



Report on the Future of the Civic Theatres

Date:	June 16, 2015
To:	Executive Committee
From:	Acting City Manager and General Manager Economic Development & Culture
Wards:	City-wide
Reason for Confidential Information:	This report includes information that involves the security of property belonging to the City and its agencies, and information about labour relations or employee negotiations.

SUMMARY

In December 2013, City Council was advised of initiatives to establish a Theatres Working Group and engage a consultant to examine options for operating and governance models for the City's three civic theatres – the St. Lawrence Centre for the Arts (St.LCA), the Sony Centre for the Performing Arts (Sony Centre), and the Toronto Centre for the Arts (TCA). The Theatres Working Group and the consultant reinforced the fact that the civic theatres have value as foundational public assets that create the conditions for a vital and vibrant performing arts sector in Toronto.

Following extensive work done by external consultants, and taking into consideration advice from the Theatres Working Group, City staff propose a new direction for the future of the City's civic theatres. Changes are proposed both to the operating model and the governance structure with the objective of enhancing the relevance of theatres to the communities they serve, increasing theatre usage and improving the financial viability of the theatres. All three theatres are underutilized and the cost per seat of operating the combined seven stages within them continues to rise with few prospects for reversing the trend under a status quo scenario.

Increasing utilization of the theatres is the most effective way to create more efficient operations and support the overall mandates of each theatre. Sharing resources amongst the civic theatres has the best chance of increasing utilization and improving their performance. It will allow the consolidation of some functions such as IT, accounting and payroll, while increasing capacity for other functions such as programming, marketing, and event bookings

across all theatres. To accomplish that operationally, it is necessary to consolidate at the governance level.

This report recommends consolidating the operations of the St.LCA, Sony Centre, and TCA into one new organization under the direction of a single City board, and to commence the governance and operational transition process. Immediate governance steps include establishing a new board and determining the executive leadership to champion the change process. A new City board, **Civic Theatres Toronto**, would oversee the business affairs of the management and operation of the civic theatres, and initially also oversee the process of integrating operations. As a necessary element of transition, each of the three theatres' boards would continue in the short term with board membership recommended to be identical on all four boards. The individual theatre boards would be dissolved as soon as practical based on progress with the operational transition.

Operational transition involves complexities associated with integration of functions, harmonization of policies and the transfer of employees, and can be time-consuming. The integration of operations will be phased-in, following an implementation strategy developed under the direction of the new Board of Directors of Civic Theatres Toronto, with advice from management at the civic theatres as well as the City.

Key changes and implementation measures being proposed include:

- a mandate for Civic Theatres Toronto to provide quality performance and event facilities and to promote the contribution of Civic Theatres Toronto to the artistic, cultural and social vitality of Toronto and its communities;
- establishing a 13-member Board of Directors for Civic Theatres Toronto to initially consist of 5 Council Members, with 8 citizen members to be added after a recruitment process;
- amending the Board of Directors for each of the three current civic theatres to mirror the size and composition of the new Board of Directors for Civic Theatres Toronto until consolidation is completed;
- appointing the same 5 Council Members and 8 citizen members to all four theatre Boards;
- adopting new board governance structure requirements for all four theatre Boards including such matters as the appointment of the Chair and Vice-Chair, and the eligibility requirements, qualifications and appointments process for citizen members;
- expediting a search process by the Board of Directors of Civic Theatres Toronto for a chief executive officer, including consideration of an acting or interim chief executive officer;
- development by the Board of Directors of Civic Theatres Toronto of an implementation strategy to guide the operational transition process;
- development of a procedures by-law, a strategic plan, 5-year business plan and a Relationship Framework for Civic Theatres Toronto;
- endorsement of the concept of an independent charitable Cultural Programming Trust to enhance programming opportunities and programming excellence in the performing arts sector as a broader initiative, which will require further research and consultation; and
- a future report from the City Manager on dissolving the three current civic theatre boards.

RECOMMENDATIONS

The City Manager recommends that:

Operating Model

1. City Council approve a new operating model that consolidates the operation of the City's three current civic theatres into a single organization with a mandate to provide quality performance and event facilities and to promote its contribution to the artistic, cultural and social vitality of Toronto and its communities.
2. Effective July 9, 2015, City Council establish Civic Theatres Toronto as a new City board whose Board of Directors is to assume responsibility for overseeing the business and operational affairs of Civic Theatres Toronto, and initially to adopt an implementation strategy and oversee the transition process for consolidating the current civic theatre operations into a single organization under the new City Board.

Board Governance Structure and Appointments to Boards

3. Effective July 9, 2015, City Council rescind the appointments of all members of the Boards of Directors of the Hummingbird (Sony) Centre for the Performing Arts, the St. Lawrence Centre for the Performing Arts and the Toronto Centre for the Arts.
4. Effective July 9, 2015, City Council establish a Board of Directors for Civic Theatres Toronto, and amend the size and composition of the Board of Directors of the St. Lawrence Centre for the Arts, the Hummingbird (Sony) Centre for the Performing Arts, and the Toronto Centre for the Arts, to each consist of 5 members composed of:
 - the Mayor or a Council Member appointed by the Mayor as the Mayor's designate;
 - the Council Member for Ward 23;
 - the Council Member for Ward 28; and
 - 2 Council Members;with at least one of the Council Members appointed also being a member of the Economic Development Committee.
5. Effective November 6, 2015, City Council amend the size and composition of the Board of Directors of Civic Theatres Toronto, the St. Lawrence Centre for the Arts, the Hummingbird (Sony) Centre for the Performing Arts and the Toronto Centre for the Arts, by adding 8 citizen members so that each board will consist of 13 members composed of:
 - the Mayor or a Council Member appointed by the Mayor as Mayor's designate;
 - the Council Member for Ward 23;
 - the Council Member for Ward 28;
 - 2 Council Members; and
 - 8 citizen members;with at least one of the Council Members appointed also being a member of the Economic Development Committee.

6. To ensure that the new Civic Theatres Toronto Board and the amended Theatre Boards are operational as soon as possible, City Council waive the requirement of Chapter 27, Council Procedures to canvass Members for their interest in appointment to these boards and make direct appointments, as set out in Recommendation 4 above, at its July 7 and 8, 2015 meeting.
7. To provide stability and ensure consistent decision making by the four Theatre Boards during the transition period, City Council appoint the same 5 Council Members including a Council Member as Chair for the initial period, and the same 8 citizen members including a citizen member as Chair to replace the Council Member Chair after the initial period, to all four Theatre Boards for a term of office ending November 30, 2018 and until successors are appointed, on the understanding that should the current civic theatre boards be dissolved before the end of the appointment term, such appointments will be rescinded at that time.
8. City Council approve the board governance structure matters pertaining to the Board of Directors of Civic Theatres Toronto, the St. Lawrence Centre for the Arts, the Hummingbird (Sony) Centre for the Performing Arts and the Toronto Centre for the Arts, as set out in Attachment 1 to this Report with respect to: the appointment of the Chair and Vice-Chair; the eligibility requirements, qualifications and appointments process for citizen members; Board meetings; and Board member remuneration.

Hummingbird Performing Arts Centre Corporation

9. City Council request the Province of Ontario to repeal the *Hummingbird Performing Arts Centre Corporation Act, 1998*, as the Corporation has never been operationalized and is no longer required.
10. Until the Corporation as per Recommendation 9 is dissolved, and for the purpose of meeting legislative requirements including holding of annual general meetings, effective July 9, 2015, City Council rescind the appointment of all members of the Board of Directors of the Hummingbird Performing Arts Centre Corporation and appoint the following members so that the Board will be composed of:
 - the 5 Council Members who are appointed to the Board of Directors of Civic Theatres Toronto;
 - the City Manager or designate;
 - the Deputy City Manager and Chief Financial Officer or designate;
 - the Deputy City Manager Cluster A or designate; and
 - the General Manager, Economic Development & Culture;for a term of office ending November 30, 2018 and until successors are appointed, on the understanding that should the current civic theatre boards be dissolved before the end of the appointment term, such appointments will be rescinded at that time.

Cultural Programming Trust

11. City Council endorse the concept of an independent charitable Cultural Programming Trust to enhance programming opportunities and programming excellence, and to facilitate partnerships, sponsorships and donations in support of Civic Theatres Toronto and the performing arts sector in the Toronto region; and request the General Manager of Economic Development & Culture to conduct further research and consultation and report back on the concept to City Council through the Economic Development Committee by the third quarter of 2016.

Financial Plans and Budgets

12. City Council give consideration as part of the 2016 Budget Process to combining the Capital Budget and Plan for the Sony Centre with the Economic Development and Culture Capital Budget and Plan to bring capital budgets and plans for all civic theatres under a single responsibility centre.
13. City Council request that the Civic Theatres Toronto Board work with City staff to update the services and activities which comprise the program map and establish service standards and service levels for the Civic Theatres in time for the 2017 budget process.
14. City Council approve an in-year adjustment to the Council approved 2015 Operating Budget to transfer \$0.160 million from unspent funds in the Non-Program budget to Theatres to provide the Civic Theatres Toronto Board with one-time funding to facilitate initial operational requirements in 2015 as set out in Confidential Attachment 2 to this Report.
15. City Council direct that Confidential Attachment 2 to this Report remain confidential in its entirety as it deals with information that involves the security of property belonging to the City and its agencies, and information about labour relations or employee negotiations.

Implementation Matters

16. City Council request the City Clerk to communicate to the citizen members of the current civic theatre boards advising them of Council's decisions regarding the future of the theatres and expressing Council's appreciation for the valuable service and commitment that they have generously provided to the respective theatre boards.
17. City Council appoint the City Clerk as the Secretary to the Board of Directors of all four Theatre Boards.
18. City Council request the Board of Directors of Civic Theatres Toronto to develop a procedures by-law to be reported by the Board to City Council for approval through the Executive Committee in 2016 and, until such time, require the Board to follow the

procedures in Municipal Code Chapter 27, Council Procedures, as it applies to committees of Council.

19. City Council request the Board of Directors of Civic Theatres Toronto to implement a process to recruit a chief executive officer, including consideration of an acting or interim chief executive officer and engagement of an independent search consultant, as the Board considers appropriate.
20. City Council approve the participation of Civic Theatres Toronto in the OMERS pension plan.
21. City Council request the Board of Directors of Civic Theatres Toronto to develop a new strategic plan and 5-year business plan to be reported by the Board to City Council through the Executive Committee by the Spring of 2016 to inform the budget submission for the 2017 operating budget.
22. City Council request the City Manager to develop a Relationship Framework for Civic Theatres Toronto and report to City Council through the Executive Committee on the proposed Relationship Framework as soon as practical.
23. City Council request the City Manager to report to City Council through the Executive Committee as soon as practical on the dissolution of the current City boards for the three civic theatres.
24. City Council authorize the City Solicitor to introduce the necessary bills to give effect to the changes in governance structure approved by City Council through this Report, including repeal/amendment of Toronto Municipal Code Chapter 9, Arts Centres, amendment of former Toronto Municipal Code Chapter 11, Arts Centres, repeal of Metropolitan Toronto By-law No. 133-96, and enactment of a new Toronto Municipal Code Chapter for Civic Theatres.

Implementation Points

The establishment of Civic Theatres Toronto as a new City board and a Board of Directors composed of the same 5 Council Members on all four theatre Boards will take effect July 9th following City Council's approval and enactment of the necessary bills.

The Board of Directors of all four theatre Boards will be expanded to 13 members in November 2015 by appointing the same 8 citizen members to all four theatre Boards.

Further transition activities will take place over the following 12-24 months to implement the new operating model, including phasing-in the transfer of operational functions to Civic Theatres Toronto; development of a procedures by-law and strategic and business plans; consolidation of budget appropriations; commencement of a process to recruit a new administrative head; and development of a Relationship Framework. In addition, the City

Manager will bring forward a report to City Council on the dissolution of the three predecessor City boards as soon as practical based on progress with the operational transition.

The current civic theatre management teams have considerable expertise to assist the Board of Directors of Civic Theatres Toronto with the transition process. In addition, City staff will be able to provide advice and assistance to the new Board on implementation and legal matters as appropriate.

Financial Impact

The provision of \$0.160 million, as a one-time transfer in 2015 from the Non-program budget, to Civic Theatres Toronto is recommended in this report to engage an independent search consultant to assist the new Board in recruiting a chief administrative officer or to recruit an interim administrative officer.

Once transition of operational functions to Civic Theatres Toronto begins, some savings are expected to occur. The consulting firm NetGain Partners Inc. identified that consolidation of the administrative structure of the three civic theatres is expected to create modest savings from improvements in efficiency through transitioning to shared internal services and through using common operational tools. These savings were estimated by NetGain to potentially grow to about 3.5% of total combined budgets, or up to about \$0.500 million per year.

In the short-term, any savings from efficiencies and economies of scale will offset costs associated with implementing the transition. Subsequently, the savings stream is expected to be reinvested to improve programming, marketing and partnership development activities in order to enhance effectiveness and improve the financial viability of the theatre operations.

Details on transition costs and allocation of savings from integrating operations will be reported, as they are identified, through the City's annual operating budget submission and variance reporting processes for Civic Theatres Toronto.

Further financial information is provided in Confidential Attachment 2, which contains information that involves the security of property belonging to the City and its agencies and information about labour relations or employee negotiations.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting of September 26, 2011, City Council considered the Core Service Review undertaken by KPMG and authorized the City Manager to issue a Request for Expressions of Interest (REOI) to determine options for the sale, lease, operation or other arrangement

concerning the three major civic theatres that would meet the City's cultural, social and economic goals.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX10.1>.

The theatres' report can be found on pages 101-108:

<http://www.toronto.ca/legdocs/mmis/2011/ex/bgrd/backgroundfile-39626.pdf>

On September 29, 2011, Mayor Ford established a Task Force – Arts & Theatres. The Task Force examined the role that the civic theatres play in Toronto's culture, economy and community and recommended criteria for each of the three theatres for the REOI. The REOI for options for the City's the three civic theatres was issued in May 2012.

At its meeting held on November 27, 28 and 29, 2012, City Council adopted Item EX25.5 regarding the results of the REOI. Executive Committee deferred consideration of the recommendations of Item EX25.5 regarding the Sony Centre for the Performing Arts for 120 days, and requested the Board of the Hummingbird (Sony) Centre to develop and submit to the City through the City Manager's Office a long-term strategic plan and a five-year business plan for the Centre to continue as a City-owned theatre.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX25.5>

At its meeting of December 16, 2013, City Council received an update on the business and strategic plans of all three civic theatres and was informed of the establishment of the Theatres Working Group that would work with Economic Development & Culture, supported by a consultant, to explore closer collaboration by all three theatres and an examination of a performing arts centre model based on a centralized administrative structure.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX36.6>

At its meeting of June 10, 2014, City Council adopted the recommendations of the Auditor General's review of the redevelopment of the Sony Centre for the Performing Arts which led to governance changes for the Sony Centre.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.AU15.3>

At its meeting of October 30, 2014, the Board of the Hummingbird (Sony) Centre for the Performing Arts received a presentation and the draft of the NetGain report for their consideration.

<http://www.toronto.ca/legdocs/mmis/2014/hb/bgrd/backgroundfile-73560.pdf>

At its meeting of December 2, 2014, City Council approved the continuance of the interim Board of Directors for the Hummingbird (Sony) Centre for the Performing Arts and appointed Councillors to the Boards of the St. Lawrence Centre and the Toronto Centre for the Arts for various terms of office and until successors were appointed.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.ST1.1>

COMMENTS

Background

Following the results of the REOI regarding the future of the civic theatres, all three organizations, the **St. Lawrence Centre for the Arts**, the **Sony Centre for the Performing Arts**, and the **Toronto Centre for the Arts**, undertook 5-year business and strategic plans. During the planning, areas of common interest for all theatres were identified by each of the respective studies. In response, the boards of all three theatres endorsed the establishment of a Theatres Working Group to explore closer co-operation and the potential of a performing arts centre model for the theatres collectively.

On December 16, 2013, Council was informed of the establishment of a Theatres Working Group (TWG) that would explore a new operating and governance model for the three civic theatres including a Performing Arts Centre model with a centralized administration. A Request for Proposals for a consultant to undertake the study was issued by the Purchasing and Materials Management division on December 9, 2013. NetGain Partners Inc. was the successful proponent and was awarded the contract on February 12, 2014.

The TWG was co-chaired by Councillor Crawford and community member Robert Foster and included board and management representation from each theatre, City Councillors, City staff and community members. NetGain reported back to the TWG at each stage of their report.

While the study was underway, the Auditor General's report on the Sony Centre's redevelopment project was released. On May 28, 2014, the Audit Committee recommended the removal of the Board of Directors of the Hummingbird (Sony) Centre. On June 5, 2014, all the citizen board members of the Sony Centre resigned. On June 11, 2014, Council established an Interim Board comprised of 5 Councillors and 3 senior City staff.

In making the recommendations in this report, staff have considered and conducted further analysis on all of the information provided through the TWG process, the consultant's research and study findings, and the submission provided by the current civic theatres. A summary of the recommendations are as follows:

Summary of Consultant Recommendations to the City

NetGain consultants provided advice to the City in their report [Evaluation of Governance and Operational Models for Toronto's Civic Theatres](#). After conducting a thorough examination of the theatres' operations, meetings with numerous stakeholders, and researching comparable international models NetGain outlined four main options for consideration by the TWG:

1. the theatres maintain the **status quo**;
2. the theatres pursue some **shared services** – establish a formal agreement between the theatres to share some services such as event bookings, marketing, etc., but remain legally separate entities with separate boards;
3. **Performing Arts Centre** model – merge all three theatres, govern and operate them under a single management and a single board;

4. **Programming Trust** – establish a third-party cultural programming trust which would operate independently of the City, with further consideration of greater integration left for the future.

NetGain's key recommendation was the **establishment of a third-party programming foundation** which would operate independently of the City, and have responsibility for programming, fundraising, and some shared services operating functions. Their rationale for this was that it had the potential for the biggest overall impact on the performing arts sector as a whole, and the ability to raise funds from the philanthropic and corporate sectors.

They argue that the theatres exist for the purpose of cultural programming. Increased programming is impossible without increased funding and increased risk in programming expenditures. Raising private funds for City-owned and City-controlled facilities and programming is near impossible. A third-party programming trust with the right leadership team might be able to raise funds, curate exciting new programming, develop audiences through arts education and community partnerships, and market the performing arts collectively. The cultural trust model has worked effectively in other cities in the U.K. (such as Glasgow/Edinburgh, Aberdeen, Sage Gateshead) and in the U.S. (such as Pittsburgh, Cleveland, Minneapolis).

The cultural programming trust is an idea worthy of further investigation. It has the potential for the greatest benefit to the whole performing arts sector, but also has the greatest risk of failure. Because the trust does not exclusively concentrate on the operations of the City's theatres, upon further consideration, members of the TWG and City staff felt the recommendation was beyond the scope of the City to implement. Further, to mitigate risk, the cultural programming trust option requires community support and leadership external to the City for success. In setting up a trust, it would be essential for existing funding relationships with arts organizations to be considered, and for the trust to operate completely independently of the City.

Submission from Current Civic Theatres

City staff received a submission from the Chairs and administrative heads of the current civic theatres providing input to this report. The submission presented observations and proposals arising from internal discussions among the theatres regarding streamlining and integration of critical elements of the theatre operations.

The proposals in the submission from the civic theatres were taken into consideration by City staff in the preparation of this report. There was a high degree of alignment between the submission and the analysis being conducted by the City, including the vision for the future of the theatres, the need to consolidate operations, and the creation of a unified board composed of Council Members and a majority of citizen members selected on the basis of skill qualifications. The submission also identified a number of candidate functions for integration, including booking system, box office, marketing and programming.

Staff Recommended Operating Model

This report recommends consolidation of the Boards of all three current civic theatres in order to implement shared services, integrate operations and improve efficiency and effectiveness. Through the meetings with the TWG, it was determined that all the venues have value as foundational public assets that create the conditions for a vital and vibrant performing arts sector. While other long-term lease arrangements or partnerships with other institutions may be viable future options, the ownership of the theatres should remain with the City. It was agreed by the TWG that any future operating plan should include collaboration amongst the theatres. Currently, there are not sufficient resources to establish a separate, external body to begin integrating a shared services model without using the theatres' collective resources; voluntary implementation of shared services while remaining legally separate organizations carrying on business is unrealistic and would not take full advantage of the expected efficiencies or potential service improvements. Therefore, having one Board responsible for all theatres is the best way to ensure that operating activities will be shared across the theatres in a meaningful way, and the organization begins to build capacity and improve operational efficiency and effectiveness.

Staff recognize that consolidating the three civic theatres and integrating functions will take time to implement in a thoughtful manner. There is recognition across the theatre boards that sharing operating resources is in the best long-term interests of all the theatres. Staff agree with the consultant's view that, as long as the City continues to own the civic theatres, fundraising for the purposes of programming will likely be negligible. Therefore, it is not realistic to project significant growth in programming through consolidation and shared services alone.

Benefits of the Proposed Operating Model

As noted in the individual business and strategic plans of each of the three theatres, as well as the NetGain report, increasing utilization of the theatres is the most effective way to create more efficient operations and support the overall mandates of each theatre. Through consolidation, there are opportunities to use the existing resources of each theatre, deploy them more effectively, and have them serve across all venues. According to the 2015 Budget submission, the current day usage of the theatres of every venue in the three civic theatres, with the exception of the Studio Theatre in the TCA, is under 40%. The Studio Theatre, the smallest (200 seat) and most affordable of all the venues, had day usage of 81%. Increased utilization means the community has more opportunity to participate in cultural activity; increased events and corporate uses drive earned revenues; and as a result, these City assets create more overall economic and cultural activity.

However, all three business plans for each theatre and the NetGain report emphasized that the theatres operations must continue to be subsidized. At most, there may eventually be \$500,000 (approximately 3%) in reduced costs per year for the collective businesses. These eventual operating savings could then be put towards programming. Currently, only the Sony Centre has a mandate for taking risk on presenting programs, and staff dedicated to making

programming choices. It has no resident companies. Both the St.LCA and the TCA primarily operate as rental facilities with some resident companies that present annually at their venues.

Sharing resources amongst the civic theatres has the best chance of increasing utilization and improving their performance. It will allow the consolidation of some functions such as IT, accounting and payroll, while increasing capacity for other functions such as programming, marketing, and event bookings across all theatres. By merging, there will be overall increased capacity as the theatres collective staff can be redeployed to serve across seven venues within the civic theatres, instead of each independent centre. The Sony Centre has a mandate to present programming as well as rent its theatre, but its programming must fit a 3,000 seat venue. It is possible, for example, that a programmer who can see the potential of presenting a major Persian artist or Russian ballet company to fill the Sony Centre, could also see how another act might fit better at the 1000 seat George Weston concert hall in North York where there are large resident communities of Persian and Russian heritage. The merged organization can then work together to market the program. The costs of presenting these artists will still require continued City subsidy, but the per patron cost of operating these venues decreases while usage increases, and Torontonians have the opportunity to experience a greater range of cultural product.

Another example is a shared service for facilities bookings and event marketing. It is an obvious benefit to all three theatres if they can serve potential clients using the availability of seven different-sized venues within the three theatres, and market the venues collectively. This has the potential to increase earned revenues at all the theatres. Currently, none of the theatres have the capacity for effective social media marketing. Collectively, it may be possible to use existing resources to have a part-time specialist to market programming and events for all venues through social media. In turn, that may lead to greater awareness of the theatres' activities among a younger demographic who does not engage with traditional advertising through traditional media (radio, television and newsprint). As well, a shared ticketing system could eventually lead to a much richer database of patrons, thereby creating the potential for more effective marketing across the Greater Toronto Area. A shared contact management system could serve both the theatres' presentations and community groups who want to reach particular audiences. Collectively, the theatres may be better able to train and retain front of house staff if they are able to work across venues, thereby improving customer service and reducing turnover.

The value of consolidating operations means bringing together the strengths of each independent theatre and collaborating for greater effectiveness, greater usage of the venues, and most importantly, a more vibrant performing arts sector in Toronto. While it is difficult to estimate how much more usage the theatres will gain through consolidation, an articulated program map, with established service standards and service levels will help establish targets to meet in 2017.

Proposed City Board

To give effect to the proposed change to the operating model, **Civic Theatres Toronto** is proposed as a single new City board for the current civic theatres. Following a transition process to integrate and consolidate operational functions through a phased-in process, Civic Theatres Toronto will assume responsibility for overseeing the governance, business affairs, and operation management of the civic theatres. Initially, Civic Theatres Toronto will also oversee implementation of the transition process.

Boards will need to be kept in place temporarily for the St. Lawrence Centre for the Arts, the Hummingbird (Sony) Centre for the Performing Arts, and the Toronto Centre for the Arts. However, the composition of all four boards will be identical. The City Manager will report to City Council on the dissolution as soon as practical, based on progress in integrating and consolidating functions and activities.

Proposed Governance Structure

A new governance and administrative leadership will be implemented immediately to provide oversight and to put in motion key implementation activities to move the transition process forward. To enable the Board of Directors for Civic Theatres Toronto to start now, a three stage approach to implementing a new governance structure is proposed, with the phasing-in of Board members similar to the approach taken in recently restructuring the Board of Directors of the Toronto Transit Commission.

Stage 1, initial Council Member Boards, proposed to take effect on July 9, 2015:

- the Board of Directors for Civic Theatres Toronto will consist of 5 Council Members;
- the Boards of each of the three current civic theatres will be amended by removing the current members and changing the size and composition of the Board to consist of the same 5 Council Members who are appointed to Civic Theatres Toronto; and
- one of the appointed Council Members will also be appointed by City Council as the Chair of all four Boards pending the appointment of citizen members.

Stage 2, addition of citizen Board members, proposed to take effect on November 6, 2015:

- the Board of Directors for Civic Theatres Toronto will be amended by changing the size and composition of the Board to consist of 13 members by adding 8 citizen members;
- the Boards of each of the three current civic theatres will be amended by changing the size and composition of the Boards to consist of 13 members by adding the same 8 citizen members who are appointed to Civic Theatres Toronto; and
- one of the appointed citizen members will also be appointed by City Council as the Chair of all four Boards, replacing the Council Member previously appointed as Chair.

Stage 3, dissolution of the current civic theatre boards, proposed to take effect as soon as practical:

- once the operational transition has progressed sufficiently, the current City boards for the civic theatres would be dissolved.

It is proposed that the composition of the Board of Directors for Civic Theatres Toronto continue with the past practice of including the Mayor or a Council Member as the Mayor's designate, as well as the two local Council Members for Wards 23 and 28 where the civic theatres are located. Given the desire to align the theatres with the City's economic and culture objectives and priorities, at least one of the Council Members appointed to the Board of Directors should be a member of the Economic Development Committee. Citizen members will be selected on the basis of an updated set of qualifications based on the qualifications of the three civic theatres with greater emphasis on leadership in the performing arts sector and at the community level, as well as marketing and financial experience.

The appointments process will be conducted according to the City's Public Appointments Policy. The appointment of citizen members will follow an advertised recruitment process. Citizen members should provide a variety of perspectives, reflect the diversity of the community, and achieve fair representation of all geographic areas of Toronto. Public service is an important aspect of serving on this voluntary Board, and Board members will serve without remuneration.

Given the nature of the industry in which Civic Theatres Toronto operates, board-specific eligibility criteria are proposed which will require that citizen members are not suppliers to the performing arts sector, are not owners or employees of another theatre, and are not associated with an organization that has an interest in performing or producing live performing arts at the civic theatres.

During the transition period, the three current City boards will continue to provide oversight to the day-to-day operation and programming of the civic theatres. These City boards and their respective theatre management teams will also be required to support the transition process under the leadership of the Board of Directors for Civic Theatres Toronto. To ensure alignment and consistency in decision-making and priority-setting, it is proposed that the size and composition of the three current City boards for the St. Lawrence Centre for the Arts, the Hummingbird (Sony) Centre for the Performing Arts, and the Toronto Centre for the Arts be amended to mirror that of the Board of Directors for Civic Theatres Toronto.

The board governance structure matters set out in Attachment 1 to this report will apply to the Board of Directors for Civic Theatres Toronto and to the current City boards for each of the three civic theatre boards while these boards are continued. Once the operational transition has progressed sufficiently, the City Manager will consult with the Board of Directors for Civic Theatres Toronto and report to City Council on the dissolution of the current City boards for the civic theatres. This will leave Civic Theatres Toronto as the new and only City board providing oversight to the consolidated civic theatres organization.

Appointments to Theatre Boards

In order to implement the first stage of the governance structure to take effect on a timely basis commencing on July 9, 2015, City Council should make the 5 Council Member appointments, including the chair, during the City Council meeting of July 5 and 6, 2015.

In the second stage of governance structure implementation, a sufficient period of time is required to conduct a full citizen recruitment process. The City Clerk will initiate the process to enable city Council to make citizen appointments at the City Council meeting of November 3 and 4, 2015.

To further reinforce alignment and consistency in decision-making and priority-setting between the Board of Directors for Civic Theatres Toronto and the current City boards for the three civic theatres, the same membership is being recommended for all four Theatre Boards. This is essential to a smooth implementation of the transition process. Following an initial term, the new Board should establish staggered terms for members to ensure a gradual and healthy turnover of members, and achieve a balance of experience and continuity with new members.

Proposed Operational Transition

Current Tenants and Community Relationships

Each of the three current civic theatres have important relationships, including resident companies, long-term community user groups and partnerships, and returning productions, programs and special events. The objective underlying the new theatres operating model is to build on these success factors and find ways of developing more relationships, especially those that increase programming, in order to increase usage and enhance community relevance. The operational transition will be undertaken in a manner that is sensitive to these important relationships.

In terms of corporate governance, it is not appropriate for the major companies and tenants to sit on the Board in a decision-making capacity where the Board is required to pursue new programming opportunities that may compete with the interests of the major companies and tenants. However, it is desirable to provide a mechanism for them to raise tenant relations and related operational matters with the Board. The Board of Directors for Civic Theatres Toronto should establish an Advisory Committee with representation from the major companies and tenants at the theatres, to be convened at least once a year to provide advice to the Board, based on terms of reference approved by the Board.

Administrative Leadership

The Board of Directors for Civic Theatres Toronto will need to appoint a chief executive officer (CEO) as soon as practical. To expedite filling this important leadership role and to ensure appropriate support for the new Board, appointing an acting or interim CEO may be appropriate. Until that time, the Board can operate the three theatres on an 'as is' management basis. In either case, the Board will need to launch a recruitment process for a permanent CEO, with the assistance of a search firm as the Board considers appropriate to ensure a thorough and independent process. The Board must also conduct a review of its executive compensation policy and align with requirements as directed by City Council at its meeting on August 2014 in report EX44.8.

Existing Theatre Employees

To be successful, the transition process must draw on the knowledge and expertise of current management teams at the three civic theatres. The process must also ensure appropriate analysis of options and implementation issues regarding integration of operational functions, harmonization of policies, and the transfer of employees. Current management teams will provide important input and advice to the Civic Theatres Toronto Board on the development of the implementation strategy and the implementation of the transition process. Advice and support from City staff will also be available.

It is the employees of the civic theatres that have allowed the theatre venues to be as successful as they have been in staging so many great productions, performances, programs and events over the years. Their expertise, professionalism and commitment will be equally important to the success of Civic Theatres Toronto as the employees continue their roles as part of the new organization.

Communication with employees is important, and employees will be notified of any changes that may affect them. Transition will be phased-in and, at certain points along the way, changes may be announced. For example, not all theatre employees are currently covered by the OMERS pension plan, but this will need to be standardized for Civic Theatres Toronto and this report recommends participation of Civic Theatres Toronto in OMERS. Other examples include the introduction of new information systems and the harmonization of personnel policies so that the entire organization is able to operate on a common basis.

Labour Unions and Existing Collective Agreements

The City recognizes the valuable contributions of the unions at all venues and will respect the existing collective agreements at all three civic theatres. In the immediate future, it is business as usual. These agreements will remain in effect until such time as they expire and are renewed.

Board-Approved Implementation Strategy

Operational transition can be complex and time-consuming. The transition touches on every aspect of the organization and involves new administrative structures, the integration of programs, functions and systems, the harmonization of policies, procedures and standards, and the transfer of employees from the former to the new employer. To ensure successful integration of operations, the transition process will be phased-in following an implementation strategy approved by the Board of Directors of Civic Theatres Toronto. The strategy will set priorities for the transition process, taking into account linkages and dependencies between various functions and policies.

Procedures By-law

Boards of City agencies are required to conduct their proceedings according to a formal procedures by-law. This requirement also applies to the Board of Directors of Civic Theatres Toronto. The Board should develop a procedures by-law specific to the Board. Council policy requires that agency procedures by-laws be reported to City Council for approval. Until such

time, the Board is required to follow the procedures in Municipal Code Chapter 27, Council Procedures, as it applies to committees of Council.

Board Member Orientation

Agency management usually provide orientation for new citizen members of their boards on board-specific policies and issues. The City Manager's Office provides orientation material for board members covering a wide range of broader governance, financial, operational and legislative matters. Both initiatives support new Board members in effectively exercising their role on the Board. The City Manager's Office will consult with Civic Theatres Toronto to provide a coordinated orientation for new citizen members of the Board of Directors of Civic Theatres Toronto once they are appointed.

Business Planning

Each of the current civic theatres recently prepared 5-year plans. With the consolidation of these theatres in a single new organization, the context for these plans has changed and these need to be revisited. A new strategic plan and 5-year business plan will be important in setting direction for Civic Theatres Toronto and to serve as a foundation for the budget plans for the organization.

The Auditor General's report on the review of the Sony Centre's redevelopment project also recommended that the business plan for the Sony Centre be updated and any new plans or amendments to plans be submitted to City Council for approval. This report recommends that the Board of Directors of Civic Theatres Toronto develop a new strategic plan and 5-year business plan to be reported by the Board to City Council through the Executive Committee by the Spring of 2016 to inform the budget submission for the 2017 operating budget. For the purposes of the 2016 Budget plans, the status quo is assumed.

Relationship Framework

The City has developed a Relationship Framework for a number of its agencies that set out in one document the key provisions that define the relationship between the agency and the City. Relationship Frameworks generally include: key objectives; policy requirements and procedures; and reporting and accountability requirements. With respect to establishing City liaisons for Civic Theatres Toronto, the General Manager of Economic Development & Culture would serve as the operational liaison, the Deputy City Manager & Chief Financial Officer would serve as the finance liaison, and the City Manager would serve as the governance liaison.

This report proposes that a Relationship Framework for Civic Theatres Toronto be developed by the City Manager and reported to City Council as soon as practical. A Relationship Framework for Civic Theatres Toronto would address the Auditor General's recommendation in the review of the Sony Centre's redevelopment project that the City's old operating agreement be reviewed and updated.

Financial Considerations

Continuing with the existing arrangement for the current civic theatres will not allow for improvements in their financial sustainability. The City is expected to face increased costs to support the theatres unless organizational changes are made. NetGain consultants identified that a cooperative and coordinated approach to developing and marketing programming across the current venues through an integrated Performing Arts Centre model is expected to increase performance and event days, and in turn improve operating revenue, although it is difficult to accurately forecast revenue increases at this stage.

NetGain identified modest savings from improvements in efficiency through transitioning to shared internal services and streamlining of non-union functions. NetGain also identified gaps or uneven internal capacities within key theatre functions that need to be addressed to improve operational effectiveness. As a result, any ongoing savings from efficiencies and economies of scale (once costs associated with implementing the transition are addressed), would be applied to improved programming, marketing and partnership development and related activities in order to enhance organizational effectiveness and improve the financial viability of the theatre operations.

Given set timelines for the budget process, the three current civic theatres are submitting individual budget submissions for the 2016 Operating Budget. The Theatres Operating Budget has always been presented as one program with 3 services by location. For consolidated budget and variance reporting it is one City program appearing as "Theatres". Until Civic Theatres Toronto moves to develop one central financial control point and accounting system, the current consolidated presentation of the budgets and results of the civic theatres will continue. Audited financial statements are provided for each of the three civic theatres currently and will continue until the three current boards for the civic theatres are dissolved by Council.

Going forward, the implementation strategy and the operational transition process will also have to include financial matters in order to normalize financial management practices. Consideration will have to be given to the integration of such matters as financial systems, financial policies and internal controls, and financial planning and budgeting.

Some initial operational requirements specific to Civic Theatres Toronto are expected in 2015. With the establishment of Civic Theatres Toronto occurring mid-year, an adjustment to the approved 2015 Operating Budget is required to provide for a budget appropriation and spending authority. It is recommended that an in-year adjustment be made to the approved 2015 Operating Budget for the civic theatre Boards to establish a \$0.160 million operating budget appropriation to facilitate operational requirements, as set out in Confidential Attachment 2 to this Report.

If the theatres are to continue to be valuable foundational public assets contributing to a vital and vibrant performing arts sector, then diligent planning and budgeting for capital improvements will be important. The civic theatres have been tracking capital requirements. The Sony Centre, for example, is in the process of undertaking a complete Building Condition

Assessment Audit to inform a 10-year capital plan for state of good repair. Civic Theatres Toronto will need to ensure a consistent approach to regularizing the planning and budgeting for capital requirements across all of the theatre sites.

Currently, the capital budget of the Sony Centre stands separately, while the capital budget items for the TCA and the St.LCA are included in the Economic Development and Culture Capital Budget and Plan. There is a benefit to combining capital plans and budgets under a single responsibility centre, and to consider these in conjunction with other culture related capital plans and budgets. It is therefore proposed that, beginning with the 2016 Capital Budget cycle, the Capital Budget and Capital Plan for Sony Centre also be included as part of the Economic Development and Culture Capital Budget.

Integrating systems, harmonizing policies and transferring functions from the current civic theatres to Civic Theatres Toronto will commence in 2015 but largely happen in 2016. Subject to the Board's pending implementation strategy, this transition process may extend into early 2017. The NetGain consultant report identified some savings from streamlining, economies of scale and integration of related functions, but these savings will be phased-in as improvements are implemented and will not all be available at the outset. The Civic Theatres Operating Budget for 2016, including support for the transition process, will be considered initially during the administrative review process and subsequently by Budget Committee and Council.

Civic Theatres Toronto working with the three current civic theatres will have to assess the ability to expand current systems and which is the best available technology with respect to standardizing and integrating information systems relating to business functions such as email, budgets, payroll, accounting, internet and mainframe services, for example. The conclusion of this analysis will primarily come forward in 2016, and it is possible that costs will be incurred by Civic Theatres Toronto to purchase new software or additional software licenses and to provide appropriate staff training.

Many but not all of the employees affected by this restructuring are participants in the OMERS pension plan. With the consolidation of all employees in one organization, it will be necessary to treat all employees in a similar manner for pension purposes, and the OMERS pension plan will have to be extended to all employees. There will be a cost to Civic Theatres Toronto as the transfer of functions and employees is phased in. For those not currently participating in OMERS, costs may be partially offset by redirecting employer contributions from the employees' current retirement savings plans to OMERS. However, there will likely be new costs in addition to the provisions in collective agreements for unionized employees. Issues relating to the collective agreements will require further review in the specific context in which these issues arise.

It is not possible in many of these areas of organizational change to estimate the transition costs at this time. Any material financial impacts arising as implementation activities are planned and implemented will be reported through the annual operating budget and variance reporting processes as these issues are identified.

Hummingbird Performing Arts Centre Corporation

The Hummingbird Performing Arts Centre Corporation was established by private Provincial legislation at the request of the City but was never operationalized. The Act sets the size of the Board, and there are reporting and approval requirements that nevertheless have to be carried out to satisfy legislative requirements, in particular the annual general meeting and the matters to be approved at the AGM. However, it is inefficient to continue to do this with respect to an organizational model that no longer fits the City's requirements and will never be operationalized. Accordingly, it is recommended that City Council request the Province of Ontario to repeal the *Hummingbird Performing Arts Centre Corporation Act, 1998*.

Until the Corporation is dissolved, and for the purpose of fulfilling legislative requirements, it is proposed that, effective July 9, 2015, City Council rescind the existing appointments to the Board of Directors of the Hummingbird Performing Arts Centre Corporation and appoint the following members so that the Board will be composed of:

- the 5 Council Members who are appointed to the Board of Directors of Civic Theatres Toronto;
- the City Manager or designate;
- the Deputy City Manager and Chief Financial Officer or designate;
- the Deputy City Manager Cluster A or designate; and
- the General Manager, Economic Development and Culture.

Cultural Programming Trust

In order to increase programming and the community use of the theatres, the NetGain report made a compelling argument for the establishment of an arms-length cultural programming trust in order to have significant impact on the performing arts sector at large. The trust would have three key mandates:

1. curating performing arts programming across multiple venues and potentially subsidizing the use of the civic theatres;
2. audience development through arts education and community partners; and
3. collective marketing and fundraising initiatives.

Staff pursued this recommendation with a follow-up study of the potential donors to support such an initiative. The study concluded that there is enough potential interest from the private sector to support further investigation.

However, all potential donors stated that an independent and arms-length relationship from the City was an explicit condition of support. Since the cultural programming trust must be developed independently from the City in order to attract private funding, staff believe the impetus for the trust must be rooted externally so that there is significant community support for the idea. Further, the study also identified the potential risk of cannibalizing existing

donors in the performing arts. The City's overall interest is in the health of all of its cultural stakeholders and the cultural programming trust must have an overall positive impact. Therefore, staff can assist the performing arts community to identify potential initiators for the trust, if there is sufficient desire and demand to see the trust established.

The concept of an independent charitable Cultural Programming Trust to enhance programming opportunities and programming excellence, and to facilitate partnerships, sponsorships and donations in support of Civic Theatres Toronto and the entire performing arts sector in the Toronto region, offers potentially considerable benefits. The concept should be endorsed in principle, but additional research and consultation needs to be conducted to further assess issues and to gauge community interest and potential partnerships and support. The General Manager of Economic Development & Culture will report back on the concept to City Council once better insights and directions are available.

Summary of Timelines

Timelines for implementation of this report when adopted are as follows:

July 9, 2015	<p>Civic Theatres Toronto Board established 5 Councillors initially appointed to new Board</p> <p>Current terms of three current civic theatre boards expire Same 5 Councillors initially appointed to each Board</p>
July 9-14	<p>First meeting of the Board of Civic Theatres Toronto to determine key first steps including the process for CEO selection</p>
July	<p>City Clerk's Office commences public appointments process</p>
Mid-July onwards	<p>Current heads of each Theatre work with the Civic Theatres Toronto Board on identifying the most appropriate first steps on integration</p> <p>City Staff provide assistance and advice to new Board on implementation and legal matters</p>
Sept-Oct	<p>Civic Theatres Toronto Board starts phasing-in implementation of integration of functions, etc.</p>
November 3-4	<p>Same 8 citizen members are appointed to Civic Theatres Toronto Board and to three current theatre Boards effective November 6</p>

End of November Orientation for new citizen Board members
Nov-Dec onwards Phasing-in implementation of integration of functions continues

CONTACTS

Terry Nicholson, Director, Arts & Culture Services
Tel: 416-392-4166, Fax: 416-392-5600; E-mail: tnichols@toronto.ca

Peter Notaro, Strategic and Corporate Policy Division
Tel: 416-392-8066, Fax: 416-696-3645; E-mail: pnotaro@toronto.ca

Judy Skinner, Financial Planning Division
Tel: 416-397-4219; Fax: 416-392-3649; E-mail: jskinne1@toronto.ca

SIGNATURE

John Livey
Acting City Manager

Michael Williams
General Manager,
Economic Development & Culture

ATTACHMENTS

Attachment 1 Civic Theatres Toronto – Board Governance Structure
 Current Civic Theatres – Board Governance Structure
 Hummingbird (Sony) Centre for the Performing Arts
 St. Lawrence Centre for the Arts
 Toronto Centre for the Arts

Confidential
Attachment 2 Civic Theatres Toronto – Confidential Financial Advice