participation

  - Procurement: Required to manage complex land sale RFPs which is generally a more complex task than just purchasing goods and services (currently being led by the VPs, Development on a specialty basis)

  - Economic Development: A key aspect of successful waterfront redevelopment. TWRC's MOU with the City /TEDCO includes a specific economic development mandate that is more than just selling lands:

    "… TWRC will take the lead role in identifying and attracting key employment, tourism, businesses and business clusters to the DWA"

  - Private Sector Investment: An important enabler of successful redevelopment. Currently a major expectation of TWRC[17]

  - Marketing and Sales: Having the capacity to successful attract private sector developers and other potential investors

- The organizational design should provide the capacity to manage/allocate the risks and rewards associated with land development

  - Real estate development is unique business with functional requirements that change with each stage along a land value continuum. TWRC is starting to develop sites and will soon be selling land, so specific expertise is needed in land-development roles such as:

    - Risk/project management, finance, and legal

    - Communication and government liaison

    - Implementation agreements, protocols, and other control mechanisms

    - Managing MOU/JV and other business arrangements between stakeholders

  - These functional roles are more important in land development than typical "corporate support" roles found within most organizational structures

As part of the analysis of other organizations, the approach and mechanisms that were used to effectively manage the linkages with government were also considered. Key findings include:

---

[17] It was found in the review of comparator organizations that effective land use regulations provide a strong stimulant for private sector investment. The City and TWRC have made significant progress in this area by establishing an effective land use regulatory framework via Precinct Plans and other build form, urban design and land use controls that are designed to create attractive communities within the waterfront.

- Comparator organizations use various linkage mechanisms to manage multiple stakeholder relationships:

    – *Upwards* to governments, funders and key stakeholders

    – *Downwards* to private sector partners and land owners

    – *Internal mechanisms* to ensure coordination across organizational units

- Organizations define the need for linkages with shareholders and funders in light of the following questions:

    – What are the key issues, working relationships and information requirements that require coordination and collaboration?

    – How much risk or problem arises if the linkage does not exist?

- Organizations use different linkage mechanisms to foster, or require, collaboration and coordination:

    – Hierarchy: Use direct authority and control to define collaboration and drive working relationships

    – Structural: Create an operational unit or mechanism that bridges the gap between organizations that need to collaborate and work together to achieve results

    – Process and System: Establish specific processes across an organization, or between organizations, that require a high degree of coordination and collaboration and drive working relationships and business results

    – Informal: Relationship-based mechanisms used to foster cooperation, collaboration and productive working relationships

The linking mechanisms noted above have been used to analyze TWRC's current linkages with the three governments (refer to the next section of the report).

Review of Government Linkages and Processes

Overview

As noted earlier, effective government linkages and processes were seen by TWRC as critical to the future success of the organization. As a result, existing government linkages and processes were reviewed in detail with the following objectives in mind:

- To clarify current and emerging accountability requirements at Federal and Provincial levels, and where applicable, at the municipal level

- To assess how the current linkages are working and make recommendations for improvement

- To outline the organizational implications related to accountability requirements and other government linkages and processes

As also noted earlier, the analysis of the government linkages and processes has incorporated the results of the analysis of the existing organization and other comparable organizations, and the results of the VFM Audit, in order to identify specific recommendations for future action.

Accountability Requirements

Public accountability and transparency continue to be key concerns at all level of government. In particular, at the Federal level, there is growing recognition that Federal departments could streamline their processes and reduce the administrative burden on recipients:

- The Auditor General (2006) recommended that Treasury Board Secretariat streamline its grants and contributions application, reporting and audit requirements

- The Auditor General (2005) considered government's effectiveness in managing horizontal initiatives, and concluded that weaknesses were evident in governance, accountability, and co-ordination

- The Federation of Canadian Municipalities identified an issue related to accountability arrangements and infrastructure funding in their 2006 report to Transport, Infrastructure & Communities Canada

- The Federal government established an Independent Blue-Ribbon Panel in 2006 to recommend improvements to make the delivery of grant and contribution programs more efficient and less burdensome for recipients, while respecting control and accountability requirements (Note: The results from this Panel have now been released)

Based on the review of existing, and potential, accountability requirements, there are a number of observations that can be made:

- TWRC is not alone in experiencing an administrative burden and governance challenges as a transfer payment recipient

- TWRC's Contribution Agreements and Memoranda of Understanding appear to be consistent with Federal and Provincial policy on transfer payments, and are therefore consistent with the treatment of other recipients

- Success in governance and relationship management in collaborative arrangements appears closely linked to the complexity of the arrangement, role clarity and local factors which may be influenced, but not controlled, by a transfer payment recipient

- Despite the expected changes in Federal and Provincial legislation and policy governing transfer payments, TWRC is unlikely to experience any significant relief from its administrative burden as a recipient

- Specific purpose contributions, approved annually through the Estimates and Allocations process, are likely to continue to be the preferred model for Federal and Provincial transfer payment recipients like TWRC

- As a recipient of large amount of funding, operating in a complex environment, TWRC is unlikely to benefit from more flexible Federal or Provincial accountability and reporting arrangements

- None of the expected legislative or policy changes will address the governance and relationship management challenges that TWRC experiences as a collaborative arrangement involving three governments

In light of the above, there are several potential organizational implications to TWRC:

- Even though there are expected changes in Federal and Provincial legislation and policies governing transfer payments, it is unlikely that the TWRC will get significant relief from its administrative burden (regarding transfer payments). As a result, TWRC will continue to operate within a complex set of government linkages and reporting requirements and will need to organize accordingly.

Figure 12: Organizational Implications of Government Accountability Requirements

TWRC needs to provide sufficient organizational capacity to manage the complex, at times onerous and potentially politicized linkages to external stakeholders
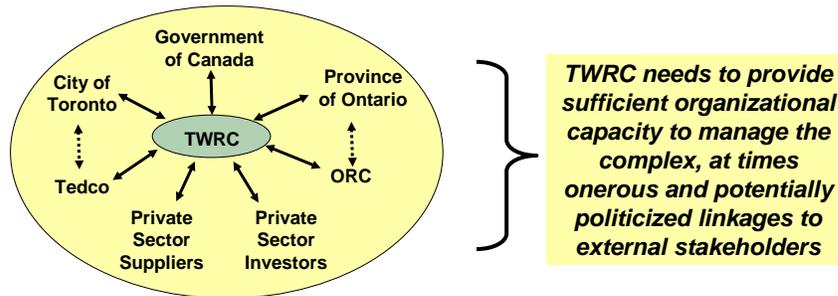
- TWRC has overall accountability for the delivery of major projects, but responsibilities for task completion is shared amongst numerous organizations (TWRC, ORC, TEDCO, and the private sector). Shared responsibilities require effective linkages and collaboration with each party providing the functional skills and resources in accordance with the business arrangements that have been agreed to. TWRC needs to reflect this requirement within its organizational design.

Figure 13: Organizational Implications of MOUs

- **East Bayfront MOU defines roles and responsibilities for TWRC and TEDCO**

- **West Donlands MOU defines roles and responsibilities for TWRC and ORC**

- **Other existing and future contribution agreements will create responsibilities for TWRC**

TWRC needs to provide sufficient organizational capacity to do its part within these partnering arrangements

Detailed Analysis of Existing Government Linkages and Processes

The linking mechanisms identified in the review of comparable organizations have been used as a framework to analyze TWRC's current linkages and processes with the three governments. The "Observations/Comments" and "Recommendations" outlined in the following table are based on, and incorporate, the results of the VFM Audit and the assessment of the current organizational, as well as the review of best practices of other comparable organizations.

It should be noted that some of the recommendations may not be fully consistent with Federal and/or Provincial policies and practices in areas such as contribution agreements and MOUs. As a result, more detailed analysis and planning may be required in some instances before TWRC can move forward with the recommended action.

Hierarchy

Under this linking mechanism, an organization uses direct authority and control to define and enable collaboration and drive working relationships.

Table 5: Hierarchy Linking Mechanisms

"As Is" Linkages and Processes	Observations/Comments	Recommendations
- TWRC's enabling legislative/ regulatory framework - Government reporting/ accountability structure "In house" org design and accountability/ authority structure - Corporate priorities and measures	- There appears to be a commitment to the overall direction and model proposed in the Governance Review (2004). Concerns/ issues seem to relate to executing mechanisms and processes, not legislation. - TWRC has described its role as "master developer". Even though not defined in the Act, it is intended to clarify the role of the Corporation as it works with its key stakeholders, including the development community, in land development without understating its important role in developing healthy, sustainable communities with parks, affordable housing, cultural and tourism amenities and employment. - There are several governing documents in place today (outside of the enabling legislation) including the annual business plan and the 5-year forecast and the 10-year plan which are reviewed annually - TWRC prepares an annual	- Confirm the role of the Board, and the extent of its accountabilities and decision making powers, in delivering on TWRC's mandate, and the five and ten-year plans, in light of the current funding and approvals mechanisms in place with the three governments - Ensure that TWRC, the three governments, and other key stakeholders, have a common understanding of the intent and implications of the "master developer" role - Provide sufficient organizational capacity to manage the linkages with external stakeholders - Confirm priorities and measures, corporate and project-specific, as part of the annual planning process and align them with the organization structure and staffing/resourcing strategies

"As Is" Linkages and Processes	Observations/Comments	Recommendations
	report and quarterly reports and presents the results from various audits ▪ TWRC is unlikely to experience any relief from the administrative burden as transfer payment recipient (at least in short term). As a result, TWRC is likely to continue to operate within a complex set of government linkages and reporting requirements. ▪ Priorities, and implicitly measures, are defined in the various plans (while recognizing that the priorities defined in the 5/10 year plans may change in light of changing government requirements). Measures appear to be project-specific as opposed to corporately defined.	

Structural

Under this linking mechanism, an organization creates an operational unit or other organizational mechanism that bridges the gap between organizations that need to collaborate and work together to achieve results.

Table 6: Structural Linking Mechanisms

| "As Is" Linkages and Processes	Observations/Comments	Recommendations
▪ Committees/ task forces (e.g., IGSC) ▪ Government secretariats ▪ MOUs (City/ TEDCO and ORC)	▪ There are multiple committees and taskforces driven by various objectives, requirements and priorities (20+) which are placing significant time demands and pressures on TWRC staff. It's not clear how the requirements and expectations of the various committees and task forces are coordinated with TWRC and/or whether or not there is a continuing requirement for all of them. ▪ The role of Intergovernmental Steering Committee (IGSC) is not clear. The earlier Governance Review (2004) suggested that it act as the linking mechanism between the three governments and the	▪ Coordinate/consolidate TWRC's involvement in the various committees and task forces (while recognizing that the MOUs outline specific requirements related to their areas of focus). This should include consideration of the role and ongoing need for a given committee or task force, in light of expected future demands and requirements. ▪ The role of the IGSC should be clarified and confirmed, especially as it relates to the ongoing coordination of the interface between the secretariats and TWRC, and that consideration be given to formally including the TWRC as

"As Is" Linkages and Processes	Observations/Comments	Recommendations
	corporation, providing advice not approvals.	part of the Committee's meeting, potentially as a member
	▪ The government secretariats are main point of contact between the governments and corporation. Secretariats view role as supportive and collaborative and includes ongoing monitoring. They can also help streamline and expedite decision making by, for example, in the case of the City, by providing one window access to all municipal programs, services and related expertise. Viewed by TWRC as, at times, another level of approval.	▪ Proactively manage ongoing working relationship with secretariats to ensure that both TWRC and government expectations and requirements are being identified, considered and, to the extent possible, met. Include confirmation of roles and expected working relationships given that the level of involvement and engagement with each secretariat may vary.
	▪ The MOUs can place significant demands on TWRC. It is not clear as to the extent TWRC management or the Board fully appreciate the requirements and obligations under the existing MOUs, regardless of how the MOUs were originally developed (refer to the example at the end of this section*). There are concerns that they may result in unintended delays and adversely affect TWRC's ability to effectively move forward in achieving its mandate.	▪ Clarify/confirm working relationships, requirements and obligations under the existing MOUs: – Use "swimlane" diagrams to identify non-value add parts of linkage processes and clarify who, does what, by when – Streamline document approval and decision process ▫ Establish target timelines for task completion by all participants
	▪ It is also recognized that the nature of the relationship with City is more complex and potentially demanding given its regulatory and infrastructure review and approval roles (in addition to its funding and land ownership roles). The City will also own, operate and maintain much of the new infrastructure and public spaces that will be developed across the waterfront. This needs to be reflected in the project timelines.	▫ Adopt an automatic escalation protocol to address issues that need attention (e.g., if delay, then automatic escalation) – Create a standardized MOU template ▪ In the VFM Audit, it was also recommended that where TWRC activities affect processes of outside stakeholders, a plan be implemented to ensure all parties are working in close coordination to achieve best value for money
▪ Contribution agreements	▪ CA process is described in the VFM Audit as "hindering	▪ There are several recommendations in the VFM

"As Is" Linkages and Processes	Observations/Comments	Recommendations
▪ Eligible recipient agreements ▪ Indemnification agreements ▪ Program management	TWRC's ability to deliver projects". ▪ Eligible recipient process is putting TWRC at risk and needs to actively managed ▪ Indemnification process causing issues and could be hindering private sector investment. (Currently under review by TWRC and governments). ▪ Internalizing program management function requires clear definition of roles and linkages and the provision of adequate resourcing	Audit to improve the CA process (e.g., project level vs. phase level funding). Other proposals include: – Board members should continue to work with their respective governments to actively encourage them to make changes in this process that could/should align with TWRC's recent submission to the Federal government's Blue Ribbon Commission – TWRC/the governments should consider adopting an automatic escalation protocol in the event of a delay – TWRC/the governments should conduct a detailed review of the existing process with the objective of streamlining where possible ▪ In the VFM Audit, it is recommended that TWRC document and follow an ER management and monitoring process that encompasses all requirements from the Delivery Agreements. TWRC will need to ensure that as program management is internalized, roles and responsibilities are clearly defined and communicated, including for ERs. ▪ The VFM Audit outlines several recommendations regarding indemnification agreements (e.g., strategically allocate funding by each government) ▪ Clarify accountability for project management and delivery of major projects. This could include establishing a point person to manage the linkages across functional areas and between TWRC and its partners (refer to the "Lead Integrator" role in the

"As Is" Linkages and Processes	Observations/Comments	Recommendations
		recommended organizational design)

* The following is a "swimlane" diagram of the current RFP/Land Sale process included in the MOU between TWRC and the City/TEDCO (which was originally developed by TWRC and the City working together). Based on a high level review, the process appears cumbersome and raises concerns that it could potentially undermine private sector investment.

Figure 14: "Swimlane" Diagram of RFF/Land Sale Process

According to MOU S 12.4&12.5, TWRC is to prepare the following documents, all of which are to be reviewed by City/TEDCO: Design Guidelines, Building Envelope Regimes, Soils/Groundwater protocols, Green Building Standards, District heating provisions, infrastructure requirements, creation of a Design Review Panel to review site plan applications, EA and remediation standards, Records of Site Condition, description of RFP process and employment & tourism targets

Process is further complicated by the need to coordinate with Board and/or Council meeting dates

Process and System

Under this linking mechanism, specific processes that work across an organization, or between organizations, are established that require a high degree of coordination and collaboration and drive working relationships and business results.

Table 7: Process and System Linking Mechanisms

"As Is" Linkages and Processes	Observations/Comments	Recommendations
Revitalization Processes ▪ Planning and land use approval process ▪ Land sale, RFP and marketing processes	▪ Need more integrated and streamlined land development processes (planning approvals, EA, site remediation and preparation, land sales). Includes the use of escalation and issues resolution protocols. ▪ It was found in the review of comparator organizations that if	▪ Use "swimlane" diagrams to clarify who does what, by when, under the existing revitalization processes ▪ Strengthen TWRC's ability to attract private sector investment in land development by: – Integrating procurement,

"As Is" Linkages and Processes	Observations/Comments	Recommendations
▪ Economic development and marketing processes ▪ EA process	the land use approvals process is slow, cumbersome and/or has approval risks, it can sometimes discourage private sector investment ▪ To manage this risk municipalities work closely with development corporations to streamline, simplify and accelerate the permitting process including delegating minor approval granting authority to development corporations as a mechanism to speed up and simplify the process ▪ It is understood that the City as the land use regulator is not prepared to delegate any of its regulatory authorities for liability and other reasons. As a result, it is critical that the City and TWRC collaborate to ensure that the approval process is streamlined and simplified to maximize private sector investment, including developing "swimlane" diagrams. This includes critical path planning[18] and timely submission of complete application packages. ▪ The City could also consider if there are any routine permitting functions that could be delegated (e.g., curb cuts) that would expedite the development process without negatively affecting the City's overall control of land use regulations on the waterfront ▪ The MOU with the City and TEDCO outline specific expectations and requirements in the area of economic development. The potential of using government resources in this area to improve TWRC effectiveness and efficiency	where appropriate, with land sales and marketing – Streamlining and simplifying the land sale approval process by having the City issue desirable criteria, and then allowing TWRC to manage the sales process subject to compliance with the approved disposition criteria – Looking at other ways to expedite the development process whether it's better critical path planning, improved application packages and/or the delegation of routine permitting functions ▪ Given the specific requirements under the MOU with the City/TEDCO, TWRC should establish a lead accountability for reviewing/ developing strategies that contribute to economic development, tourism, business attraction and revenue generation that could potentially be incorporated into the precinct and other major project plans (refer to proposed role in the recommended organizational design)

---

[18] The City and TWRC undertook a joint critical path planning exercise earlier this year. It has also established a new City/TWRC Waterfront Steering Committee, which includes the division heads for the City's operating divisions. Acting together, these two initiatives are described as helping to address issues of effective project scheduling and integration.

"As Is" Linkages and Processes	Observations/Comments	Recommendations
	would required detailed analysis of the other governments to take on additional responsibilities ■ The EA process is currently under review by TWRC. The City has specifically requested an exemption for all EAs on the waterfront (except for the Don River naturalization).	
Business Processes ■ Plan/funding approval process ■ Other linking processes (e.g., subsidiary approval process) ■ Communication process ■ Audit processes	■ The working linkages with the governments are driven by the five and 10-year plans, the annual business plan, the contribution agreements and the existing MOUs ■ The organizational analysis indicated that there may not be alignment of priorities between governments and/or between the governments and the corporation ■ It has been suggested that the TWRC needs to improve their process to develop business cases which meet the expectations of the governments ■ Private sector investment is a government priority yet TWRC not seen as making much progress in this regard. Definition not clear. ■ It is understood from TWRC that it is working with the governments to address subsidiary and revenue collection concerns/issues (e.g., introducing a "class" approval for certain type of subsidiaries) ■ It has been suggested by TWRC that the various audits be consolidated in order to reduce demands on existing staff to meet audit requirements and to allow them more time to focus on meeting the overall objectives of TWRC. It is also understood that the three governments have developed a draft risk-based audit plan. The current status of this plan is not clear.	■ Use "swimlane" diagrams to clarify who does what, by when, under the existing business processes ■ Confirm the governments' and TWRC's priorities as part of the annual planning process ■ Confirm the definition of private sector investment and how it is supported by the organization and reflected in the planning and budgeting process (refer to proposed role in the recommended organizational design) ■ The VFM Audit includes several recommendations related to budget forecasting and scope definition (e.g., amending long-term plans to reflect project cost estimates) and business planning and funding model (e.g., provide operating line of credit; develop plan to rectify under utilization of funds) ■ Consideration could be given to providing some tools to TWRC (e.g., line of credit as suggested in the VFM Audit) with clearly defined boundaries that allow the governments to "test" their feasibility ■ Assuming that the requirements of the various governments are met, the potential of coordinating/consolidating the various audits should be further considered (which could involve implementation of the tri-level, risk-based audit plan)

Informal

Under this linking mechanism, relationship-based activities used to foster cooperation, collaboration and productive working relationships.

Table 8: Informal Linking Mechanisms

"As Is" Linkages and Processes	Observations/Comments	Recommendations
▪ Individual relations/direct contact ▪ Informal groups/ leaders ▪ Informal rules, norms and standards (operating environment)	▪ There are multiple working groups that cross organizational and functional boundaries, making group dynamics, team effectiveness and collaboration critical to TWRC's success ▪ General sentiment expressed that TWRC needs to become more partner oriented in working with the various governments ▪ Operating principles, outside of the MOUs, not formally articulated	▪ Continue to build on, and reinforce, the working relationships and the spirit of collaboration and cooperation with the governments in achieving the overall objectives of the waterfront revitalization – Board Strategic Planning session held in early February of this year seen as good example of working well together ▪ Clearly identify lead accountability within TWRC for major projects. This person can then build network and personal relationships to manage linkages, collaboration and task sharing with landowners and ER (refer to recommendation for a "Lead Integrator" in the recommended organizational design) ▪ Define a set of operating principles that will guide and facilitate the overall working relationship and interaction with, and between, TWRC and the three governments and their agencies – TWRC may also want to consider developing its own set of operating principles which would guide the actions of the Board and the staff in working with/partnering with the three governments

Development and Evaluation of Organizational Options

In light of the results of the organizational analysis, the review of comparable organizations and the detailed analysis of government linkages and processes, alternative organizational options were developed and evaluated. In this process, the Project Team worked closely with TWRC in reviewing the various organizational options and in determining a preferred organizational design that will enable TWRC to successfully deliver on its mandate.

Givens/Key Assumptions

The review of background material combined with the results from the interviews and other input that was received during the course of the study, led to the identification of a set of "givens/key assumptions" that need to be considered, addressed, and where appropriate, reflected in the development and evaluation of organizational options. These included the following:

- The strategic direction, focus and operations of TWRC are not expected to change and will set the general context for the organizational design

- The current arrangements with the governments in terms of the ongoing working relationship with the secretariats and their agencies and the funding and approval processes will continue

- The MOUs explicitly define the functional accountabilities and expected working relationships between TWRC and the various agencies and must be reflected in the ongoing operations of TWRC (subject to any negotiated changes)

- TWRC is currently in the process of internalizing the project management function

- The primary focus of the organization is currently on successful implementation while recognizing that the organization will continue to require a capacity for strategic planning as existing initiatives are completed and/or new initiatives are undertaken

- Other organizational proposals (e.g., role of the Board) that address issues which are felt to be undermining the effectiveness of the existing organization will be further pursued by TWRC as it deems appropriate (refer to the section of the report entitled "Other Organizational Considerations")

Organizational Design Principles

In light of the "givens/key assumptions" and the results of the various analyzes, four themes and 14 organizational design principles[19] were developed. They are summarized in the following diagram.

---

[19] Definitions are provided in Appendix F.

Figure 15: Organizational Themes and Design Principles

These themes/principles have been used to develop and evaluate the potential organizational options.

Development of Organizational Options

Three different organizational options have been developed in order to stimulate discussion around the most appropriate organizational design for TWRC as it moves forward.

One question that came up during the discussion of options was why not continue with the current organizational structure, albeit with some "tweaking" to address identified issues and gaps. Given questions about the clarity of the existing matrix management approach, and whether or not other identified issues and gaps can be addressed through the existing organizational design, it was decided to consider other organizational options. At the same time, it was recognized that continuing with the existing organizational structure may be a preferred option provided existing concerns can be addressed.

The organizational options[20] that were considered were as follows:

Option 1: Optimizing the Required Functions

▪ The functions required to achieve business objectives and target outcomes are clarified and confirmed with no major changes in the current organizational structure

---

[20] A COO role/position has not been further considered under any of the organizational options for several reasons. These include:

▪ It would introduce another management layer with potentially greater separation and distance between senior management and the ongoing issues and decision making

▪ It would potentially increase administrative costs in an organization where there has been expressed concerns about the increasing administrative costs

▪ TWRC is felt to be too small an organization to introduce a new senior management level

Option 2: Driven by Projects

▪ Projects are the primary driver of the organizational design supported by common project and corporate services

Option 3: Creating a Hybrid Organization

▪ Project accountabilities are combined with functional accountabilities to create a broader focus, perspective and accountability on/for key projects within the organization while preserving functional/technical expertise

Each of these options is described in greater detail below.

Option 1: Optimizing the Required Functions

Under this option, the functions required to deliver on the role of master developer would be clarified and confirmed.

The objective is to ensure that that there is a single point of accountability for the key functions that contribute to the successful achievement of the business objectives/target outcomes of the Corporation.

This option does not require significant changes to current organizational structure. It addresses existing concerns and confusion about the proposed matrix management structure since a formal matrix management structure would not be required.

The key changes in the organization structure under this option would include:

▪ The VPs of Planning & Design, Construction and Development would have lead accountability for a project when it falls within their area of functional responsibility. If they are not in a lead role, they would be expected to provide support to the lead function as required.

▪ The VP, Development would be accountable for the development of the projects, including marketing and sales, but would not be directly accountable for the planning, design or construction activities which support project completion (there may be a need for more than one VP, Development to cover the major projects)

▪ Planning, design and construction functions/activities would be provided by the VPs of Planning and Design and Construction and their staff as part of the ongoing horizontal working relationships

▪ Selected functions related to project control and management would be moved under Construction Management (from Finance)

▪ VP, Legal would become part of "Development Services" to reflect the importance of this function in supporting successful land development and the required linkages with partners

▪ A "VP, Corporate Services/CFO" would be established. This position would include all of the functions currently under the CFO (minus the project related services noted

above) and would be accountable for all corporate services that support the ongoing functioning of the organization.

- A separate HR function would be established reporting to the VP, Corporate Services (applies in all of the options)

Figure 16: Option 1 - Optimizing the Required Functions
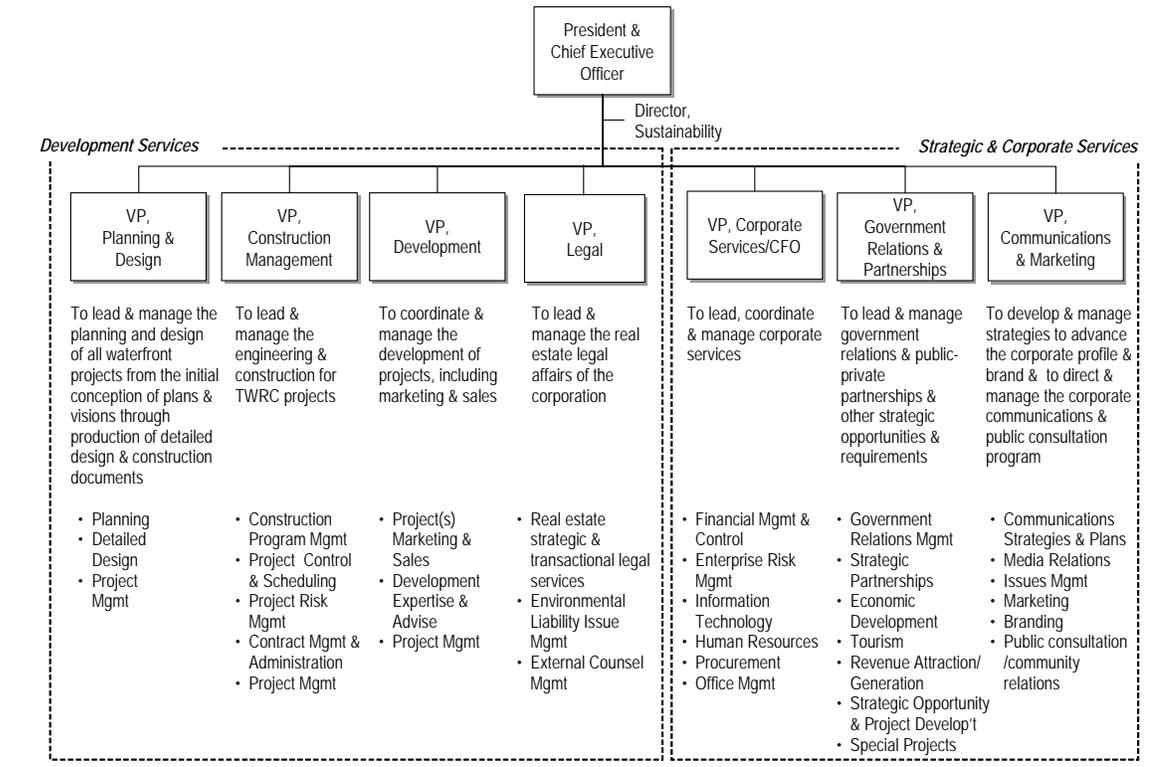
Option 2: Driven by Projects

Under this option, projects would become the primary driver of the organizational design supported by common project and corporate services.

The objective is to ensure that that there is a singular point of accountability for the major projects currently being led by TWRC while clustering common project and corporate services to ensure consistency and efficiency in the approach, delivery, and management of these services.

The key changes in the organizational under this option would include:

- VPs would be identified for each of the major projects (i.e., West Don Lands, East Bayfront, and other key projects that are identified). Each of the VPs would have dedicated resources in each of the key functions required for successful project delivery – planning and design, construction, and development.

- A "VP, Project Shared Services" (level would need to be confirmed) would be established. This area would be accountable for effectively and efficiently providing project control, administration.

- A "VP, Corporate Services/CFO" would be established. This position would combine all of the functions currently under the CFO (minus the project shared services noted above) with government relations. This position would be accountable for all of the services that support the ongoing functioning of the organization.

  – One variant on this option would be to separate government relations from "Corporate Services", potentially reporting directly to the CEO (as it does today), given this function has been identified as a key organizational focus and ongoing requirement

- A "VP, Revitalization" would be established. This position would have lead accountability for all of the activities considered vital to the revitalization of the waterfront including economic development, tourism, revenue attraction/generation (beyond land sales), as well as all marketing, communication, and public consultation functions.

- As in Option 1, a separate HR function would be created

Figure 17: Option 2 - Driven by Projects
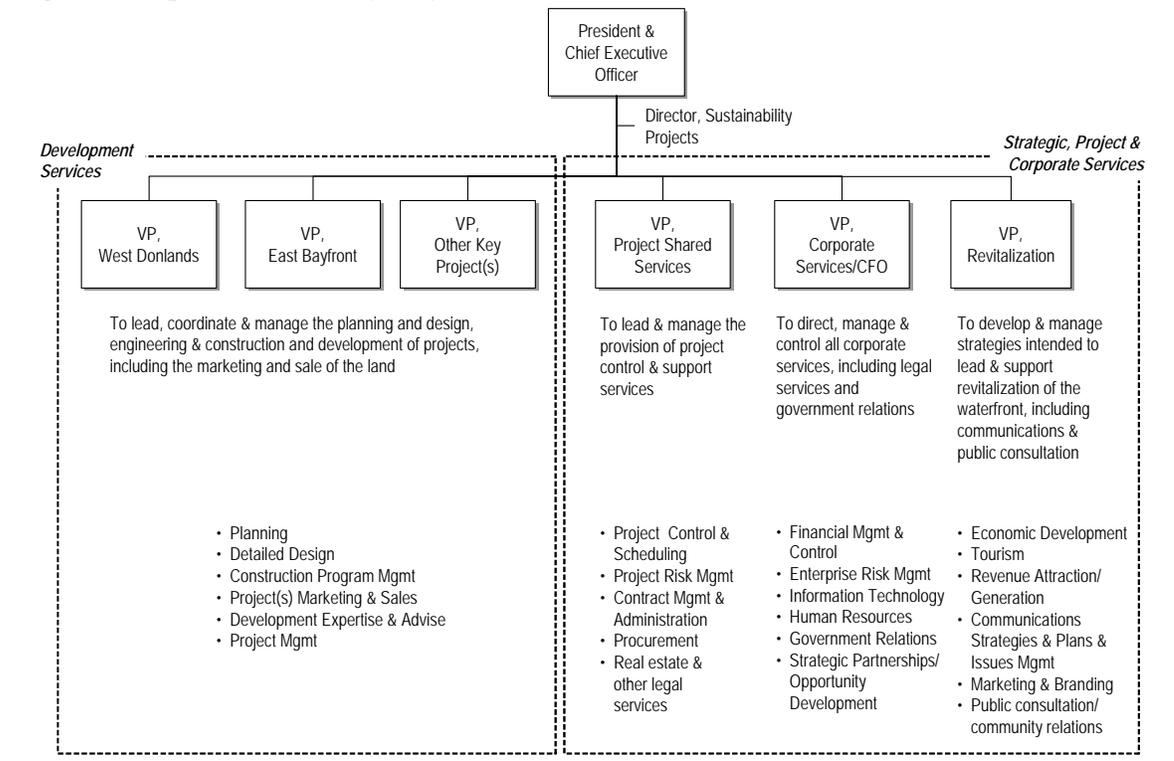
Option 3: Creating a Hybrid Organization

Under this option, project accountabilities would be combined with functional accountabilities to create a broader focus, perspective and accountability on/for key projects within the organization while preserving functional/technical expertise.

The objective is to continue and support existing functional/technical expertise while at the same time clearly assigning "Lead Integrator" roles to clarify accountability for delivery of major projects.

In order for this option to work, it would require a clear definition and understanding of matrix relationships. This includes clearly defining roles, accountabilities, and expected reporting relationships.

Common project and corporate services would also be clustered to ensure consistency and efficiency in the approach, delivery, and management of these services.

The key changes in the organizational under this option would include:

- VPs of Planning & Design and Construction would assume "lead integrator" responsibility for major projects while continuing to have lead accountability for a functional area. The suggested "VP, Project Shared Services" could also have lead accountability for a project.

- "Lead Integrator" roles would only be needed for the largest projects. Smaller projects could fall within scope of VP with appropriate functional expertise.

- Similar to Option 2, a "VP, Corporate Services/CFO" and "VP, Revitalization" would be established

  – Same comment about government relations as noted under Option 2

- As in Options 1 and 2, a separate HR function would be established

Figure 18: Option 3 - Creating a Hybrid Organization

```
                              ┌─────────────────────┐
                              │     President &       │
                              │ Chief Executive Officer│
                              └─────────────────────┘
                                         │
                                    ┌─────────────────┐
                                    │ Director, Sustainability │
                                    │      Projects     │
                                    └─────────────────┘
```

Development Services   *Strategic & Corporate Services*

VP, Planning & Design/ "Head" Project 1	VP, Construction Management/"Head" Project 2	VP, Project Shared Services (Project 3)	VP, Corporate Services/CFO	VP, Revitalization
To lead & manage the planning and design of all waterfront projects	To lead & manage engineering & construction for projects	To lead & manage the provision of project control & support services	To direct, manage & control all corporate services, including government relations	To develop & manage strategies intended to lead & support revitalization of the waterfront, including communications & public consultation

Lead Integrators:

To lead, coordinate, manage & be held accountable for the development of <u>major</u> projects:

West Donlands

East Bayfront

• Planning • Detailed Design • Project(s) Marketing & Sales • Development Expertise & Advise • Project Mgmt	• Construction Program Mgmt • Project Control & Scheduling • Development Expertise & Advise • Project Mgmt	• Project Risk Mgmt • Contract Mgmt & Administration • Procurement • Project Marketing & Sales • Development Expertise & Advise • Real estate & other legal services	• Financial & Administrative Services • Government Relations • Strategic Partnerships/ Opportunity Development	• Economic Development • Tourism • Revenue attraction/ generation • Communications Strategies & Plans & Issues Mgmt • Marketing & Branding • Public consultation/ community relations

Evaluation of Organizational Options

Assessment of Each Option

Each of the options was evaluated in light of the themes/principals earlier identified. The advantages and disadvantages of each option are summarized below.

Figure 19: Assessment of Option 1 - Optimizing the Required Functions

Criteria	Advantages	Disadvantages
Organizational Excellence: ■ Aligned with strategy ■ Clarity of roles and accountability ■ Builds required capacities ■ Provides flexibility	✓ Aligned with strategy by creating functional expertise needed to implement development ✓ Existing roles and responsibilities are clarified and confirmed and are based on single points of accountability ✓ Functional expertise is reinforced and further emphasized ✓ Functional structures/designs can expand and/or contract to meet changing demands	X Lack of clear accountability for critical project delivery commitments X Risk of delay/setbacks during "hand offs" between functional areas X CEO pushed into role of being an "integrator" across functional areas
Waterfront Revitalization: ■ Private sector investment ■ Delivery of key projects ■ Community development	✓ Development expertise and functional specialization to attract and retain investment	X Accountability for the overall success of a given revitalization project is not clear (outside of the CEO); it depends on the stage of the project X Handoffs of projects across functional areas increases risk and may discourage investment X Revitalization mandate is diluted across many functional areas
Collaboration and Linkages: ■ Integrated service delivery ■ Stakeholder engagement ■ Client driven & responsive	✓ Functional heads determine best model for collaborative service delivery (in house, partner, private sector), although they may lack a "project" perspective on the end-to-end service delivery requirements ✓ Some potential for speed and agility in responding to changing operating circumstances/ and client demands, but this may be offset by multiple demands placed on functional areas	X Project-specific knowledge, relationships and ER linkages may be eroded or lost during handoffs between functional areas during project lifecycle
Value for Money: ■ Cost efficiency ■ Balance scope & scale ■ Structural efficiency ■ Minimize disruption	✓ Should not increase the overall operating costs of the organization ✓ Comparable balance in the scale and scope of operations across the VP level ✓ Minimal disruption to the organization to implement this option because it is similar to "as is" design	X Functional heads may develop capacity that duplicates services of some of the partners (e.g., TEDCO/ORC)

Figure 20: Assessment of Option 2 - Driven by Projects

Criteria	Advantages	Disadvantages
Organizational Excellence: ■ Aligned with strategy ■ Clarity of roles and accountability ■ Builds required capacities ■ Provides flexibility	✓ Key driver and focus of the organization are projects, thus supporting short and long term objectives ✓ Reduced risk delay/setbacks during "hand offs" between functional areas ✓ Project structures/designs tend to have greatest flexibility to expand and/or contract to meet changing demands due to reduced emphasis on (or need to retain) functional roles ✓ No need for COO/CEO "integrator" role across functional areas	X "Projects" could potentially dominate the organizational focus and activities X Harder to develop functional expertise and attract key executives to lead functional areas
Waterfront Revitalization: ■ Private sector investment ■ Delivery of key projects ■ Community development	✓ Lead accountability for success of a given revitalization project is clear…no hand offs or buck passing ✓ Project-focussed development expertise used to attract and retain investment ✓ Consolidated lead accountability for revitalization activities, a critical element of future success for TWRC	X Possible lack of functional expertise needed to attract and retain private sector investment
Collaboration and Linkages: ■ Integrated service delivery ■ Stakeholder engagement ■ Client driven & responsive	✓ Project heads determine best model for collaborative service delivery (in house, partner, private sector) ✓ Project-specific knowledge, relationships and ER linkages are retained throughout project lifecycle ✓ Greater speed and agility in responding to changing operating circumstances/ and client demands	X Diluted accountability for maintaining TWRC's functional expertise in "value add" areas X Potential competition between projects for limited resources
Value for Money: ■ Cost efficiency ■ Balance scope & scale ■ Structural efficiency ■ Minimize disruption	✓ Creating a "shared services" function for projects and corporate services ensures services consistency, economies, specialization and cost efficiency ✓ Comparable balance in the scale and scope of operations across the VP level ✓ Reduces the total number of VPs	X Potentially increased operating costs as functions and resources are provided and possible duplicated under each development VP (depending on the requirements under the relevant MOU) X Significant impact on the existing organization as new reporting relationships and accountabilities would need to be defined

Figure 21: Assessment of Option 3 - Creating a Hybrid Organization

Criteria	Advantages	Disadvantages
Organizational Excellence: • Aligned with strategy • Clarity of roles and accountability • Builds required capacities • Provides flexibility	✓ Aligned with strategy due to functional expertise needed to implement development supported by clear accountability for delivery of critical projects ✓ Existing roles and responsibilities are clarified, confirmed and based on single points of accountability ✓ Functional expertise is reinforced and further emphasized ✓ Combining functional and project expertise requires a greater focus and understanding by the existing functional heads of the project expectations, requirements, issues and opportunities ✓ Integrator role reduces risk delay/setbacks during "hand offs" between functional areas and does not require COO/CEO "integrator" role to bridge across functional areas ✓ Functional structures/project leads can expand and/or contract to meet changing demands	X Requirement to provide both functional/technical and project leadership will increase the complexity of the operation and potentially impede the organization's capacity to deliver X Workload impact on functional/project VPs given their dual functional and project accountability results in stress and less flexibility to absorb new functions/responsibilities
Waterfront Revitalization: • Private sector investment • Delivery of key projects • Community development	✓ Project-oriented focus/expertise and functional specialization used to attract and retain investment ✓ Lead accountability for the overall success of a given revitalization project is clear…no hand-offs ✓ Consolidated lead accountability for revitalization activities, a critical element of future success for TWRC	
Collaboration and Linkages: • Integrated service delivery • Stakeholder engagement • Client driven & responsive	✓ Functional heads determine best model for collaborative service delivery (in house, partner, private sector), reinforced by onus on getting project completed successfully ✓ Project-specific knowledge, relationships and ER linkages are retained throughout project lifecycle ✓ Greater speed and agility in responding to changing operating circumstances/ and client demands	X Horizontal accountability create risk of "matrix" symptoms, but these are partially mitigated by combining roles of functional and project leads into the same person X Potential competition for limited resources as a "Functional Head" gives priority to their project at the expense of the functional needs of other projects
Value for Money: • Cost efficiency • Balance scope & scale • Structural efficiency • Minimize disruption	✓ Creating a "shared services" function for projects and corporate services ensures services consistency, economies, specialization and cost efficiency ✓ Comparable balance in the scale and scope of operations across the VP level ✓ Should not significantly increase the overall operating costs ✓ Reduces the total number of VPs	X Modest implementation impact as some new reporting relationships and accountabilities would need to be defined

Summary of Evaluation Results

The results of the evaluation of each option are summarized in the following diagram.

Figure 22: Evaluation of Organizational Options

*The criteria have not been weighted
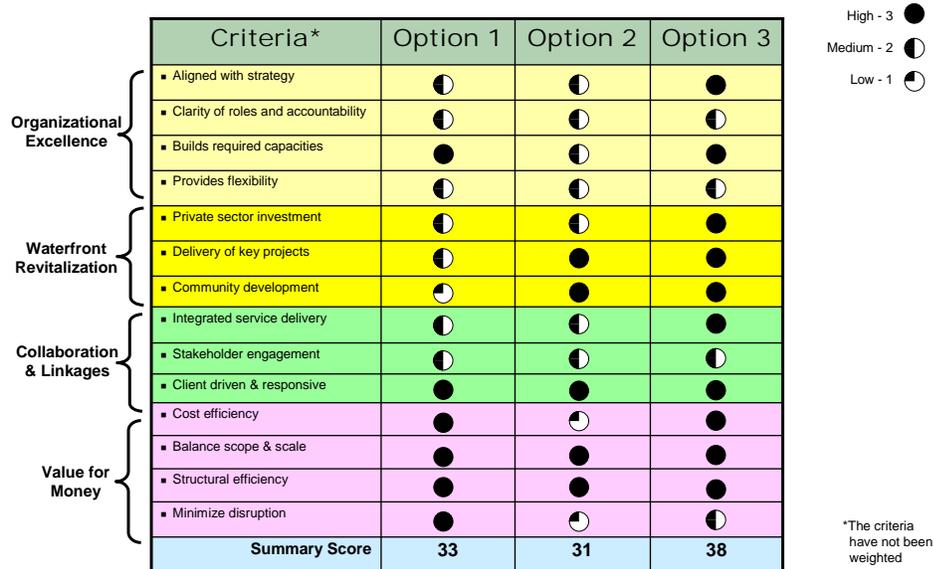
Based on this evaluation, it was concluded that TWRC should continue to move forward with some form of "matrix" organization (like Option 3). Significant re-organization is not called for at this time.

A matrix organization offers number of benefits in this particular case which include:

- It is consistent with, and supportive of, the overall strategic direction and priorities of TWRC

- It enhances the functional expertise needed to be a master developer

- It clarifies accountability and project management structure for delivery of major projects, internally and externally, while building stronger horizontal linkages, collaboration and interdependencies

- It establishes clear lead and accountability for key activities, outside of project development, which are critical to the future success for TWRC

However, the challenge is that matrix organizations are complex and can be undermined by power struggles, decision strangulation, anarchy and "groupitis"[21]. There are several options for overcoming these "matrix" risks. These include:

- Continue with a VP, Development, but clarify roles and accountabilities and develop team-based collaborative culture

- Assign dual roles to functional VPs as both lead integrators for major projects, as well as being a head of functional area

- Strengthen project management functions that cross horizontal boundaries

- Introduce a "COO" role to foster/enforce horizontal collaboration, while focusing on project delivery (as noted earlier, this role was not further considered in the development of organizational options for TWRC given the identified concerns)

---

[21] Refer to Appendix G for more detail.

Recommended Organization Design

In light of the evaluation of options, and based on further discussions with TWRC, a preferred organization design has been developed (outlined in the following diagram) and is recommended for implementation.

Figure 23: Recommended Organizational Design
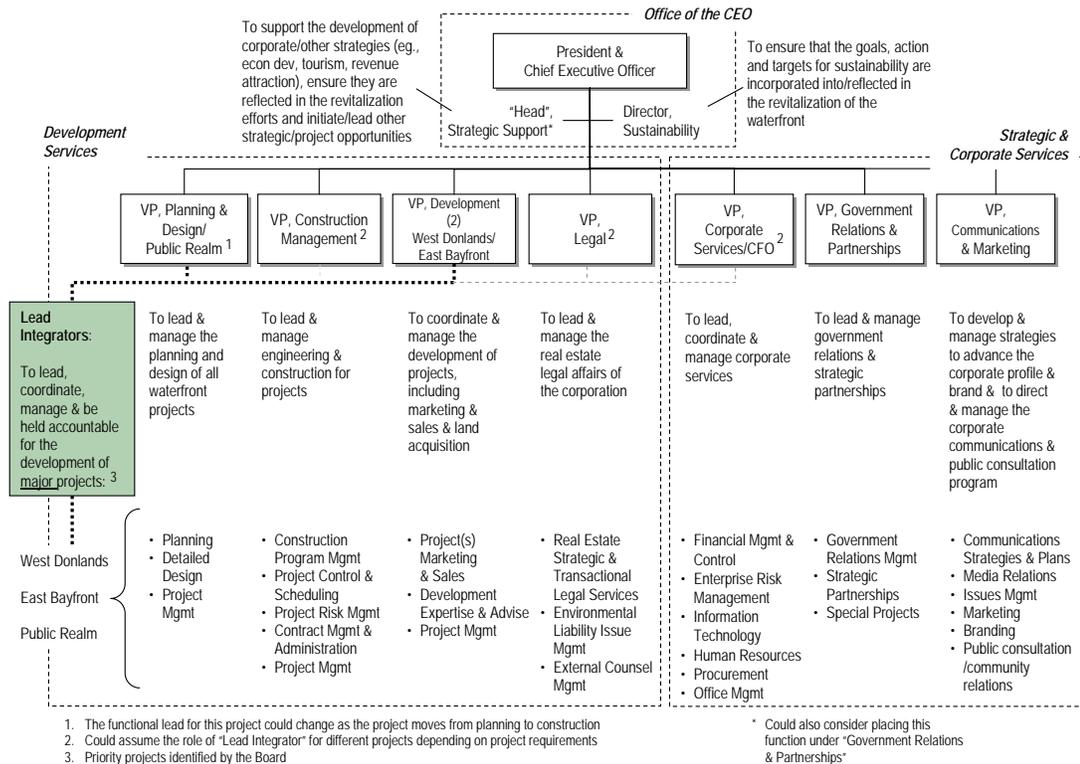
Key Changes

The key changes under the recommended organizational design include the following:

- Project accountabilities are combined with functional accountabilities by establishing a "Lead Integrator" role in order to create a broader focus, perspective and accountability on/for the priority projects identified by the Board while preserving functional/technical expertise

  – The objective is to continue and support existing functional/technical expertise while at the same time clearly assigning "Lead Integrator" roles to clarify accountability for delivery of projects

  – There will also be designated "Lead Integrators" for other projects which could vary over the life of any given project

- Common project management functions and expertise are consolidated under the VP, Construction Management (such as project control and scheduling and contract management and scheduling) to ensure consistency and efficiency across all projects

- A "Coordinating Committee" for Development Services (and other "Lead Integrators" as appropriate) will ensure that there is ongoing coordination and collaboration between projects and functional areas

- All corporate services are clustered under the VP, Corporate Services/CFO to ensure consistency and efficiency in the approach, delivery and management of these services. Includes a dedicated lead for human resources (with dotted line to CEO for strategic plans and initiatives).

- Government Relations and Marketing and Communications are kept separate given their critical importance to the organization at this point in time

- A new role is established in the Office of the CEO which is intended to provide strategic support to the CEO and the organization in the development and integration of corporate/other strategies (e.g., economic development, tourism, revenue attraction) and in initiating/leading other strategic/project opportunities which are critical to the overall revitalization

It is also important to develop/reinforce a matrix-supportive culture within TWRC given this option[22].

Benefits of the Recommended Organizational Design

The recommended organizational design offers a number of benefits:

- It aligns well with the current strategy in that the functional expertise needed to implement development is preserved, reinforced and further emphasized and is supported by clear accountability for delivery of critical projects

- Combining functional and project expertise requires a greater focus and understanding by the existing functional heads of the project expectations, requirements, issues, and opportunities

- "Lead Integrator" role reduces risk delay/setbacks during "hand offs" between functional areas and does not require the CEO to act in an "integrator" role across functional areas

- There is a lead accountability for key corporate strategies which will contribute to the future success of TWRC

- Project-specific knowledge, relationships and ER linkages are retained throughout the project lifecycle

- There is potentially greater speed and agility in responding to changing operating circumstances/ and client demands given that functional structures/project leads can expand and/or contract to meet changing demands

---

[22] Specific recommendations are outlined in Appendix G.

- This option should not increase overall operating costs by maintaining a flat structure

Other Organizational Considerations

Synergies with Government

One of the questions that came up during the analysis of the existing organization was "Are there opportunities to build synergies with the governments in meeting the current and future expectations of TWRC?"

Besides clarifying and confirming the requirements and obligations under the existing MOUs as recommended in the analysis of government linkages and processes, it is felt that TWRC should be considering all opportunities to work with the different governments. This could include potentially drawing on their resources to complete a particular activity/initiative (while appreciating that the arrangements and costs for drawing on these resources would need to be determined).

However, having made this general observation, it is difficult to determine if there are any opportunities to improve the efficiency and effectiveness of the TWRC through such arrangements without a more detailed examination of the capacity of the other levels to take on additional responsibilities. There is also the concern that conflicting priorities, which inevitably happen between organizations, could undermine TWRC effectiveness should it go down this path.

Board Effectiveness

Questions about the role of the Board, as well as the respective roles of the Chair and the CEO, have been raised earlier in the report.

With regard to the Board, one outstanding question concerns the appropriate level of engagement in the ongoing activities of the organization. It is has been suggested that the appropriate level of engagement may be that of an "Engaged Board"[23] while recognizing that roles may vary depending on circumstances.

With regard to the role of the Chair and the CEO, TWRC submitted a letter to the governments in 2006 outlining its proposal for the role of the TWRC Chair, including the Chair's relationship with government stakeholders, the Board of Directors and TWRC management.

One question that appears to be still outstanding concerns the management of the formal linkages with the government stakeholders. In the past, the Board Chair managed the external stakeholder relationships and the CEO focused on ongoing delivery. TWRC has proposed that the Chair act as "formal link" in these relationships. Given the criticality of these relationships to the success of the organization and the ongoing operations, the meaning of "formal link" should be clarified. It should also be noted that if there are increased expectations/demands placed on the CEO to play a greater external role, there

---

[23] More detail provided in Appendix H.

could be an increased need for more senior management support (such as a COO as earlier discussed).

The next chapter of the report outlines a proposed implementation plan to move forward with the recommended action.

<div style="border:1px solid black; width:3em; text-align:center;">

6

</div>
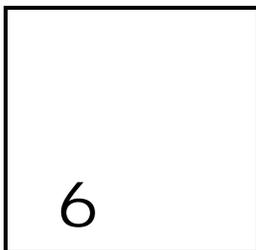
Implementation Plan

Introduction

This section of the report provides a high level implementation plan. TWRC will ultimately be accountable for moving forward with the approved recommendations. This may involve working with the three governments to address/implement certain recommendations.

High Level Implementation Plan[24]

Task	Accountabilities	Timeline	Comments
1. Confirm the final organizational design and inform the Board and staff accordingly. Develop job descriptions to support any changes in roles and responsibilities.	President and CEO VP, Corporate Services/CFO (re. Human Resources accountability)	1 month+	Additional resources may be required to develop the roles and responsibilities within the suggested timeframe
2. Confirm the recommendations to be further pursued as a result of the VFM Audit and develop a detailed implementation plan. The Plan should include: – Confirmation of overall lead accountability and timeline for implementing the approved recommendations – Assignment of lead accountabilities and timelines to	VP, Corporate Services/CFO President and CEO	1 month	No additional resources required to develop the implementation plan Additional resources may be required to move forward with implementation of some of the

---

[24] TWRC has developed an Action Plan to respond to the VFM Audit and Organizational Review recommendations. As outlined in the Plan, many of these recommendations have already been addressed. A strategy and timeline for addressing the other recommendations are also included in the Plan. It is understood that the Board's Audit Committee will be monitoring implementation of the Audit/Organizational Review recommendations (as noted in Step 5 of this implementation plan).

Task	Accountabilities	Timeline	Comments
address individual recommendations			recommendations
– Identification of any linkages with governments that are required to address specific recommendations Submit plan to Board for approval			
3. Confirm the recommendations to be further pursued as a result of the review of government linkages and processes and develop a detailed implementation plan. The Plan should be coordinated with the above noted audit plan and should include: – Confirmation of overall lead accountability and timeline for implementing the approved recommendations – Assignment of lead accountabilities and timelines to address individual recommendations – Identification of any linkages with governments that are required to move forward with the recommendations Submit plan to Board for approval	President and CEO	1 month	No additional resources required to develop the implementation plan Additional resources may be required to move forward with implementation of some of the recommendations
4. Develop a communication strategy and plan to rollout the approved changes and related implementation plans to key stakeholders. Submit Plan to Board for approval.	VP, Communications and Marketing	1.5 months	Additional resources may be required to develop the communication strategy and plan depending on other demands in this area
5. Monitor and report on the progress of implementation of the approved recommendations to the Board (through the Audit Committee as requested by TWRC), governments and other key stakeholders on an ongoing basis	President and CEO	Monthly (starting in month two)	No additional resources required

7
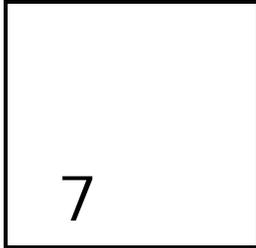
Appendices

Appendix A: Summary of Recommendations

The following summary includes all of the recommendations that are outlined in this report. Where recommendations apply to more than one area, they have been included (or at least identified) in both areas with cross-linkages noted. This will allow TWRC to focus on a particular process and/or to separately focus on recommended changes in the organizational structure or the government linkages and processes.

Only the final recommendations are included below. Additional information and commentary relating to the recommendations is provided in the main part of this report. For the VFM Audit, reference should be made to Chapter 4 for background information and comments related to the Audit. This chapter includes the "Management Response" to the Audit recommendations. For the Organizational Review, reference should be made to Chapter 5 for "Observations/Comments" which relate to the recommendations resulting from the analysis of government linkages and processes and for additional comments and considerations regarding the recommended organizational design.

Value-for-Money Audit

Procurement Process

Area Considered	Recommendations
1. Planning and Scheduling	▪ TWRC should continue with the implementation of the organization-wide scheduling system that is currently being worked on by the Program Controls and Risk Management department to better manage all aspects of its projects including the procurement of professional/construction/other services required on these projects
	▪ A master procurement schedule, showing the target dates for procurement-related activities and the actual progress achieved, should be generated by the organization-wide scheduling system to serve as a communication tool for future procurement planning with project managers and subsequent progress tracking
	▪ The procurement and program controls and risk management departments should hold weekly meetings with project managers and the vice-presidents to verify all procurement needs and ensure that they are integrated into the master schedule
	▪ All future project procurement requests should be initiated through the master procurement schedule. The timing of both the procurement department's activities and the development of document content by others should be driven from this schedule.
	▪ The procurement department should create a list of minimum requirements that need to be covered in the procurement process from staff requesting the services to ensure that all necessary information is gathered on a timely basis
2. Timing and Tracking	Procurement should make process improvements that will streamline their activities and reduce the amount of time required to prepare the average procurement document. The following items are seen as areas of potential improvement to the process:
	▪ The project managers and vice-presidents must provide detailed work scopes and budgets to the Procurement department on a timely basis to support preparation of the procurement document
	▪ A procedural requirement should be implemented to have the completeness check on proposal submissions performed no later than two days after submissions are received. This should be monitored through the procurement checklist.
	▪ A procedural requirement should be implemented to have the evaluation performed no later than, for example, 15 business days after submissions are received. This would provide ample time for the evaluation committee to mark both technical and financial content and to conduct interviews, if necessary. This should be monitored through the procurement checklist.
	▪ A procedural requirement of, for example, 15 business days should be implemented to have the contract drafted and signed, unless further negotiation is required. The department uses contract templates, which is a great tool in reducing the time required to sign a contract.
	▪ Work should not begin before a contract is signed
	▪ In order to improve times, the department needs to track times. A field for sign-off date should be included on the procurement

Area Considered	Recommendations
	checklist for each procurement document to be tracked through the system. The data obtained from the checklist will be beneficial for planning procurement schedules and timelines.
	▪ The requirement for the procurement checklist should be added to the policies and procedures manual to ensure it is included in each procurement file
	▪ VORs should be created by TWRC to shorten procurement activities and times. A procedural requirement should be implemented to encourage the use of the VOR lists whenever possible and appropriate.
	▪ All evaluation decisions and communications should be made formally and documented in the procurement files
3. Procurement Volume	▪ The procurement department should ensure their schedule reflects current project requirements by consulting with the appropriate TWRC departments. If the timelines in the schedule are accurate, they must prioritize procurements, hire additional staff and correct inefficiencies in the processes identified above as soon as possible.
4. Sole-Sourcing	▪ TWRC should amend its procurement policy and ensure their policies and procedures are in line with the Contribution Agreements
	▪ Based on internal policies and procedures, any procurement over $25,000 and below $75,000 must be competitively run unless it is signed off by the CEO of the Corporation after a review of the reasons for sole-source has been completed. For procurements greater than $75,000, if procurement cannot be competitively run, because there are no alternative vendors, we recommend that a Pre-Solicitation Notice be placed on MERX website for a certain amount of time (15 days was used as an example by the Federal government, however this time is flexible and can be set by TWRC).
5. Internal versus External Services	▪ TWRC continue to assess all services procured for with consideration as to internal skill, expertise and capability. TWRC should review all upcoming scheduled procurements and establish if there are certain skills that could be honed internally in the organization. Cost-benefit analysis comparing external costs to internal costs (wages, systems, overhead, qualifications of personnel, etc.) should be done, where applicable, to determine the best value-for-money for the organization.
	▪ TWRC should consider either hiring marketing staff or an external consultant to promote TWRC's vision to ensure TWRC generates successful private sector participation and investment attraction
6. Change Orders	▪ TWRC track change orders in order to categorize their cause, such as by revision to scope of work, unforeseen/changed conditions of work, inaccurate or inappropriate estimates, delay in external party and/or timing changes. This recommendation is in line with PricewaterhouseCoopers Internal Audit Report on Eligible Recipient (ER) Management, dated May 2005.
	▪ Procurement should create a guidance document to assist TWRC staff requesting the services in providing appropriate detail for the technical portions of the procurement document. This will help to streamline document production and to ensure vendors are provided with sufficient information to prepare comprehensive proposals for the work to be performed.

Area Considered	Recommendations
7. Other	• Ensure procurement is integrated where appropriate with land sales and marketing in order to strengthen the TWRC's ability to attract private sector investment in land development (recommended under Government Linkages and Processes)

Executive Compensation Process

Area Considered	Recommendations
1. Obtain, evaluate, and retain the best talent	• As TWRC is operating with public funds and in a public environment, the organization should consider not only recruiting persons with private sector experience but also have a balance of persons on staff with public sector experience
	• TWRC should review the linkages to organizational needs and ensure bonuses are paid based on stretch objectives that are linked to specific TWRC objectives to move the organization ahead
	• Personnel should be trained and monitored closely by management and the Compensation Committee in the preparation and delivery of the PFS model until such time it is operating effectively
	• TWRC should continue to benchmark salaries in the future. The Compensation Committee should recommend the appropriate level of benchmarking based on reports provided by external consultants, which should include a balance of private and public sector organizations.
	• TWRC must implement a management infrastructure to ensure the performance pay system is perceived as transparent and is used properly. The human resource function must become an integral part of the senior management team and be strategically linked to the business planning process.
	• TWRC should continue to build internal HR resources as it grows in size
2. Compensation Committee Mandate	• The Compensation Committee clearly document the annual review of officer compensation
	• Progress meetings be implemented to ensure clear, communication and understanding of HR progress between management and the Compensation Committee
	• The role and responsibilities of the committee should be reviewed with consideration given to the organizational requirements and industry best practices

Overall Project Management Approach and Practices

Area Considered	Recommendations
1. Budget Forecasting and Scope Definition	▪ TWRC should continue with researching the implementation of a standard central cost estimation system and that it be applied consistently across projects
	▪ TWRC should make appropriate revisions to the project cost estimates and amend the long-term plan to reflect these current costs estimates
	▪ The long-term plan should be reviewed to ensure that all projects included in the plan have sufficient cost estimates attributed to them and that the overall funding plan is reasonable, otherwise, funds may need to be re-allocated from other projects which could cause some projects to have their scopes delayed or not included at all within the $1.5 billion government's commitment.
	▪ TWRC should perform feasibility studies (where project value or risks warrants one) to ensure projects are reasonably scoped and estimated
	▪ Funding for feasibility studies should be requested by TWRC through the corporate costs contribution agreement on an annual basis to ensure that monies are available up front in helping TWRC improve its costing and scoping of projects prior to proceeding with a contribution agreement. This will enable TWRC to prepare contribution agreement proposals with accurate information and will reduce change orders when the project has been started.
2. Business Plan Process and Funding Model	▪ TWRC and the three governments negotiate the use of an operating line of credit. This will likely reduce the dollar amount of cash flow requested and ensure only funds that will likely be spent are requested thereby reducing TWRC's cash flow needs.
	▪ TWRC develop action plans to rectify the causes of under utilization of funds
	▪ TWRC be proactive in continuing to work with the three governments on finding mutually agreeable options and solutions to increasing TWRC's flexibility to manage project funding
	▪ Confirm priorities and measures, corporate and project-specific, as part of the annual planning process and align them with the organization structure and staffing/resourcing strategies (recommended under Government Linkages and Processes)

Area Considered	Recommendations
3. Contribution Agreement A. Length of process	▪ Contribution agreements should be prepared based on project level and not phase level, unless the phase is significant in dollar value to warrant going through the process ▪ Feasibility studies should be funded out of corporate costs and not project costs ▪ Based on the volume of contribution agreements required to fulfill the long-term plan in the future, the time required of staff to prepare and monitor these documents will increase. TWRC should consider hiring an additional resource for this area. ▪ TWRC should plan to submit contribution agreements well in advance of the project start date ▪ TWRC should implement a tracking mechanism for contribution agreements. This should include flagging contribution agreements that are over the average process timelines and requiring the appropriate personnel to investigate and follow up with any issues. ▪ TWRC/the governments should adopt an automatic escalation protocol such that if there is a delay, there is automatic escalation (recommended under Government Linkages and Processes)

B. Indemnification clause	▪ TWRC continue to work with the three governments on finding mutually agreeable alternatives to the indemnification clause. Solutions proven effective to date include:
	
	  – Securing approval from the three governments to obtain the appropriate level of insurance in special circumstances and claiming this expense as an eligible cost (TWRC should plan for this expenditure when applying for the contribution agreement)
	
	  – Strategically allocate funding by each government. For example, the Federal government fund projects where this clause would likely not be an issue with vendors, and have the other two governments fund projects where this issue may be encountered.
	
	▪ In the interim, all contracts that TWRC enters into should include the unlimited indemnity clause to ensure compliance with the contribution agreements, even if the contract is in a form preferred by the vendor
	
	▪ Insurance costs be included in project planning and budgeting. This will provide for a contingency in the budget in case the indemnification clause becomes a future issue.

C. Sunset clause	▪ TWRC and the three governments should discuss the future issues the sunset provision will have on the ability of TWRC to deliver its mandate. An option that should be considered includes shifting Federal funding to projects that will be completed by March 31, 2008.

Area Considered	Recommendations
D. Other	▪ Board members should continue to work through their respective governments to actively encourage them to make changes in this process that could/should align with TWRC's recent submission to the Blue Ribbon Commission established by the Federal government (recommended under Government Linkages and Processes)
	▪ TWRC/the governments should conduct a detailed review of existing process with the objective of streamlining where possible (recommended under Government Linkages and Processes)
4. Use of Eligible Recipients	▪ TWRC document and follow an ER management and monitoring process that encompasses all requirements from the Delivery Agreements
	▪ TWRC will need to ensure that as program management is internalized, roles and responsibilities are clearly defined and communicated, including for ERs (recommended under Government Linkages and Processes)
5. Management of Project Timelines	▪ Based on the decision to bring the project management team internally, TWRC must continue to build their management tools and skills, including the cost estimating and scheduling systems. TWRC must ensure that these systems are compatible with each other and the other various departmental systems and needs of TWRC.
	▪ Where TWRC activities affect processes of outside stakeholders, a plan be implemented to ensure all parties are working in close coordination to achieve best value-for-money
6. Completion of Projects	▪ TWRC develop a formal close-out process, policy and procedures for contracts and projects. Close-out procedures would encompass all departments of the organization; accounting, finance, procurement and operations.
	▪ A Project File Completion Form to be used to track the completion of the close-out procedures
7 Private Partner and Investment Attraction	▪ TWRC to continue with its endeavours to partner with private sector developers for the West Don Lands and East Bayfront developments
	▪ TWRC must initiate a creative funding model with the private sector to generate sufficient funds to bridge the gap between the $1.8 billion of committed funding and the required $4.3 billion for infrastructure
	▪ TWRC to develop a marketing and branding plan to promote the revitalization of the waterfront and its attractiveness for developers and investors
	▪ Confirm the definition of private sector investment and how it is supported by the organization and reflected in the planning and budgeting process (recommended under Government Linkages and Processes; refer to proposed role in the recommended organizational design)

Area Considered	Recommendations
8. Project File Documentation	■ TWRC establish files for each specific project, either in hard copy or electronically or both as the circumstance dictate. A checklist or table of contents should be established to ensure all documents are maintained in the file, including ER documents and approvals. TWRC should gather all specific project information and documents from the various individuals at TWRC and maintain them in one central location. ■ TWRC obtain all project files maintained at external project manager locations. These will need to be reviewed by the new internal project managers before the transition takes place to ensure knowledge transfer.

9. Other	■ "Swimlane" diagrams could be used to clarify who does what, by when, under the existing revitalization and business processes (recommended under Government Linkages and Processes; includes definition of revitalization and business processes)
	
	■ Coordinate/consolidate the ongoing liaison and interface between TWRC and the various government committees and task forces (while recognizing that the MOUs outline specific requirements related to their areas of focus). This should include consideration of the role and ongoing need for a given committee or task force, including the Intergovernmental Steering Committee, in light of expected future demands and requirements (recommended under Government Linkages and Processes).
	
	■ Proactively manage ongoing working relationship with secretariats to ensure that both TWRC and government expectations and requirements are being identified, considered and, to the extent possible, met. Include confirmation of roles and expected working relationships given that the level of involvement and engagement with each secretariat may vary (recommended under Government Linkages and Processes).
	
	■ Clarify/confirm working relationships, requirements and obligations under the existing MOUs
	  – Use "swimlane" diagrams to identify non-value adding parts of linkage processes and clarify who does what by when
	  – Streamline document approval and decision process
	    ▫ Establish target timelines for task completion by all participants
	    ▫ Adopt an automatic escalation protocol to address issues that need attention (e.g., if delay, then automatic escalation)
	  – Create a standardized MOU template
	  (recommended under Government Linkages and Processes)
	
	■ Clarify accountability for project management and delivery of major projects by establishing a point person to manage the linkages across functional areas and between TWRC and its partners (refer to the "Lead Integrator" role in the recommended organizational design; lead role also proposed under Government Linkages and Processes)

9. Other (con't)	■ Strengthen TWRC's ability to attract private sector investment in land development by: – Streamlining and simplifying the land sale approval process by

Area Considered	Recommendations
	having the City issue desirable criteria, and then allowing TWRC to manage the sales process subject to compliance with the approved disposition criteria
	– Delegating minor land use approval authority to TWRC (from City) in areas such as site plan control of landscaping or curb cut locations within a City-approved policy and urban design framework (Note: According to the City, this may not be feasible given liability and other concerns and instead may be achievable through critical path planning and improved application packages)
	(recommended under Government Linkages and Processes)
	▪ TWRC should establish a lead accountability for reviewing/ developing strategies that contribute to economic development, tourism, business attraction and revenue generation that could potentially be incorporated into the precinct and other major project plans (recommended under Government Linkages and Processes; refer to proposed role in the recommended organizational design)

Organizational Review

Organizational Design

▪ Implement the recommended organizational design as described in this report and outlined in the following diagram

---

Recommended Organizational Design

1. The functional lead for this project could change as the project moves from planning to construction
2. Could assume the role of "Lead Integrator" for different projects depending on project requirements
3. Priority projects identified by the Board

* Could also consider placing this function under "Government Relations & Partnerships"
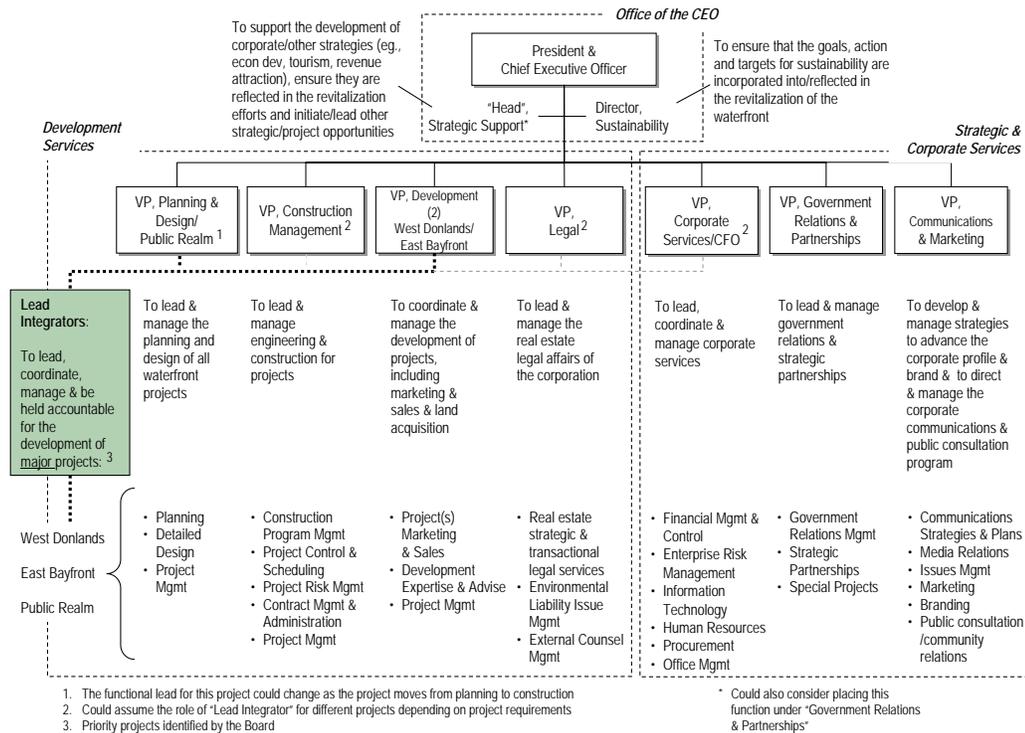
▪ Key changes include the following :

– Project accountabilities are combined with functional accountabilities by establishing a "Lead Integrator" role in order to create a broader focus, perspective and accountability on/for the priority projects identified by the Board while preserving functional/technical expertise

▫ The objective is to continue and support existing functional/technical expertise while at the same time clearly assigning "Lead Integrator" roles to clarify accountability for delivery of projects

▫ There will also be designated "Lead Integrators" for other projects which could vary over the life of any given project

– Common project management functions and expertise are consolidated under the VP, Construction Management (such as project control and scheduling and contract management and scheduling) to ensure consistency and efficiency across all projects

– A "Coordinating Committee" for Development Services (and other "Lead Integrators" as appropriate) will ensure that there is ongoing coordination and collaboration between projects and functional areas

– All corporate services are clustered under the VP, Corporate Services/CFO to ensure consistency and efficiency in the approach, delivery and management of these services. Includes a dedicated lead for human resources (with dotted line to CEO for strategic plans and initiatives).

– Government Relations and Marketing and Communications are kept separate given their critical importance to the organization at this point in time

– A new role is established in the Office of the CEO which is intended to provide strategic support to the CEO and the organization in the development and integration of corporate/other strategies (e.g., economic development, tourism, revenue attraction) and in initiating/leading other strategic/project opportunities which are critical to the overall revitalization

Government Linkages and Processes

Areas Considered	Recommendations
Hierarchy ▪ TWRC's enabling legislative/ regulatory framework ▪ Government reporting/ accountability structure ▪ "In house" org design and accountability/ authority structure ▪ Corporate priorities and measures	▪ Confirm the role of the Board, and the extent of its accountabilities and decision making powers, in delivering on TWRC's mandate, and the five and ten-year plans, in light of the current funding and approvals mechanisms in place with the three governments ▪ Ensure that TWRC, the three governments, and other key stakeholders, have a common understanding of the intent and implications of the "master developer" role ▪ Provide sufficient organizational capacity to manage the linkages with external stakeholders ▪ Confirm priorities and measures, corporate and project-specific, as part of the annual planning process and align them with the organization structure and staffing/resourcing strategies
Structural ▪ Committees/ task forces (e.g., IGSC) ▪ Government secretariats ▪ MOUs (City /TEDCO and ORC)	▪ Coordinate/consolidate TWRC's involvement in the various committees and task forces (while recognizing that the MOUs outline specific requirements related to their areas of focus). This should include consideration of the role and ongoing need for a given committee or task force, in light of expected future demands and requirements. ▪ The role of the IGSC should be clarified and confirmed, especially as it relates to the ongoing coordination of the interface between the secretariats and TWRC, and that consideration be given to formally including the TWRC as part of the Committee's meeting, potentially as a member ▪ Proactively manage ongoing working relationship with secretariats to ensure that both TWRC and government expectations and requirements are being identified, considered and, to the extent possible, met. Include confirmation of roles and expected working relationships

Areas Considered	Recommendations
	given that the level of involvement and engagement with each secretariat may vary.
	▪ Clarify/confirm working relationships, requirements and obligations under the existing MOUs – Use "swimlane" diagrams to identify non-value add parts of linkage processes and clarify who, does what, by when – Streamline document approval and decision process 　▫ Establish target timelines for task completion by all participants 　▫ Adopt an automatic escalation protocol to address issues that need attention (e.g., if delay, then automatic escalation) – Create a standardized MOU template ▪ In the VFM Audit, it was also recommended that where TWRC activities affect processes of outside stakeholders, a plan be implemented to ensure all parties are working in close coordination to achieve best value for money
▪ Contribution agreements ▪ Eligible recipient agreements ▪ Indemnification agreements ▪ Program management	▪ There are several recommendations in the VFM Audit to improve the CA process (e.g., project level vs. phase level funding). Other proposals include: – Board members should continue to work with their respective governments to actively encourage them to make changes in this process that could/should align with TWRC's recent submission to the Federal government's Blue Ribbon Commission – TWRC/the governments should consider adopting an automatic escalation protocol in the event of a delay – TWRC/the governments should conduct a detailed review of the existing process with the objective of streamlining where possible ▪ In the VFM Audit, it is recommended that TWRC document and follow an ER management and monitoring process that encompasses all requirements from the Delivery Agreements. TWRC will need to ensure that as program management is internalized, roles and responsibilities are clearly defined and communicated, including for ERs. ▪ The VFM Audit outlines several recommendations regarding indemnification agreements (e.g., strategically allocate funding by each government) ▪ Clarify accountability for project management and delivery of major projects. This could include establishing a point person to manage the linkages across functional areas and between TWRC and its partners (refer to the "Lead Integrator" role in the recommended organizational design)
Process and System Revitalization Processes ▪ Planning and land use approval process	▪ Use "swimlane" diagrams to clarify who does what, by when, under the existing revitalization processes ▪ Strengthen TWRC's ability to attract private sector investment in land development by:

Areas Considered	Recommendations
▪ Land sale, RFP and marketing processes ▪ Economic development and marketing processes ▪ EA process	– Integrating procurement, where appropriate, with land sales and marketing – Streamlining and simplifying the land sale approval process by having the City issue desirable criteria, and then allowing TWRC to manage the sales process subject to compliance with the approved disposition criteria – Looking at other ways to expedite the development process whether it's better critical path planning, improved application packages and/or the delegation of routine permitting functions ▪ Given the specific requirements under the MOU with the City/TEDCO, TWRC should establish a lead accountability for reviewing/ developing strategies that contribute to economic development, tourism, business attraction and revenue generation that could potentially be incorporated into the precinct and other major project plans (refer to proposed role in the recommended organizational design)
Business Processes ▪ Plan/funding approval process ▪ Other linking processes (e.g., subsidiary approval process) ▪ Communication process ▪ Audit processes	▪ Use "swimlane" diagrams to clarify who does what, by when, under the existing business processes ▪ Confirm the governments' and TWRC's priorities as part of the annual planning process ▪ Confirm the definition of private sector investment and how it is supported by the organization and reflected in the planning and budgeting process (refer to proposed role in the recommended organizational design) ▪ The VFM Audit includes several recommendations related to budget forecasting and scope definition (e.g., amending long-term plans to reflect project cost estimates) and business planning and funding model (e.g., provide operating line of credit; develop plan to rectify under utilization of funds) ▪ Consideration could be given to providing some tools to TWRC (e.g., line of credit as suggested in the VFM Audit) with clearly defined boundaries that allow the governments to "test" their feasibility ▪ Assuming that the requirements of the various governments are met, the potential of coordinating/ consolidating the various audits should be further considered (which could involve implementation of the tri-level, risk-based audit plan)

Areas Considered	Recommendations

Informal
 	
▪ Individual relations/direct contact
 	
▪ Informal groups/leaders
 	
▪ Informal rules, norms and standards (operating environment)
	▪ Continue to build on, and reinforce, the working relationships and the spirit of collaboration and cooperation with the governments in achieving the overall objectives of the waterfront revitalization
	
	   – Board Strategic Planning session held in early February of this year seen as good example of working well together
	
	▪ Clearly identify lead accountability within TWRC for major projects. This person can then build network and personal relationships to manage linkages, collaboration and task sharing with landowners and ER (refer to recommendation for a "Lead Integrator" in the recommended organizational design)
	
	▪ Define a set of operating principles that will guide and facilitate the overall working relationship and interaction with, and between, TWRC and the three governments and the agencies
	
	   – TWRC may also want to consider developing its own set of operating principles which would guide the actions of the Board and the staff in working with/partnering with the three governments

Appendix B: Reference Documents Considered in the Organizational Review

Toronto Waterfront Revitalization Corporation

- *Our Toronto Waterfront: Gateway to the New Canada,* Toronto Waterfront Revitalization Corporation Taskforce, 2000

- *Our Toronto Waterfront: Gateway to the New Canada: The Development Plan and the Business Strategy,* Toronto Waterfront Revitalization Corporation, October 17, 2002

- *2004-2005 Annual Report,* Toronto Waterfront Revitalization Corporation

- *2005-06 Business Plan,* Toronto Waterfront Revitalization Corporation

- *Project Reporting Prototype – Period Ended August 31, 2006,* Toronto Waterfront Revitalization Corporation

- *Program Management Transition Plan,* Toronto Waterfront Revitalization Corporation: Finance and Risk Management Committee, August 29, 2006

- *Risk Assessment of Contribution Agreement Process,* Toronto Waterfront Revitalization Corporation: Finance and Risk Management Committee, August 29, 2006

- Various other TWRC documents:

    – Position Descriptions

    – Contribution Agreement Process Summary

    – List of Committees

    – Letter from Toronto Waterfront Revitalization Corporation to Governments dated May 26, 2006, Re: Board Chair

    – Submission to Blue Ribbon Panel on Federal Grants and Contributions

    – *Sustainability Framework: Executive Summary*, Toronto Waterfront Revitalization Corporation, August, 2005

    – Briefing and Discussion, CEVP, Cost-Risk and Management, November 17, 2006

City of Toronto

- *Toronto Waterfront Revitalization Initiative, Five Year Business Plan/Ten Year Forecast (2000-2015)*, City of Toronto, July 4, 2006

Government of Canada

- *Audit of the Toronto Waterfront Revitalization Initiative,* Human Resources and Skills Development, December, 2005

Memoranda of Understanding

- *Memorandum of Understanding: Revitalization of City and TEDCO Owned Lands in the Portlands and East Bayfront,* City of Toronto, City of Toronto Economics Development Corporation and Toronto Waterfront Revitalization Corporation, March 31, 2006

- *Memorandum of Understanding: West Don Lands Revitalization Phase, Our Implementation Strategy,* Ministry of Public Infrastructure Renewal, Ontario Reality Corporation and Toronto Waterfront Revitalization Corporation, September 13, 2005

Other Reports

- *Effective Risk Management Strategies for the Revitalization of Toronto's Waterfront,* Bennett Jones, February 20, 2007

- *Presentation for Risk Management To Audit Committee,* Pricewaterhouse Coopers, December 6, 2006

- *Q1 2007 Audit Committee presentation – Year Ending march 31, 2007,* Deloitte, June 30, 2006

- *Contribution Agreement Compliance; Internal Audit Report,* Pricewaterhouse Coopers, April 2006

Appendix C: Existing Mandate, Mission and Vision

Mandate

- To lead and oversee the revitalization of the largest undeveloped urban area in the world for the use and enjoyment of the people of Toronto, Ontario, and Canada. (To provide) strategic infrastructure development as a vehicle for Toronto to attain its 21st century goals – to foster economic growth and to re-define how the city, province and country are perceived by the world.

Mission

- To put Toronto at the forefront of global cities in the 21st century by transforming the waterfront into beautiful, accessible new communities, parks and public spaces, fostering economic growth in knowledge-based, creative industries and ultimately, redefining how the city, province, and country are perceived by the world

Vision

- Working with the community and public and private sector partners, the Corporation will create spectacular waterfront public spaces, cultural institutions and diverse and sustainable commercial and residential communities that offer a high quality of life second to none. We will capitalize on Toronto's existing globally competitive economic clusters to establish a Portlands District for Creativity and Innovation and strive to ensure that Toronto is the city where the world desires to live.

Appendix D: Existing Organization

Existing Organizational Structure

Board of Directors
Chief Executive Officer
Executive Assistant

Direct Reporting Relationship ───────
Client/Service Provider Relationship ─ ─ ─ ─ ─ ─

VP Development West Don Lands *
Assistant
VP Development East Bayfront

VP Construction
Assistant
Project Manager
Project Manager
Project Manager
Project Manager

VP Planning & Design
Assistant
Project Manager
Project Manager
Project Manager
Project Manager
Project Manager
Planner
Planner

Chief Financial Officer
Assistant
Office Manager
Document Control
Receptionist
Meeting Facilitator

VP Communications & Marketing
Public Affairs Coordinator
Assistant

VP Legal
Assistant

VP Government Relations
Assistant

Director Sustainability

Project Accountant
Director Program Controls & Risk Mgmt.
Cost Controller
Planner/ Scheduler
Contract Administrator

Director of Procurement
Procurement Administrator
Procurement Manager
Procurement Manager
Procurement Contract Specialist

Corporate Controller
Manager Acc'tg & HR

Director of Finance
Sr. Real Estate Analyst

* Includes vacancies

Roles and Responsibilities

Position	Role and Responsibilities
President and CEO	To provide strategic direction, leadership and management of the all aspects of TWRC's operations. This includes: ▪ Initiating, leading and managing all projects to revitalize Toronto's waterfront ▪ Fostering, manage and maintain effective and innovative partnerships, working relationships and consultation with a wide diversity of stakeholders ▪ Promoting private sector development and investment.
Vice President, Development	To coordinate and manage the development of [a precinct] including: ▪ Acting as the key link between TWRC and the development industry ▪ Promoting and marketing the precinct to the development industry ▪ Providing specialist development advice, expertise, and perspective ▪ Coordinating and monitoring development projects once they are launched ▪ Overseeing the development of public infrastructure and managing relationships with the government agencies and the development community ▪ Establishing and maintaining effective working relationships with a wide range of owners and stakeholders ▪ Managing the sale of properties in the precinct

Position	Role and Responsibilities
Vice President, Construction	To lead and manage the engineering and construction for TWRC projects which includes: ■ Developing and implementing construction strategies in pursuit of agreed goals ■ Developing, leading and managing engineering and construction contracts, budgets and timelines for all construction projects undertaken by TWRC ■ Developing, leading and managing engineering and construction policies and procedures ■ Ensuring effective programme controls for the Construction Schedule ■ Developing and using best practice in procurement and construction ■ Fostering a professional relationship with a range of stakeholders
Vice President, Planning and Design	To lead and manage the planning and design of all aspects of waterfront revitalization, on behalf of TWRC, from the initial conception of plans and visions through production of detailed design and construction documents. This includes:: ■ Providing direction on all revitalization projects from a planning and design perspective ■ Procuring and directing all planning and design consultants ■ Securing agreement from relevant government agencies and authorities for all planning and design proposals ■ Securing broad public support from community and public stakeholders for all planning and design proposals ■ Delivering visionary yet buildable designs for all waterfront revitalization projects

Position	Role and Responsibilities
Chief Financial Officer	To direct, manage and control the Corporation's financial and administrative activities which includes: ■ Developing and receiving approval for a long term funding strategy for the corporation beyond the current commitment ■ Implementing a results based budget for the corporation ■ Implementing an enterprise risk management process ■ Implementing a project estimation, scheduling, costing, risk management and control system ■ Implementing human resource policies and systems
Vice President, Legal	To lead and manage the legal and real estate affairs of the corporation (excluding corporate law). This includes:: ■ Directing and managing all legal aspects of real estate development and revitalization ■ Negotiating or managing external expert legal counsel in the finalization of a large volume and diversity of complex and comprehensive agreements with the three levels of government and their role agencies ■ Managing environmental liability issues ■ Formulating and executing a land acquisition strategy for waterfront lands

Position	Role and Responsibilities
Vice President, Communications and Marketing	To identify, plan, direct and manage strategies to advance the corporation's profile and brand with internal and external stakeholders and to direct and manage the corporate communications and public consultation program. This includes: ■ Developing and maintaining a communications strategy and related policies and procedures ■ Providing issues management expertise ■ Developing and implementing a media relations strategy ■ Developing and implementing a public consultation/community relations strategy
Vice President, Government Relations	To lead and manage TWRC's relations with its government partners and to develop and manage projects and public-private partnerships. This includes: ■ Developing effective strategies which implement creative city and intelligent city projects ■ Developing strategic partnerships ■ Designing and installing broadband infrastructure ■ Day-to-day management and accountability for effective development and management of government relations ■ Identifying and implementing strategic opportunities to advance the objectives and mandate of TWRC ■ Establishing operational governance precedents which facilitate growth of the Corporation over time allowing it to act in the private sector while maintaining public accountability and transparency

Appendix E: Analysis of Existing Memoranda of Understanding

TWRC/ORC

Summary Extracts from TWRC/ORC MOU, pp 9-11 "TWRC, as Master Developer of the WDL Project, undertakes the following roles and responsibilities"	Organizational Implications Typical functional expertise and capacity required to complete tasks
a. Lead in co-ordinating the activities of all parties to this MOU as well as of the city and Canada, in order to achieve the implementation of the WDL Project	Collaboration, project management, communication and marketing, leadership,
b. Implementation of the WDL Project to achieve the forecasted Project Schedule	Project management, leadership, land development expertise
c. Prepare and Provide the Environmental Master Plan to PIR, ORC or other consultants (e.g., TRCA) in order to ensure its implementation in the WDL Project	Environmental planning, project management, coordination & collaboration
d. TWRC will procure and operate a mobile soil management facility	To be determined
e. Prepare urban design guidelines (covering the public realm, the interface between development and the public realm, street and block configuration, building massing, etc.) based on the approved Precinct Plan	Urban design, Planning and development, project management, costing, land development
f. Take into account the results of the site specific risk assessment prepared by ORC	Urban design, Planning and development, project management, costing, land development
g. Secure all necessary development approvals for the WDL	Development approvals, site plan control, legal, land use planning, EA planning
h. Make application to the City for all necessary development approvals and will be the City's point of contact during the processing of the applications	Development approvals, site plan control, legal, land use planning, EA planning
i. Be responsible for the preparation of the tender documents required for the RFP process. The RFP tender package will include: i) Detailed urban design guidelines ii) Building envelope regime iii) Green building standards iv) Provision of district heating v) Requirements to provide roads and services within internal blocks vi) Requirements to ensure that revitalization work is carried out in compliance with the soils management/remediation strategy vii) Provision for the design review panel to review site plan applications to ensure urban design guidelines are followed viii) Requirements for compliance with standards applicable to Provincial developments ix) Evaluate the bids and identify a recommended proposal, and forward the recommended proposal	Communication, procurement, legal, land use development, marketing and sales, private sector finance, real estate market, budgeting and cost control
j. Manage and coordinate the RFP process in accordance with any applicable Provincial directives	Communication, procurement, legal, land use development, regulatory compliance

Summary Extracts from TWRC/ORC MOU, pp 9-11 "TWRC, as Master Developer of the WDL Project , undertakes the following roles and responsibilities"	Organizational Implications Typical functional expertise and capacity required to complete tasks
k. TWRC will lead the evaluation of developer proposals. TWRC will establish a Steering Committee to evaluate developer proposals composed of TWRC staff, professional advisors and other qualified individuals. A representative from each of PIR and ORC will sit on the Steering Committee in an advisory capacity only	Communication, collaboration, procurement, legal, marketing and sales, private sector finance, real estate market, budgeting and cost control
l. If government approval of the proposal is received, lands will be transferred from the Province to the successful proponent	Communication, procurement, legal, marketing and sales

TWRC/City/TEDCO

Summary Extracts from TWRC/ORC MOU, pp 10-11 "TWRC is to function as the Revitalization Lead in the DWA, including East Bayfront and the Port Lands. In that capacity, TWRC, among other things shall:"	Organizational Implications Typical functional expertise and capacity required to complete tasks
a. In consultation with the City, and with TEDCO where TEDCO Lands are included, take the lead role in developing Business and Implementation Plans for East Bayfront and the Port Lands; in that capacity and where appropriate for individual parcels, precincts or blocks within those areas, as more particularly described in Articles 6.0 and 7.0.	Collaboration, project management, communication and marketing, leadership, NOTE – "TEDCO PROJECT LANDS" ARE EXCLUDED, BUT MAY BE ADDED TO TWRC SCOPE – NEED TO CLARIFY EXTENT OF TWRC's SPAN OF CONTROL
b. Advise on the conveyance or long-term ground lease of TEDCO Lands, other than the TEDCO Project Lands, in accordance with the provisions of Section 5.2	Legal, real estate market, real estate finance, project management, and marketing
c. In consultation with TEDCO and appropriate divisions within the City, take the lead role in identifying and attracting key employment, tourism, businesses and business clusters to the DWA	Marketing, collaboration, economic development, real estate markets
d. Take a lead role in encouraging private investment, and participate in public/private partnership initiatives where appropriate	Finance/Procurement/Legal
e. In consultation with the City and TEDCO, commission reports required for planning purposes, and develop precinct plans and design guidelines for Council consideration and approval	Urban design, Planning and development, project management, costing, land development , Approvals
f. Lead and coordinate planning and development applications to the City for lands, other than the TEDCO Projects Lands, that are owned by the City or TEDCO in East Bayfront and the Port Lands, with participation by others as described in this MOU	Development approvals, site plan control, legal, land use planning, EA planning
g. Have overall responsibility for Site Investigations and for Site Preparation Work, including servicing	Procurement/P&D/Civil/EA NOTE – TWRC MAY NOT HAVE TO DO THIS WORK IF TEDCO ELECTS TO DO IT

Summary Extracts from TWRC/ORC MOU, pp 10-11	Organizational Implications
"TWRC is to function as the Revitalization Lead in the DWA, including East Bayfront and the Port Lands. In that capacity, TWRC, among other things shall:"	Typical functional expertise and capacity required to complete tasks
h. In consultation with the City and TEDCO, develop the Environmental Framework for East Bayfront and the Port Lands, and have overall responsibility for Environmental Remediation and Reporting	EA/Technical/Legal NOTE – TWRC MAY NOT HAVE TO DO THIS WORK IF TEDCO ELECTS TO DO IT
i. Be responsible for promotion of the Revitalization Initiative and the DWA	Marketing
j. Be responsible for the marketing of lands, other than the TEDCO Project Lands, that are owned by the City or TEDCO in East Bayfront and the Port Lands and are to be developed for industrial, commercial or residential purposes; and	Marketing/Sales
k. Issue, lead and manage requests for proposals seeking developer involvement in the revitalization of lands, other than the TEDCO Project Lands, in East Bayfront and the Port Lands that are owned by the City or TEDCO.	Communication, procurement, legal, land use development, marketing and sales, private sector finance, real estate market, budgeting and cost control

Appendix F: Organizational Design Principles – Detailed Description

Promotes Organizational Excellence

- ✓ **Aligned with Strategy:** Support the strategic direction and priorities of TWRC, while leveraging current successes, in carrying out its mandate, managing risks and capitalizing on emerging opportunities
- ✓ **Clear Roles and Accountability:** Ensure there are clearly defined roles, responsibilities and accountabilities with single points of accountability, no duplication in service delivery and clustering of like services to promote service efficiencies and effectiveness
- ✓ **Builds Required Capacities:** Enables the skills, capabilities and resources to effectively deliver land development services and function as a master developer
- ✓ **Provides Flexibility:** Be sufficiently flexible to anticipate and respond to changing needs and requirements while managing the risks and rewards associated with land development

Supports Revitalization of the Waterfront

- ✓ **Private Sector Investment:** Create structures/functional roles, including marketing, sales partnerships and procurement, to help attract private sector participation
- ✓ **Delivery of Key Projects:** Excellence in critical functions, (esp. project management, procurement and legal services) needed to accelerate complex redevelopment projects
- ✓ **Economic Development:** Creates opportunities to realize tourism, employment development, and business attraction/retention benefits

Fosters Collaboration & Appropriate Linkages

- ✓ **Integrated Service Delivery:** Provide an integrated service approach which leverages existing expertise, encourages collaboration and adopts best practices and is supported by internal and external linking mechanisms to ensure seamless and coordinated service delivery
- ✓ **Stakeholder Engagement:** Enable the effective and ongoing engagement with key shareholders, including addressing accountability requirements, and responding to changing needs and expectation
- ✓ **Client-Driven and Responsive:** Be accessible, responsive and easily understood by the client and stakeholders while enhancing the ability of the TWRC to anticipate and respond to changing client needs and requirements

Ensures Value for Money

- ✓ **Cost Efficiency:** Promote the delivery of programs and services in a cost-efficient manner without duplication of services (considering all organizations involved on the waterfront)
- ✓ **Balance the Scope and Scale:** The scale and scope of operations across each layer in the organization should be comparable in terms of operational, political, and financial complexity and risk
- ✓ **Structural Efficiency:** Minimize the number of management layers with a preference for broader spans of control in managing organizational demands and workload pressures
- ✓ **Minimize Disruption:** Minimize potential organizational and service disruptions resulting from a change in the organizational design

Appendix G: Matrix Management

Major Pathologies in Matrix Organizations

Major Pathologies in Matrix Organizations

Power Struggles
Managers jockey for power

Anarchy
A state of confusion where people do not recognize a boss to whom they are responsible, or where they play one manager off against another
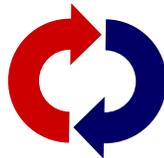
Decision Strangulation
Too much democracy,
not enough accountability and action

"Groupitis"
Mistaken belief that group decision-making is the essence of a matrix; inability to decide and move on without excessive group involvement

Creating a Matrix-Supportive Culture

✓ **Clarify roles** in the matrix and supporting the roles in their day-to-day interaction with the organization
✓ **Hold managers accountable** for results in their part of the matrix organization and for shared goals
✓ **Involve** other parts of the matrix in decisions that affect them
✓ **Surface conflicts** that arise from the matrix and constructively working the conflicts
✓ **Push decisions/conflicts down** to the lowest possible levels in the matrix
✓ **Communicate informally** and ensure that there is a strong flow of communication across the matrix
✓ **Team** across the matrix rather than just within a function
✓ **Express expectations** that teamwork and involvement are desired behaviors

Appendix H: Additional Organizational Proposals

Levels of Board Engagement

The "Passive" Board	The "Certifying" Board	The "Engaged" Board	The "Intervening" Board	The "Operating" Board
▪ Board functions at discretion of CEO ▪ Limited activity and participation of Board ▪ Limited accountability ▪ Ratifying management preferences	▪ Board "certifies" to Shareholders that CEO is doing what Board expects; that management is capable of taking corrective action when needed ▪ Emphasizes outside/ independent directors; meets independently without the CEO ▪ Stays informed of current performance; designates external Board members to evaluate CEO ▪ Establishes an orderly succession process ▪ Is willing and able to change management to be credible to shareholders	▪ Board "partners" with CEO to provide insight, advice, and support to management team on key decisions and implementation ▪ Also recognizes ultimate responsibility to oversee CEO and company performance; dual role of guiding/supporting as well as assessing the CEO ▪ Board meetings characterized by useful two-way discussions of key issues/decisions facing the company ▪ Board members need sufficient government, industry, and financial expertise to add value to decisions ▪ Time and emphasis spent on defining role and behaviors required of Board members; boundaries of CEO/Board responsibility	▪ Typical mode during a "crisis" situation ▪ Board becomes intensely involved in discussions of key decisions facing the organization and in decision-making ▪ Frequent and intense Board meetings, often called on short notice	▪ Board makes key decisions; management implements ▪ Not uncommon in early "start-ups" where Board members selected to "fill gaps" in management experience

Areas of Potential Board Engagement

Areas of Potential Board Engagement

Please circle the response that best corresponds to the level of Board engagement in...

	The Current State						The Desired State					
	No Engagement	Low Engagement	Moderate Engagement	High Engagement	Exclusive Engagement	Not Applicable/ Don't Know	No Engagement	Low Engagement	Moderate Engagement	High Engagement	Exclusive Engagement	Not Applicable/ Don't Know
Strategy												
1. Strategic direction	1	2	3	4	5	?	1	2	3	4	5	?
2. Strategic plans	1	2	3	4	5	?	1	2	3	4	5	?
3. Strategy implementation	1	2	3	4	5	?	1	2	3	4	5	?
Strategic Transactions												
4. Major investments	1	2	3	4	5	?	1	2	3	4	5	?
5. Portfolio change (M&A)	1	2	3	4	5	?	1	2	3	4	5	?
Operations												
6. Research and development	1	2	3	4	5	?	1	2	3	4	5	?
7. Manufacturing	1	2	3	4	5	?	1	2	3	4	5	?
8. Marketing and sales	1	2	3	4	5	?	1	2	3	4	5	?
9. Information technology	1	2	3	4	5	?	1	2	3	4	5	?
Human Resources and Organization												
10. Leadership development	1	2	3	4	5	?	1	2	3	4	5	?
11. Non-CEO executive compensation	1	2	3	4	5	?	1	2	3	4	5	?
12. Human capital	1	2	3	4	5	?	1	2	3	4	5	?
13. Organization	1	2	3	4	5	?	1	2	3	4	5	?
14. Corporate culture	1	2	3	4	5	?	1	2	3	4	5	?
Financial Management												
15. Financial strategy	1	2	3	4	5	?	1	2	3	4	5	?
16. Capital structure	1	2	3	4	5	?	1	2	3	4	5	?
17. Liquidity management	1	2	3	4	5	?	1	2	3	4	5	?
18. Dividend policy	1	2	3	4	5	?	1	2	3	4	5	?
19. Financial reporting	1	2	3	4	5	?	1	2	3	4	5	?

OLIVER WYMAN

Delta Organization & Leadership Limited
BCE Place, 161 Bay Street, P.O. Box 501
Toronto, Ontario M5J 2S5
416 868 2800