

Deputation to City of Toronto Audit Committee, July 3, 2012

I'm here on behalf of CELOS. CELOS (which stands for The Centre for Local Research into Public Space) does research into the uses and possibilities of public space for the people who share ownership of that space – namely all of us. You may know of CELOS through its long-time collaboration with city staff at Dufferin Grove Park and other parks in Ward 18. As it relates to today's deputation, CELOS's work also involves looking critically at allocation of resources to City programs.

One example of this is the Energy Retrofit program under discussion here. This program as you know is funded by loans that are being repaid out of operating costs. In theory, the costs are supposed to be more than offset by the savings. But if that doesn't happen (as the Auditor strongly suggests it has not), then in effect money is taken away from operating programs, and the people who pay are the people of Toronto, in the form of reductions in service and therefore opportunity.

CELOS became interested in the Energy Retrofit program in 2004 when we heard that there was a plan in place to contract out substantial retrofits, many of which could have been done in-house. After we received an anonymous e-mail showing that most rinks had no reliable baseline figures for energy costs – for later comparison with the post-project results – we began to probe further. We collected documentation through freedom of information requests as well as in meetings with front line staff, City managers of the program, and representatives of the contractors.

We found for one thing that there appear to be many ways in which this could have been done more cheaply and effectively, and I list some of those in my written deputation.

Examples of lost cost saving opportunities:

- As I've said it appears that much of the work could have been done by existing staff
- As the Auditor has pointed out, there appear to be serious problems in realizing savings related to the automated systems that were put in place.
- We received an informal estimate from Johnson Controls (one of the world's leading engineering firms) in relation to a specific arena retrofit, indicating that their charge for the retrofit would have been roughly 75% of the cost actually charged under this program to the arena.

From my own experience of over 30 years as a software developer, I can confirm that the Auditor's list of problems that the users have with the automation system reveals that the system was not sufficiently designed with end users in mind.

Without these savings having been realized, the financial success of the program is at best uncertain (again as the Auditor intimated). We determined this years ago upon receipt of reports from Phase I, in which I noticed some things that others familiar with such types of contracting told me would be considered red flags. Again I list some of those in my written submission.

Examples of red flags from Optimira reports:

We noticed (among other things) that (from my analysis):

- 47 out of 161 line items in Appendix A are flagged as requiring Base Year adjustments, meanwhile modified to show "targeted" savings
- 270 out of 357 (~75%) line items listing savings (in Appendix A) are listed as Calculated Savings (estimates used as savings), are zeroed, or are adjusted to targets.
- Apparently there are over \$300,000 in adjustments to metered savings

In fact the senior project people we talked to confirmed that the final report summary statement indicating project success was made primarily for contractual purposes.

In effect the project was *deemed*, rather than *proved*, successful. The detailed information of what we learned about this program is on our website publiccommons.ca where we have an “Energy Retrofit Program” link on the home page.

We encourage the Audit Committee to take this Auditor’s report seriously. We think real money, and real negative consequences are involved here.

But then the next question is, how did this happen? And after that: what to do?

There are many possible answers to this, which I don’t have time to go into here. Again, I’ve provided some brief examples in my written submission.

It appears to me that management’s response of reporting back on the Auditor’s concerns sometime in 2013 merely “kicks the can down the road”. The likely outcome would be no consequences for management (or Optimira), leaving an unrecoverable cost to park users, certainly for Phase I of the project.

Unfortunately, we’ve seen this type of response to problems by City management too often before. One of the questions CELOS has is, why City management so often seems disconnected from, and unwilling to adjust to, experience on the ground?

Examples of current City management priorities that we think could be beneficially *reversed* to remedy this:

- Process over outcomes
- Systems over people
- Liability concerns over innovation
- Centralization over decentralization
- Compliance over initiative

In addition, we’ve applied the term “optimistic reporting” to what we perceive as a management habit of reporting what people want to hear, presumably in order to facilitate ease of closure of whatever subject is under discussion. I’ve given an example of that above.

But let me focus on one thing that we think is highly relevant to the Energy Retrofit program, namely the lack of involvement of front-line staff in the planning and implementation of this program. It has been said that the main asset of any organization is its people. But too often we see this truism ignored or minimized by City management, and we think that is certainly the case here. Indeed the Auditor’s report lists many ways in which line staff had difficulty with the program.

Therefore we make the following recommendation to the audit committee: The audit committee should add one more recommendation to Council regarding the Auditor’s report on the Energy Retrofit program:

City Council request the Director, Energy and Strategic Initiatives, to report on ways and means of increasing involvement and support by front line staff in Energy Savings Initiatives.

We think that this simple idea could set a process in motion which could help with the Energy Retrofit program, and might even start to address one of the fundamental ways in which in our opinion the City could improve effectiveness of some of its other programs.

- Henrik Bechmann, for CELOS