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Final Report

Evaluation Follow-Up - The Institute (TI)

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Executive Summary

Authority

This evaluation was approved by the Audit, Assurance and Ethics Committee as part of the Public Works and Government Services (PWGSC) 2005/06-07/08 Multi-year Evaluation Plan.

Objective

The objective was to assess if The Institute (TI) has achieved sustainable full-cost recovery.

Scope and Methodology

This engagement was limited to reviewing The Institute (TI) Business Plan developed to assess whether it achieved the mandate of building a *sustainable full-cost recovery* organization. Focus is on two aspects: "*sustainability*" (trend and monitoring mechanisms to deal with supply and demand shifts over time); and, "*full-cost recovery*" (mechanisms put in place to account for total program costs as defined by Treasury Board Secretariat (TBS) impacting the program and the department as a whole). Treasury Board defines full-cost recovery as "…the sum of all costs, direct and indirect, incurred by the government in the supply of a good, service, property, or right or privilege, including: services provided without charge by other departments (e.g., accommodation, employer contributions to insurance plans); costs financed by separate authorities (e.g., some employee benefits); the financing costs of inventories; and annualized capital costs, including financing."[1] PWGSC's Cost Management Framework incorporates this definition in its elaboration on the statement that "The costing model in each organization is designed to account for all costs," indicating that "Each costing model should account for the full cost of producing outputs or delivering services."[2] Treasury Board's Common Service Policy (Appendix C – Guidelines on Implementation and Best Practices, 3. Costing common services)[3] references this definition as it explains the intent is to create "a competitive environment…" in which common service providers operate on a full cost-recovery basis. Choice for line departments together with market pressures is expected to drive competitive pricing. Full cost recovery supports the intent of ensuring a level playing field amongst service providers.

The time period considered covers October 2004 to January 2006. The analysis and observations presented in this review are based on interviews with key staff, and review of relevant documents including: evaluation reports; costing studies; operational financial reports; and, other documentation provided by TI.

Background

In 2003/04, the Audit and Evaluation Branch (AEB) conducted an evaluation of The Knowledge Institute (2003-613). The Information Technology Services Branch (ITSB) prepared an Action Plan and the Evaluation Report and Action Plan were presented and approved at the Assurance,

[1] Guide to the Costing of Outputs in the Government of Canada, Treasury Board of Canada Secretariat (1989).
[2] http://source.tpscg.gc.ca/cpib/finance/cmf/text/proposed-principles-e.html
[3] http://www.tbs-sct.gc.ca/pubs_pol/dcgpubs/TB_93/csp-psc_e.asp

Audit and Ethics Committee (AAEC) meeting of September 7th, 2004. A commitment in the Action Plan was that The Institute (TI) was to develop a business plan to achieve full-cost recovery. The AAEC requested that AEB conduct work the following year to assess if TI achieved sustainable full-cost recovery.

Overview

TI is comprised of 9 full-time employees. The group has an authorized complement of up to 18 full-time staff and until recently, operated with 14 staff. During 2005-2006, TI had an annual operating budget of $849,200 in salaries, and $1,773,400 in O&M. An A-Base subsidy of $337,600 was budgeted. TI forecasts that it will sell $2,285,000 in seminars and related programs in 2005-2006.

TI is a vote-netted funded program. Training delivery supply costs, development costs, and overhead expenditures related to the development, promotion and administration of The Institute's programs and activities are funded through tuition fees, service charges and an A-Base budget allocation. Deficits are offset by ITSB with additional funding as required.

Findings

Financial information concerning fiscal years 2003-04, 2004-05 and 2005-06 was reviewed. With the exception of a modest cost recovery of $10,779 in 2004-05, TI required an A-Base subsidy of $639,366 in 2003-04 and $332,610 in 2005-06. After accounting for estimated PWGSC and TBS full-costs, TI's net cost to the government was $744,337 in 2004-05 and is expected to be $1,087,726 in 2005-06. As of January 2006, the 2005-2006 financials are expected to be:

Forecast 2005/06 TI Financials	
Program Revenue Generated (not including A-Base)	$2,285,000
Program Costs	(945,990)
Gross Margin	$1,339,010
TI (Costs)/Recoveries (Salaries and O&M)	(1,671,620)
**** TI (Costs)/Recoveries before A-Base Subsidy**	**(332,610)**
Actual A-Base Transferred to TI at Year-End	(332,610)
Estimate of "SOA" Costs	(463,636)
Training Facilities - rent	(291,480)
***** Estimated Total Net Government Costs/Recoveries**	**(1,087,726)**
<u>**Note:**</u> **Estimate of "SOA" Costs** is based on a worksheet developed by Consulting and Audit Canada in 2004. These costs include: TBS mandated Employee Benefits Plans (EBP) – 7.5% and Health Care Plan (HCP) – 20%, branch overhead, corporate priorities, and corporate services; less $88,013 in "office accommodation" which is included in "**Training Facilities – rent**".	

**** TI shortfall prior to consideration of "SOA" Costs and "Training Facilities – rent".**
***** TI shortfall considering full costs as defined by TBS.**

TI has demonstrated that it operates with a substantial full-cost recovery shortfall. While its performance has improved, results have also been inconsistent. It should also be noted that TI has made substantial progress improving its gross margins since the 2004 Evaluation, when TI's three-year average margin was 12%. Changes since then have included: contract renegotiations on university programs; phasing out (low margin) university courses; much-improved seminar pricing discipline (40% margin in 2005-06); and, growth of eLearning (54% margin in 2005-06). Overall the TI expects its 2005-06 gross margin to be 58%.

TI's current vote-netted, A-base allocation based financial framework does not facilitate the operations of an effective business-like market driven full cost recovery business.

Conclusion

Evidence suggests that TI has not achieved full-cost recovery as defined by TBS. While significant progress has been made toward the reduction of operating shortfall and A-Base subsidy, results have been uneven. Analysis suggests that as presently constituted, in the financial framework and context within which it operates, TI is not sustainable.

In a reconstituted management and investment environment, there is every reason to believe that TI could thrive. TI is well regarded by its customers and the government's overall demand for IM/IT training is significant and likely growing. TI also has a healthy foundation of product management and marketing from which to grow its business. The current management and staff are deeply committed to the mission and the success of TI.

Recommendation

It is recommended that the Chief Executive Officer, Information Technology Services Branch:

- Change the financial framework and context of The Institute, or accept the operations of The Institute as currently constituted and its current level of sustainability.

1. Introduction

This report presents the findings of a follow-up evaluation to assess whether The Institute (formerly called The Knowledge Institute, TKI) has become a full-cost recovery program, since September 2004.

In 2003/04, the Audit and Evaluation Branch (AEB) conducted an evaluation of The Knowledge Institute (2003-613). The Information Technology Services Branch (ITSB) prepared an Action Plan in response to the final report findings and recommendations. Developing a viable, sustainable full-cost recovery plan was recommendation #3 from AEB to the CEO, ITSB. The evaluation report and Action Plan were presented and approved at the Audit, Assurance and Ethics Committee (AAEC) meeting of September 7th, 2004. A commitment in the action plan was that The Institute (TI) was to develop a business plan to achieve full-cost recovery. The AAEC requested that a review be conducted the following year to assess whether the proposed Business Plan is valid in that ITSB would have to demonstrate that sustainable full-cost recovery had been achieved.

1.1 Authority

This evaluation follow-up was approved by the Audit, Assurance and Ethics Committee (AAEC) as part of the Public Works and Government Services (PWGSC) 2005/06 – 2007/08 Multi-year Evaluation Plan.

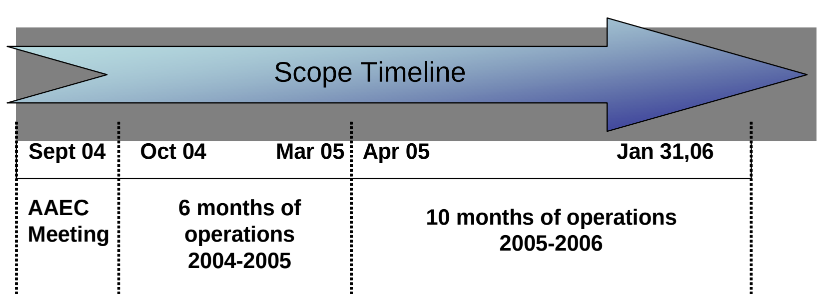
1.2 Objective

The objective was to assess if TI has achieved sustainable full-cost recovery.

1.3 Scope of Engagement

The scope of this engagement was limited to reviewing the TI Business Plan developed to assess whether it achieved the mandate of building a <u>*sustainable full-cost recovery*</u> organization. Focus is placed in two areas: 1. "*sustainability*" (trend and monitoring mechanisms to deal with supply and demand shifts over time); and, 2. "*cost recovery*" (mechanisms put in place to account for total program costs impacting the program and the department as a whole).

The scope of this follow-up evaluation is limited to the period covering October 2004 to January 2006.



1.4 Methodology

The analysis and observations presented in this follow-up evaluation are based on interviews with key senior staff of The Institute and review of relevant documents including: evaluation reports; costing studies; operational financial reports; and, other documentation provided by TI.

2. Overview of The Institute (TI)

The Institute for Government Informatics Professionals was formally established via a Treasury Board decision (#93772), dated June 2, 1993 with the mandate "*to complete the development and implementation of a standardized curriculum of accredited courses to address the informatics training requirements across government, through an educational coordination arm known as the Institute*."[4]

In the late 1990's, Treasury board recognized the evolving nature of IM/IT professionals brought about by the convergence of technologies and the need for the IM/IT community to participate in the business decision-making process. The digital economy placed a growing emphasis on business acumen and communications in combination with technical skills. In more progressive organizations, this evolution resulted in the structural amalgamation of previously separate IM and IT groups.

2.1 Present

The Institute provides Information and Communications Technologies (ICT) education, professional development and training to government professionals. The mandate encompasses the whole IM/IT community within the GoC and other levels of government to assist them in meeting their e-government objectives. It strives to offer innovative approaches to continuous learning for public service employees working in the IM/IT field.[5]

The target group for the program is primarily the Computer Systems (CS) community. The Institute believes that it can play a key role through its offerings for IT skills training while targeting the CS 1-2-3 levels. More and more CS professionals are looking for professional certifications in various fields. The Institute revamped its curriculum toward certifications, adding programs focused on IT Project Management (courses recognized by the Project Management Institute (PMI)), IT Security courses, ITIL Certification, and Business Analysis. As part of the learning opportunities offered by The Institute, there is an e-learning catalogue available with approximately 2000 IT courses. To augment the self-paced courses, The Institute has piloted a series of blended webinars that provide learners with access to an interactive virtual classroom on topics such as ITIL, Java, and Project Management. TI is focusing on training around the Content Management Solution (CMS) shared service solution offerings. The Institute is also exploring its capacity to facilitate access to e-learning courses and host customized learning solutions.

[4] Informatics at that period in time included both IM and IT disciplines.
[5] http://www.pwgsc.gc.ca/institut/text/aboutus-e.htmlFebruary 2006.

In addition to delivering services, TI has also been working hard to respond to demands placed on it for reporting and accountability, while transforming itself.

2.2 Profile of TI

ITSB delivers the Government of Canada's (GoC) common Information Management/Information Technology (IM/IT) infrastructure.[6] ITSB provides IT services to more than 150 government clients. In collaboration with its client departments and the central agencies, ITSB is working toward a new Shared Services model. The mission of the Branch is to be Government of Canada's (GoC's) center of excellence for the delivery of IT infrastructure solutions.[7]

Formerly, TI was located within ITSB's E-Government Knowledge Centre. Currently, it reports to the Director, Directorate Information Management Enablement Services (DIMES) who in turn reports to the Director General, Product Management Portfolio.

Currently, TI is comprised of 9 full-time employees (including two seconded individuals; see Appendix, Organization Chart). The group has an authorized complement of up to 18 full-time staff and until recently, operated with 14 staff. During 2005-2006, TI had an annual operating budget of $849,200 in salaries, $1,773,400 in O&M, as reported in CDFS. An A-Base of $337,600 is budgeted. TI forecasts that it will sell $2,285,000 in seminars and related programs in 2005-2006.

The Institute is a vote-netted funded program. Training delivery supply costs, development costs, and overhead expenditures related to the development, promotion and administration of The Institute's programs and activities are funded through tuition fees, service charges and an A-Base budget allocation. Deficits are offset through the allocation of additional funding as required by ITSB.

3. Analysis and Findings

The analysis presented in this section is organized according to the two primary issues examined: full-cost recovery; and, sustainability.

3.1 Full-Cost Recovery

Two lines of inquiry with respect to the achievement of full-cost recovery were pursued:

- measurement and analysis; and
- operating constraints.

[6] http://www.pwgsc.gc.ca/text/factsheets/info_technology-e.html Last Updated: 2005-05-19
[7] ITSB internal presentation to PWGSC, February 2006

3.1.1 Measurement and Analysis

ITSB's September 2004 Action Plan committed TI to the achievement of full-cost recovery. However, through to the present, the business plan financial systems and measures put in place to analyze and measure TI performance have primarily focused on A-Base recovery as the principal dimension of cost recovery.

The TI document "Business Case for the Action Plan" indicated that by the end of fiscal year 2006-2007, TI would achieve a surplus sufficient to replace its annually diminishing A-Base.[8] In the interim, in addition to revenue generated through the provision of training, ITSB annually subsidizes operating shortfall with A-Base. The current forecast for fiscal 2005-06 indicates that TI is budgeting to require an A-Base subsidy of up to $337,600.

Treasury Board defines full-cost recovery as:

> "…the sum of all costs, direct and indirect, incurred by the government in the supply of a good, service, property, or right or privilege, including: services provided without charge by other departments (e.g., accommodation, employer contributions to insurance plans); costs financed by separate authorities (e.g., some employee benefits); the financing costs of inventories; and annualized capital costs, including financing."[9]

PWGSC's Cost Management Framework incorporates this definition in its elaboration on the statement that "The costing model in each organization is designed to account for all costs," indicating that "Each costing model should account for the full cost of producing outputs or delivering services."[10] Treasury Board's Common Service Policy (Appendix C – Guidelines on Implementation and Best Practices, 3. Costing common services)[11] references this definition as it explains the intent is to create "a competitive environment…" in which common service providers operate on a full cost-recovery basis. Choice for line departments together with market pressures is expected to drive competitive pricing. Full cost recovery supports the intent of ensuring a level playing field amongst service providers.

3.1.1.1 Financial Systems

TI uses a number of financial systems generating different types and formats of reports.

- CDFS is the branch financial system of record for TI.
- The Daily Financial System is used to provide more detailed daily cash position information and to allocate salary data across TI product categories (seminars, eLearning, etc.).

[8] A-Base was scheduled to reduce from $337,604 in 2005-06 to $168,802 in 2006-07 and zero thereafter. In December 2005, ITSB/DIMES informed TI that A-Base would be eliminated as of 2006-07.
[9] Guide to the Costing of Outputs in the Government of Canada, Treasury Board of Canada Secretariat (1989).
[10] http://source.tpscg.gc.ca/cpib/finance/cmf/text/proposed-principles-e.html
[11] http://www.tbs-sct.gc.ca/pubs_pol/dcgpubs/TB_93/csp-psc_e.asp

- The Financial Projection System (FPS)[12] is used for year-end revenue and direct cost projections on advance course bookings. It is generally updated quarterly. FPS also includes some full-cost elements, such as the employee benefits program (20% of salaries) and a PWGSC claw-back for workstation and telephone equipment and services.

Each system is stand-alone (no common database); required redundant data entry; tracked, derived, or presented accounts in an uncommon manner; and contained or omitted varying degrees of full-cost data. TI was not able to fully explain all of the sources and assumptions of all the systems. Reconciliation was difficult.

3.1.1.2 Full Cost-Recovery Performance

Exhibit 1 below demonstrates the evaluation team's attempt to present TI's full-cost recovery performance for the most recent three fiscal years. With the exception of a modest cost recovery of $10,779 in 2004-05, TI required an A-Base subsidy of $639,366 in 2003-04 and $332,610 in 2005-06. After accounting for estimated PWGSC and TBS full-costs, TI's net cost to the government was $744,337 in 2004-05, the first year after the Action Plan, and $1,087,726 in 2005-06.

Overall, in the period since the evaluation, TI has demonstrated that it operates with a substantial full-cost recovery shortfall. While its performance has improved, results have also been inconsistent. It should also be noted that TI has made substantial progress improving its gross margins since the 2004 Evaluation, when TI's three-year average margin was 12%. Changes since then have included: contract renegotiations on university seminars; phasing out (low margin) university courses; much-improved seminar pricing discipline (40% margin in 2005-06); and, growth of eLearning (54% margin in 2005-06). Overall the TI expects its 2005-06 gross margin to be 58%.

[12] The FPS was developed to replace a full-cost worksheet developed by Consulting and Audit Canada (CAC) for AEB in 2004. This worksheet tracked "SOA expenses" which amount to $551,649 in 2004-05 and correspond to PWGSC and TBS full-costs as defined in Exhibit C.1 of the 2004 AEB Evaluation of TI. SOA expenses were derived from, and in addition to, TI salary and O&M expenses. Unaccounted for full-cost expenses not included in the SOA calculation or otherwise clearly ascribed to TI include: classroom rent; depreciation of capital equipment, including all training facility leasehold improvements; and financing costs.

Exhibit 1: Estimated Full-Cost Recovery Analysis

Financial Measure	2003-04	2004-05	(Forecast) 2005-06
Program Revenue Generated, Not Including A-Base	$1,809,152	$1,557,499	$2,285,000
Direct (Variable) Program Costs	*(Detail not available,*		(945,990)
Gross Margin	*included in TI O&M below)*		$1,339,010
TI (Costs)/Recoveries (Salaries and O&M)	(2,735,669)	(1,546,720)	(1,671,620)
** TI (Costs)/Recoveries, Before A-Base	(926,517)	10,779	(332,610)
Negotiated Budget A-Base Subsidy from ITSB	639,366	452,000	337,600
Actual A-Base Received by TI at Year-End	639,366	83,564	332,610
TI (Costs)/Recoveries, Before PWGSC & TBS Costs	(287,151)	94,343	0
Actual A-Base Transferred to TI at Year-End	(639,366)	(83,564)	(332,610)
Estimate of "SOA" Costs	(463,636)	(463,636)	(463,636)
Training Facilities – rent	(291,480)	(291,480)	(291,480)
Other Full-Costs Not Otherwise Accounted For	*(Detail not available)*		
*** Estimated Total Government (Costs)/Recoveries	(1,681,633)	(744,337)	(1,087,726)

Notes:

This table has been generally designed to correspond to Exhibit C.1 of the 2004 Evaluation.

Program Revenue is obtained from the CDFS statements. Management confirmed the $2,285,000 CDFS forecast instead of the TI Financial System's early January $2,124,156 forecast (a difference of +7.6%).

Direct (Variable) Program Costs for 2005-06 are obtained from the TI Financial Projection System and roughly corresponds to the CDFS Operating Expense Training (account 416770-5110). $945,990 reflects an increase of 7.6% from the $879,098 (calculated in the TI Financial Projection System) to correspond to the 7.6% greater CDFS revenue forecast used in this analysis.

TI (Costs)/Recoveries are obtained as follows. CDFS forecasts $772,150 in annual salaries and $1,845,460 in O&M. From this total of $2,617,610, the direct costs of $945,990 have been subtracted.

Estimate of "SOA" Costs is based on a worksheet developed by CAC in 2004. These expenses included: EBP, HCP, branch overhead, corporate priorities, and corporate services and totalled $551,649. From this estimate, $88,013 in "office accommodation" has been subtracted as this cost in included in "Training Facilities – rent".

Training Facilities – rent is obtained from the January 2006 TI Fact Sheet.

Sources: CDFS Trial Balance reports for March 31, 2004 and 2005 and January 31st 2006 (Annual Forecast); direct program costs are from TI Financial Projections System, as estimated by TI in early January; estimated SOA costs spreadsheet prepared by CAC; A-Base and training facilities rent data obtained from January 2006 The Institute Fact Sheet.

****   TI shortfall prior to consideration of "SOA" Costs and "Training Facilities – rent".**
***** TI shortfall considering full costs as defined by TBS.**

3.1.1.3 Full-Cost Recovery and Break-Even Analysis

During the fall of 2004, management concluded that true full cost recovery, in particular full rent costs, was an unrealistic objective.[13] It was believed that, if full-costs such as rent were built into the price of training, then TI prices would become uncompetitive and demand would decline.

[13] The 2005 Business Case for the Action Plan focused on A-Base recovery. The only full-cost components not otherwise tracked by CDFS in the Financial Projections System were 20% employee benefits and PWGSC claw-back of $45,788 for workstation and telecom equipment and service.

To assess full cost recovery, it is necessary to first identify the break-even point. This involves determining the amount of revenue (price X volume) necessary to cover all variable and fixed costs. To increase profit, an organization can increase price, increase volume, or decrease costs. It is important to realize that price and volume can have an inverse relationship – the higher the price, the less volume may be purchased. In the case of TI, the following must be considered:

- Price: By the fall of 2004, TI had adjusted its prices to be in-line with other alternative training providers. It believed that price could not be increased without negatively affecting volume.
- Volume: The purchase of courses from TI is generally a discretionary decision of its clients as they can choose to purchase training elsewhere. The total market is estimated at $24M per year and it is estimated that TI currently serves about 10% of this market.
- Costs: TI had renegotiated contracts to reduce variable (direct) costs to the extent possible. In the short-term it cannot influence fixed costs.

As such, the only possible solution to improve profitability is to increase volume. There is no evidence to indicate that a strategy to attain full-cost recovery through increasing volumes was actively considered.

Exhibit 2 demonstrates the revenue necessary to achieve full cost recovery for three gross margin scenarios using fiscal 2005-06 data. It can be noted that revenue in 2005-06 was $2,285,000. To achieve cost recovery at the current gross margin, TI needs to generate revenue of $4,291,380.

Exhibit 2: Full-Cost Break-Even Analysis Scenario

Financial Measure	(Forecast) 2005-06
Program Revenue Generated	$2,285,000
Direct (Variable) Program Costs	(945,990)
Gross Margin	$1,339,010
Gross Margin %	58.6%
Fixed Costs:	
TI (Costs)/Recoveries (Salaries and O&M)	(1,671,620)
Estimate of "SOA" Costs	(551,649)
Training Facilities – rent	(291,480)
Estimated Total Fixed Full-Costs	$2,514,749
Full-Cost Break-Even Scenarios:	
Estimated Full-Cost Break-Even at 58.6% average gross margin:	$4,291,380
Estimated Full-Cost Break-Even at 50% average gross margin:	$5,029,498
Estimated Full-Cost Break-Even at 40% average gross margin:	$6,286,873
Notes:	
Financial data forecast for 2005-06 from Exhibit #1.	
Gross Margin % equals: gross margin / program revenue.	
Break-even equals: estimated total fixed costs / average gross margin %	

Sources: CDFS Trial Balance reports for January 31st 2006 (Annual Forecast); direct program costs from TI Financial Projections System; estimated SOA costs spreadsheet prepared by CAC; training facilities rent data obtained from January 2006 The Institute Fact Sheet.

3.1.2 Operating Constraints

TI's vote-netted, A-base allocation does not facilitate the operations of an effective business-like market driven full cost recovery business. TI was presented with an opportunity to contract for the provision of some $2 million in ITIL training. The offer was made in March 2005. TI declined because of the perceived difficulties and risks associated with year-end contracts, MOU's extending over multiple fiscal years, and the ability to "carry-over surpluses" to mitigate risks; balance demand and delivery; and, invest in long term undertakings for growth and sustainability. Had TI accepted and successfully executed the order placed by the PWGSC buyer in March 2005, the incremental revenue recognition in fiscal 2005-06 would have resulted in well over $580,000 in incremental contribution margin. This one transaction alone would have resulted in substantial progress towards full-cost recovery in fiscal 2005-06 (Exhibit 2: Full-Cost Recovery Scenario). The same potential buyer was also working on an estimated budget plan of $3.4 million worth of Project Management training. Full-cost recovery and even surplus may have been possible.[14]

TI management believes that if it was able to accept orders such orders there is a strong likelihood that many other similar transactions would occur.

3.2 Sustainability

Eight lines of inquiry were used to determine whether sustainability has been achieved:

1. Market Opportunity
2. Business Planning
3. Human Resource Management
4. Product Management
5. Marketing Management
6. Sales Management
7. Performance Information Systems
8. Governance

[14] Correspondence with TI staff related to correspondence with the departmental buyer presented a credible rationale that a purchase such as this would be within FAA guidelines and has significant precedent.

3.2.1 Market Opportunity

Estimates suggest that a large, addressable market opportunity exists for the government IM/IT training, (possibly in excess of $24 million per year) [15]. TI has historically sold some $2 million in IM/IT training to federal government departments; yet this has only scratched the surface of the total potential demand across all federal departments, agencies and crown corporations. Further, TI has demonstrated that some provinces, such as the Government of Ontario, have expressed interest in TI's offerings such as eLearning licenses. TI's charter does not preclude including a sales approach to municipal governments.

Current trends in the federal government that support TI's market opportunity include:

- the strong commitment across the federal government to build capacity of the public service through continuous learning;
- the federal IT community shifting its priorities towards knowledge management capacity building, including training and development of the present workforce to meet needs related to the transformation of business processes;
- the Government's plan to transform and strengthen public sector management including, among other measures, enhancing the role of the new Canada School of Public Service (CSPS) and establishing a core learning curriculum for all public servants; and
- the possibility that IM/IT training may be a viable candidate for another form of delivery, e.g. shared service.

3.2.2 Business Planning Process

The September 2004 Action Plan committed TI to the development of a business plan. The May 2005 Business Case for the Action Plan (a.k.a. Business Plan) did not meet the Action Plan's requirement to be a "full-cost recovery business plan." Since the September 2004 Action Plan, TI has developed the following planning documents:

- Marketing Plan, September 2004
- Operational Plan 2005-2006 (April 2005)
- Business Development Strategy, February 2005
- Business Case for the Action Plan, May 2005 (known as the business plan)
- Organizational Review, August 2005
- Fact Sheet, January 2006

[15] If $2000 of training were sold to 12,000 CSs per year, this would amount to $24 million. IM training could appeal to a much larger employee classification audience in the federal public service. Sales to agencies, crown corporations, provincial governments, municipal governments are other markets TI could ultimately pursue.

While it may be concluded that the functional elements of a business plan may be found within parts of all of these documents, none of them represent a single, coherent, all-inclusive business plan; nor do the documents represent the result of a systematic management planning process. Given the significance and clarity of the commitments in the September 2004 Action Plan, and the degree of dramatic change in operations required to grow TI into a sustainable full-cost recovery organization; a more formalized business planning and documentation was, and remains, needed. The Business Case restates the objective that TI achieve full cost recovery. Yet, the Business Case costs analysis did not measure or otherwise reflect complete full costs.

Evidence suggests there is a need for more formal decision-making process within TI with appropriate linkages to DIMES/ITSB management. The decision-making on several projects of significant importance appears open to question. Specific examples include the following:

- Delays and costs associated with the dynamic website (which remains not deployed at the time of writing);
- The name change to The Institute; and
- The absence of an adequate customer relationship management (CRM) system and process.

The need for a dynamic website for TI was established in 2001 and an FTE was hired specifically to maintain one. Among other important benefits, the dynamic website would enable: efficiencies in managing the website; improvements in TI's ability to market to current and prospective clients; and automation of the client registration process.

In September 2004, coincident with the Action Plan, the project was approved. By June 2005 phase-1 functionality and by fall 2005 phase-2 functionality was ready for deployment. By this time costs in excess of $200,000 in wages and development contracts had been incurred. It was also discovered that because of enhanced security requirements imposed on TI, the cost of hosting the dynamic website would grow approximately ten-fold to over $76,000 per year. These costs are still being negotiated. The new site and application remains un-deployed at the time of this review.

During 2004 and 2005, TI underwent a name change from The Knowledge Institute (TKI) to its current name, The Institute. However well intentioned:

- the project represented a significant distraction to TI management during a crucial period;
- the project imposed significant costs during a time when cost recovery was a strategic priority; and
- the result of the name change has led to considerable confusion and reduced awareness of TI within its market.

Despite the critical importance of revenue generation and the scale and information complexity of TI's direct marketing processes, to date no business case analysis and decision has been taken to develop a customer relationship management (CRM) approach and system. Applications far superior to the current manual and disconnected approach currently exist that are either free (extensions to Microsoft Outlook, open source CRM) or modestly priced best-of-breed commercial CRM applications and services for small businesses (such as Goldmine, Salesforce.com, NetSuite). This work is planned for 2006-2007.

3.2.3 Human Resource Management

Since the September 2004 Action Plan, TI has been required to operate with less than its designated level of staff due to imposed financial constraints and organizational uncertainty.

One employee was hired, in 2004, with full-time responsibility for generating revenue. The selection, skills and training of this person appear to have been less than ideal for such a critical role – prospecting new customers, negotiating and closing large contracts. The person left TI in November 2005 and no replacement has been hired.

Finally, at the time of this report, TI's nominal manager is the Marketing Team Leader. Acting status has not been granted to this person. The manager position is classified as a CS; a job classification grounded in information technology and not in the management of a full-cost recovery organization selling products/services to the government sector.

3.2.4 Product Management

TI has a well-defined new product development process that includes go/no-go decision points. As much as 6 or more person months can be invested in bringing a new course to market. Underperforming courses have been redefined and cancelled. The process is functional, however not particularly nimble.

TI Product Management responsiveness is considerably compromised by long procurement cycles. The cycle-time to introduce a new program is over a full year, with the procurement process alone lasting 10 months or more. While the Canada School of Public Service (CSPS) has standing offers, to-date TI has not yet established a standing offer. A small pool of long-standing trainers and training companies deliver most of TI's courses.

Seminar curricula is owned and delivered by the contracted instructors. A curriculum typically consists of presentation slides and case studies/examples adapted to government IT examples. Seminar prices are set at a margin of 35% and MoUs are negotiated on a case-by-case volume basis with margins of between 25% and 35%.

There remains very significant untapped potential market opportunity for current and potential TI eLearning products and services. To date, only a handful of the federal government's 50 departments and agencies have become eLearning clients of TI. The province of Ontario is the only provincial government client, and the municipal government market has not been developed. After competitive processes, only one supplier of eLearning services has been contracted (SkillSoft) and not all the potentially IM/IT relevant courses are actively promoted by TI.

Despite eLearning's criticality to TI[16] and the significant undeveloped market potential, TI may be strategically vulnerable in the government eLearning market. SkillSoft has sold direct to many of TI's eLearning client departments in the past. Effective April 1, TI will be exercising an optional one-year extension of its current contract with Skillsoft.

3.2.5 Marketing Management

The Marketing Management function operates with reasonably defined processes, including planning and a wide range of activities designed to generate awareness and interest in TI services. In the absence of MoU negotiations, marketing activities are the primary means of generating employee interest in TI. A marketing plan was developed in 2005 that included significant market research.

Customer and prospect lists are maintained, though not in a single customer database, and e-mails and communiqués are sent out. A portable trade show booth is used at events, ranging from actual trade shows such as GTEC to setups in the lobby of government building lobbies.

There is a requirement that PWGSC Communications approve all marketing artefacts (brochures, e-mails, etc.) prior to use. These approvals have been subject to significant delay in the past, which compromise TI's, marketing productivity and responsiveness. Examples include up to a year to get approval for the new name, identity, colours and design. Delays in approval of marketing materials are also a practical issue that negatively impacts new course launches. While TI awaits an unpredictable instructor/curriculum procurement process, marketing approvals must run in parallel. Once a new course is ready to deliver, it can take between 6 to 12 months to build awareness.

3.2.6 Sales Management

Revenue generation and growth are necessary conditions for TI to achieve full-cost recovery. Yet, in the time since the Action Plan, the capacity, quality and incremental results of the direct sales efforts at TI have been modest. Only one sales resource was hired, no new department MOUs were achieved by that resource, and no replacement has been approved since their departure in November 2005.

TI is able to attract and retain clientele, however its sales efforts have been uneven and are missing a robust framework to guide its growth. Long-term client departments include PWGSC, NRC and CRA. However during 2005, some forty out of fifty federal government departments did not respond to requests for participation in discussions that might lead to the provision of TI training services. The vast majority of national capital area's CS-1 and CS-2 employees have never taken a course from TI. DND, Statscan and CRA operate their own internal training organizations.

[16] eLearning is expected to generate approximately $910,000 (40% of total revenue) in revenue and $490,000 (37% of total) in contribution margin in 2005-2006.

3.2.7 Performance Information Systems

Considerable effort has been made by TI to streamline and automate key information processes (Dynamic Website and Financial Projections System) and to improve cost measurement (salary and A-Base costs allocated in Financial Projections System and Daily Financial System). Nonetheless, TI is currently underserved in terms of performance information systems:

- TI has four separate systems, including CDFS, manipulating and tracking financial information. None of these inter-operate or use shared data sources, thus they require redundant manual data entry. None provide year-over-year comparative data and trend analysis that would facilitate management analysis.

- No single information system tracks TI full costing as defined by TBS, or provides trend reporting of progress and forecasts to achieve full-cost recovery. Financial reports are ill suited to management and executive analysis, providing no detailed trend analysis, year over year comparisons nor key performance indicators.

- The Dynamic Website, completed in September 2005 its underlying technology seems to be an interesting asset worth leveraging. Phase 1 functionality of this website includes a complete content management system tailored to training needs, student login, profiles, registration, notifications. Phase 2 functionality includes administration tools, workflow, facility scheduling, management reports; email addresses export for direct email notifications. The system has not yet been deployed due to IT security issues and unresolved hosting fee negotiations.[17]

3.2.8 ITSB/DIMES Governance of TI

ITSB, DIMES and TI committed to achieve full-cost recovery in the September 2004 Action Plan. ITSB and DIMES management have been in a position to significantly assist and guide TI's progress towards this goal. TI has been underserved in the following regards:

- The financial framework within which TI operates does not facilitate the operation of a business-like full cost recovery entity;
- TI continues to await approval to hire account managers;
- Procurement delays result in protracted delays for launching important new courses. In the case of the ITIL program, delays resulted in missing the critical September to February;
- Departmental approval of TI marketing initiatives remain slow; in some cases as much as a full year; and,

[17] The website has been designated with a "Protected A" security classification, which increases TI hosting costs to $6000/mth compared to $500/mth with the current website.

- In 2004, TI was directed to undertake a name change (previously The Knowledge Institute). Approvals for the new name and image delayed the switchover until the fall of 2005.

The last two years have been a critical period for TI, during which time management has been under ongoing constant pressure to deliver product, transform the operation and justify its existence. During this time, the Action Plan commitment to develop a "Business Plan" became instead a "Business Case." It has also been openly known within TI since at least the fall of 2005 that ITSB/DIMES was considering moving TI to another organization.

Finally, according to our understanding of ITSB's strategic direction, while the DIMES is explicitly identified as a core operational activity, it is not clear how TI or DIMES is aligned with ITSB's shared services infrastructure vision[18].

4. Summary of Findings

In response to the question "Has TI achieved full-cost recovery?" evidence suggests that full-cost recovery has not been achieved.

In response to the question "Has TI achieved sustainability?" while a large addressable market exists for government IM/IT training and professional development, evidence has not been provided to clearly demonstrate that The Institute is sustainable as it currently operates in its existing context. The following represent major challenges:

- A formalized business planning process is not in place;
- There are no dedicated sales personnel and insufficient account management capacity persists;
- Long procurement cycles hinder TI's ability to be responsive to market trends; and,
- TI is currently underserved in terms of performance information systems.

These elements together support the finding that, as presently constituted and in the context in which it operates, The Institute has not yet achieved sustainable full cost-recovery.

5. Conclusion

At this time, as per the mandate of this review, evidence indicates that TI has not achieved full-cost recovery as defined by TBS. Furthermore, the analysis of their situation as presently

[18] The E-Government Knowledge Centre is a centre of expertise for sharing IM/IT solutions, best practices and state-of-the-art technologies, just-in-time learning, e-government research and IM/IT workforce development programs for the Government of Canada.

constituted in the financial framework and context in which they operate supports the conclusion that TI is not sustainable.

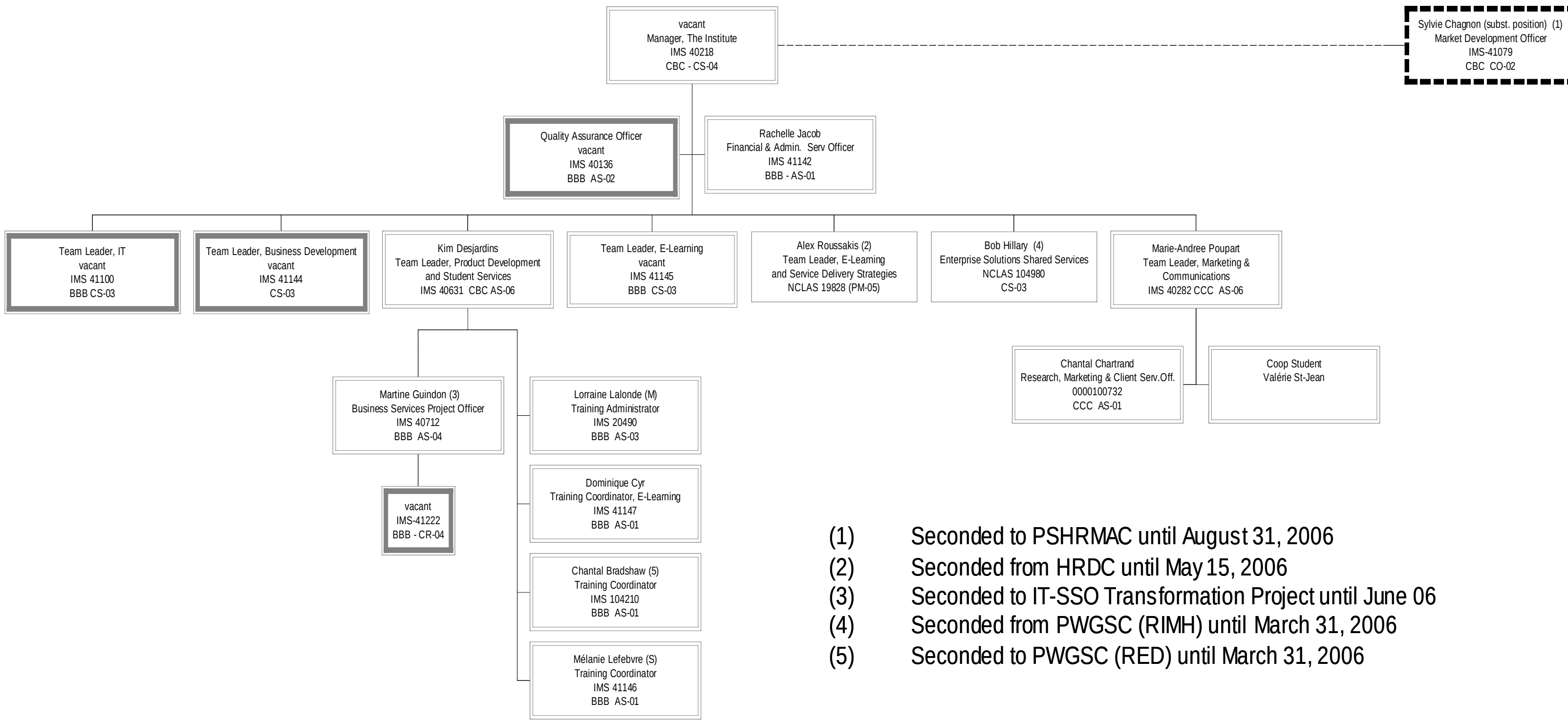
In a reconstituted management and investment environment, there is every reason to believe that TI could thrive. TI is well regarded by its customers and the government's overall demand for IM/IT training is significant and likely growing. TI also has a healthy foundation of product management and marketing from which to grow its business. The current management and staff remain deeply committed to the mission and success of TI.

6. Recommendation

It is recommended that the Chief Executive Officer, Information Technology Services Branch:

- Change the financial framework and context of The Institute, or accept the operations of The Institute as currently constituted and its current level of sustainability.

Annex - Organization Chart



(1) Seconded to PSHRMAC until August 31, 2006
(2) Seconded from HRDC until May 15, 2006
(3) Seconded to IT-SSO Transformation Project until June 06
(4) Seconded from PWGSC (RIMH) until March 31, 2006
(5) Seconded to PWGSC (RED) until March 31, 2006