

**GOOD GOVERNANCE IN MUNICIPAL RESTRUCTURING
OF WATER AND WASTEWATER SERVICES
IN CANADA**

Karen Bakker¹ with David Cameron²

WORKING PAPER #1

NOVEMBER 15, 2002



SETTING A DIRECTION IN HAMILTON:

GOOD GOVERNANCE IN MUNICIPAL RESTRUCTURING OF WATER AND WASTEWATER SERVICES IN CANADA

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NOVEMBER 15, 2002

Abridged

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² David Cameron is a Professor of Political Science at the University of Toronto, a former federal civil servant and former Deputy Minister with the Government of Ontario. He wrote a research study on privatization and water safety for the Walkerton Inquiry.

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BACKGROUND TO THE REPORT

In mid-2002, the Mayor of the City of Hamilton invited the University of Toronto's Munk Centre for International Studies' Program on Water Issues to conduct a governance review as part of a business case analysis aimed at setting up a municipally owned water and wastewater corporation as a subsidiary of Hamilton Utilities Corporation. This request followed the unanimous approval by Hamilton City Council of a report recommending the need for this business case study on June 10th 2002.

On September 15, 2002, in its response to the aforementioned request, the Program on Water Issues indicated that it had invited Dr Karen Bakker of the University of British Columbia to write the report. Professor David Cameron of the University of Toronto provided editorial and authorial input, in part drawing on his research for a commissioned paper for the Walkerton Inquiry (Cameron 2002).

The following conditions apply to the report:

- All expenses associated with this analysis were borne by the Program on Water Issues at the Munk Center for International Studies
- The research proposal was approved by the Ethics Review Office of the University of Toronto
- The University of Toronto owns copyright in the work
- Each member of Hamilton City Council will receive a copy of the full report at the same time that the results of the report are provided to Council.

To support the analysis, documents were requested from both the City of Hamilton and Hamilton Utilities Corporation (HUC). The following material was requested from HUC: shareholder declaration and articles of incorporation; 'financial model' referred to in the report to Council on the business case analysis; and terms of reference and progress reports on studies prepared by CIBC World Markets and Borden Ladner Gervais. The following material was requested from the City of Hamilton: list of Steering Committee members; recent water and wastewater budgets and reviews of infrastructure investment; organizational charts of water and wastewater management and governance; review of the operation of the City's water and wastewater plant facilities by TOE; studies being commissioned under Section 1 of the business case study; studies of the experience with contracting out to Philips/Azurix; a list of other studies being commissioned under the Business Case Study, including proposals and terms of reference; documentation on governance, including governance reviews, at the City of Hamilton; and any other relevant information which the City might provide.

The following documents were received from the City of Hamilton: Business Case Analysis for a Municipal Water/Wastewater Corporation (ref: FCS02063/TOE02108)-City Wide); City of Hamilton 2002 Water and Wastewater Budget (December 2001); organizational charts for TOE Department and Water and Wastewater Division; Alternative Service Delivery policy (report 01-37). Additional documents were obtained online from the City's website, including its strategic planning documents (listed in report references). The following documents were received from HUC: powerpoint presentation describing the Business Case Study process and corporatized utility; HUC Annual Report 2001; HUC Shareholder Declaration; City of Hamilton Bylaw pertaining to creation of HUC.

The Program on Water Issues at the University of Toronto

In April 2001, the Program on Water Issues was launched at the University of Toronto's Munk Centre for International Studies. The Program is dedicated to giving voice to those who would bring transparency and breadth of knowledge to the understanding and protection of this valuable resource.

The Program is overseen by Adèle Hurley, Senior Fellow at the Munk Centre. The Program's location within the Munk Centre for International Studies at the University of Toronto provides access to rich analytic resources, state-of-the-art information technology, and international expertise, and creates opportunities for highly talented members of the private, public, academic and not-for-profit sectors to join in collaborative research and education.

Terms of Reference

This report addresses aspects of points 1(b) (Governance Issues) and (6) (Experiences from Other Jurisdictions) of the 'Issues Related to Corporate Structure and Governance Models' outlined in the City of Hamilton's Report recommending that a Business Case Analysis for a Municipal Water/Wastewater Corporation be conducted (31 May 2002, FCS02063/TOE02108).

In addition, the report addresses general questions of governance of water supply, and raises issues which municipalities and communities may wish to consider if they choose to undertake a restructuring of their water supply and wastewater systems.

Distribution

This report will be made available to the Committee of the Whole and Council.

THE STUDY IN BRIEF

Over the past two decades, many jurisdictions have engaged in restructuring of water and wastewater services. The report of Part II Walkerton Inquiry recommended that municipalities review governance options for water supply services (O'Connor 2002). Restructuring of water and wastewater operations usually addresses technical, financial, and governance issues. This study focuses on governance issues.

The City of Hamilton has decided to review its options for restructuring water supply and wastewater services, prompted by a proposal by its wholly-owned subsidiary, Hamilton Utilities Corporation. HUC has proposed that the city create a corporatized water and wastewater utility; this corporation, a subsidiary of HUC, would own and operate Hamilton's water supply and wastewater infrastructure assets. The Hamilton case will be of interest to communities and governments elsewhere, in part because restructuring is soon likely to occur in many Canadian municipalities, and in part because of Hamilton's well-publicised experiment with private sector participation in water and wastewater services management. The City of Hamilton's water and wastewater treatment facilities are operated by a private company, under the terms of the 10 year delegated management contract which will end in 2004. Because of the relatively high value of the contract, and controversial renegotiation with four successive owners, Hamilton's experience has been a closely watched by outside observers, and heatedly debated within the city. The City's restructuring process will thus be of great interest throughout Canada.

Chapter 1 provides an overview of restructuring in water and wastewater services, focusing on business models relevant to municipal utilities. Section 1.1 explores the reasons for, and factors driving restructuring water supply and wastewater services. Section 1.2 provides an overview of business models which have been used by municipalities in restructuring. An overview of trends in restructuring municipal governance, and water supply systems in Ontario is presented in Section 1.3. A summary of international trends in restructuring is provided in Section 1.4, and Section 1.5 summarises the discussion. **The report emphasises the diversity of business models that exist for managing water supply and wastewater systems.** Subsections of section 1.2 explore the different business models used for managing water and wastewater supply in detail.

Business models for water supply infrastructure examined in the report

Business model	Who owns infrastructure?	Who operates infrastructure?	Legal status of operator	Legal framework	Who owns the shares?	Example
Government utility – direct management	Municipal or regional government	Municipal or regional administration	Government department	Public	n/a	Canada
Municipal Board or Commission	Municipal government	Commission or Board	Public agency	Public	n/a	Peterborough, Toronto (future)
Co-operative	Users/ Cooperative society	Users or delegated authority	Cooperative society or corporation	Varies	n/a (or users)	Denmark
Crown corporation	Government or utility	Utility	Usually defined by special law	Public or Corporate	Government	Ghana
Corporatized Utility	Government or private company	PLC as permanent concessionaire	Corporation	Corporate	Local/ provincial government	Edmonton
Government utility -- delegated management	Government or private company	Government and/or temporary private concessionaires	Corporation	Corporate	Private shareholders	France
Direct Private Utility	Private company	Private company	Corporation	Corporate	Shareholders or investor-owned	England

Chapter 2 examines the governance of water and wastewater supply systems. Good governance is about achieving desired results, and about achieving them in the right way. Governance is defined in Section 2.1 as “the process by which stakeholders articulate their interests, their input is absorbed, decisions are taken and implemented, and decision-makers are held accountable.” Three generic models for governance of water supply systems – the planning, market, and community models -- are explained in Section 2.2. Recent trends in governance of public services are summarized in Section 2.3. The reasons why good governance is critical to water supply and wastewater systems are explored in Section 2.4. As a practical guide for policy makers, examples of international best practice in good governance principles are provided in section 2.5.

The report emphasises the need to develop ‘home-grown’ good governance principles in consultation with stakeholders, including citizens. Principles of good governance and the prioritisation accorded to each principle vary between organisations and jurisdictions. This variation is in part due to the fact that governance is embedded in broader frameworks of political governance. Also implicit in different definitions of good governance are assumptions about the legitimacy of different stakeholders and decision-makers, about robust decision-making structures, and about accepted processes of decision-making. Good governance is thus to some degree dependent upon how a society interprets the practice of deliberative democracy. There is accordingly no one ‘menu’ of good governance options. Some consensus does, however, exist on good governance principles for water supply management:

- protection of public health and safety
- accountability for stewardship and performance
- transparency
- participation
- equity, efficiency, and effectiveness

Some of the organizations surveyed included only some of these principles, some chose to rank these principles in order of priority, while others chose to balance these principles.

The report explores how these governance principles are implemented in different governance models. It surveys the three generic models for public services provision at the municipal level: planning, market, and community governance models. Although these models overlap in practice to some degree, there are important differences between them. Accountability is structured differently in each model. Consumers are represented differently: as citizen-voters, customer-ratepayers, or as users and community members. The goals under each model are different, and will lead to distinct policy and management outcomes.

When making a transition from one model to another or in attempting to create a hybrid between two models, governments must carefully consider the implications of changes in governance models, including incentives, sanctions, goals, accountability structures, and the role of consumers. This is particularly important when considering a hybrid model, as problems are likely to arise when different aspects of the governance model are incoherent. For example, a disjuncture between (shorter) political time cycles and (longer) infrastructure life cycles can compromise sustainability of financing. Another example is the weakening of political accountability which may occur; careful attention should be paid to the question of whether new accountability structures are effective and acceptable. Municipalities should carefully consider potential incoherence in governance models which may arise when making the transition to ‘hybrid’ business models such as delegated management contracts, corporatized utilities, and municipal boards or commissions.

The report emphasises the importance of establishing principles for good governance, and following best practice in restructuring processes. Municipalities should engage in a transparent, participatory process, involving stakeholders (including citizens) in the development of good governance principles. One outcome of this process will be a set of ranked principles of good governance. This report provides examples of good governance principles which have been developed in various jurisdictions.

Summary of good governance process for restructuring

Good governance is articulated as a set of principles, or expresses a ‘vision.’
The governance principles are coherent and are ranked in order of priority
Good governance: builds on principles to create objectives and policies
: is responsive; learning and reviewing options will inform restructuring
: requires good information
: requires an open, transparent decision-making process
: involves meaningful participation of stakeholders

The report emphasises the importance of due diligence in undertaking a restructuring process.

Restructuring should involve dialogue on the robustness of the organization, including how one measures its competence in dealing with a changing environment, its capacity creatively to address new problems, and its perseverance in tackling difficult problems. Restructuring is likely to have significant impacts for water bills, water quality, and the state of water and sewerage infrastructure in the region. Some forms of restructuring are difficult and/or costly to reverse. Therefore, a well-thought out process, guided by a clearly-defined set of governance principles, is necessary.

The report provides several examples of processes of restructuring water supply and wastewater services in which municipalities have engaged. The report concludes that the restructuring process, if conducted thoroughly, is invariably time-consuming. It is not, in the narrow sense of the term, efficient. Good governance – like democracy -- is not always efficient. But good governance is essential for effective long-term performance, and for political acceptability: governance must not only *be* good, it must be *seen* to be good.

Restructuring of water and wastewater services: examples in the report

Municipality	Options considered	Option selected	Report Section
Toronto	Status quo; Municipal Services Board; Subsidiary of Toronto Hydro; and Corporatized Utility (stand-alone)	Municipal services board (analogous to former Public Utility Commission model)	1.3.3
York	Private sector partnership options (including joint venture or Build-Operate-Train-Transfer) or municipal utility	Municipal utility – direct management	1.3.4
Peel	Delegated management via competitive bidding process	Delegated management to Ontario Clean Water Agency	1.3.5
Kingston	Municipally owned corporation; Corporatization of services provision (operations and management)	Corporatized utility for services provision; asset ownership remains with municipality	3.4.1
Peterborough	Privatization; Company operating under OBCA; Public Utility Commission; Municipal Department	Public Utility Commission owns assets; OBCA company 100% owned by municipality provides all management and personnel services	3.4.2
Edmonton	Municipal Department Corporatization Privatization	Corporatized utility for water asset ownership and water services; wastewater and drainage remain municipal responsibility	3.5.1
Washington DC	Municipal corporation, municipal department with delegated management, or full privatization	Municipal corporation, with a ‘continuous improvement’ management process	3.5.2
Wales	Private utility or corporatized non-profit utility	Corporatized non-profit utility	3.5.3
Melbourne	Delegated management or corporatized utility	Hierarchy of corporatized utilities with limited delegated management	3.5.4

Chapter 3 explores the governance of corporatized utilities, with special attention to multi-utilities. With the creation of a corporatized entity, the governance structure is altered through the insertion of a Board of directors in the management hierarchy; the corporate board plays a critical governance role in mediating the relationship between the shareholder and management. Sections 3.1 and 3.2 provide an overview of corporate board governance models, and recent trends in corporate board governance in Canada. Governance models for corporatized municipal utilities are explored in Section 3.3, where specific examples from Edmonton, Toronto, and Hamilton are summarized.

Corporatization, and the delegation of water supply and wastewater management to an external agency more generally, redefines the role of Council and municipal staff. Council plays two roles: shareholder or overseer of the external agency; and regulator of the external agency’s operational activities. In addition, Council must balance the interests of the municipal corporation as shareholder with the interests of consumers, to whom it remains accountable as owner of the infrastructure. These issues are explored in detail, and detailed governance models for corporatized water and multi-utilities are presented in Section 3.3.4. The process of restructuring, which usually entails a systematic review and comparison of options available to the municipality, is considered in Sections 3.4 and 3.5, where restructuring processes for six jurisdictions which corporatized their water services are summarized (Kingston, Peterborough, Edmonton, Washington DC, Wales, and Melbourne, Australia).

The report recommends that consideration of the corporatization option should be carried out as part of a broad-based review of restructuring options open to the municipality. This corporatization option should be compared against other options (specified in Recommendations 9 and 12).

The discussion in Chapter 3 outlines the steps through which a municipality might proceed if it decided to proceed with setting up an arms-length agency such as a corporatized utility. The chapter concludes that corporatization of water services raises serious issues with respect to good governance of water supply. The consequences of fragmented authority and loss of synergies within the municipal corporation may offset anticipated efficiency gains. Corporatization proposals which produce efficiency gains may not necessarily be least-cost solutions for the consumer. The aggregate implications of corporatization for consumers (as ratepayers *and* taxpayers) need to be carefully considered, including the potential weakening of political accountability and acceptability of alternative accountability structures. In addition, municipalities need to consider equity when designing contracts and governance models. Oversight mechanisms would need to be put in place, particularly given the likelihood that the corporatized utility will operate under conflicting incentives from financial markets, on the one hand, and the municipal shareholder on the other. The need for price and quality regulation, yet the relative complexity and high cost of regulation tasks, should also be factored into the municipalities consideration of the corporatization option; in particular, the costs of regulatory oversight should be factored into any financial models which the municipality uses for the purposes of comparing different options. In considering multi-utility corporatized entities, municipalities should carefully study the implications of ring-fencing³ requirements, and the degree to which convergence maybe constrained, potentially limiting possible cost-savings. Municipalities should also give careful consideration to the governance implications of the two distinct roles - shareholder and regulator – that will be required of municipal owners of a corporatized utility. These issues are summarized in the following table, but dealt with in detail in Chapter Three.

Corporatization of a water utility: issues considered in the report

The consequences of fragmented authority
Reduction in political accountability
Conflicting incentives: financial markets versus the municipal shareholder
The two roles for municipalities: shareholder and regulator
The need for price and quality regulation
Consumers: equity, access, and public health

³ A simple definition of ring-fencing is ‘the requirement to keep different parts of a business separate’. In the utility sector, ring-fencing is often imposed to keep monopoly business separate – or ‘ring-fenced’—from contestable businesses operating in competitive sectors.

Chapter 4 of the report turns to a consideration of the case of the City of Hamilton, Ontario. Section 4.1 examines the current governance structure for Hamilton's water and wastewater services, and summarizes the City's recent experience with alternative service delivery in water and wastewater services. The challenges facing the City in terms of the infrastructure and environmental water quality deficit are summarized in Section 4.1.3. Section 4.1.4 explores the challenges facing the City in achieving its goal of sustainable financing of water and wastewater system management.

Section 4.2 of the report considers the City's approach to service delivery. The City's Alternative Service Delivery policy, approved by Council in 2001, is reviewed, and its relevance to the current restructuring proposal before the City discussed. Issues which the City might wish to consider if it chooses to include the HUC proposal in its review of restructuring options are briefly discussed; the reader is also referred to Chapter 3 for a fuller discussion of the issues raised by corporatization of water and wastewater services.

Section 4.3 of the report closes with a discussion of governance in the City of Hamilton, concluding with a summary of the Vision 2020 for a Sustainable Region, and its pertinence to the current discussion of restructuring water and wastewater services. In the early 1990s, the Regional Municipality of Hamilton-Wentworth embarked on an ambitious planning initiative intended to create a strategic vision for the region, based on intensive community consultation. After extensive consultation with the region's residents, the Regional Council adopted 'Vision 2020 – The Sustainable Region' in 1992 as a basis for regional decision-making in Hamilton-Wentworth. The Region has won several Canadian and international recognition for its innovative process. Given the extensive community participation across the region which led to Vision 2020 and the international recognition the City has received, it is important to consider how Vision 2020 applies to water and wastewater services in the City today, a question addressed in the final recommendation of the report.

THE RECOMMENDATIONS

The proposal presented to Hamilton City Council focuses exclusively on the business case for creating a municipally-owned water and wastewater services utility corporation. If the City chooses to consider the corporatization option in isolation, it will be departing from the principles and process steps outlined in its Alternative Service Delivery policy (Report 01-037, approved by Council in 2001). It will also diverge from best practices in restructuring processes for water and wastewater as followed in other Canadian jurisdictions. Good governance in restructuring entails the establishment of governance principles prior to a restructuring review, which should involve the comparison of several options.

In light of these findings, Recommendations 1 through 7, presented below, identify generic points useful for any Canadian municipality considering restructuring its water and wastewater services.

Recommendations 8 through 14 pertain specifically to the City of Hamilton.

These recommendations, supported by detailed discussion in the report, emphasize the importance of a comprehensive restructuring review process, with meaningful stakeholder participation, as an integral part of good governance of water supply. A restructuring process is complex and time-consuming. Given the importance of water and wastewater services for public and environmental health, this is time well-spent, as it minimizes the risk of bad choices and permits careful design of restructured business models and regulatory frameworks, thereby increasing the effectiveness of water supply and wastewater management.

Recommendation 1: As a first step in restructuring, the municipality should define good governance principles and rank them in an open, transparent review process that involves meaningful public participation. These principles will serve to guide the restructuring process.

Suggested above, based upon a review of relevant Canadian and international documents, were the following good governance principles:

- protection of public health and safety
- accountability for stewardship and performance
- transparency
- participation
- equity, efficiency, and effectiveness

These are not definitive or prescriptive principles; as part of a good governance process, each organisation develops its own governance principles. These governance principles should be coherent; municipalities should consider ranking the principles in order of priority. To arrive at these principles, the municipality should engage in an open, transparent decision-making process, involving relevant stakeholders, including citizens, in meaningful participation.

Recommendation 2: The municipality needs to review the available business models, and consider the advantages and disadvantages of each, before selecting a restructuring option.

Recommendation 3: In its consideration of costs and benefits for the review of options for restructuring water and wastewater, the municipality should identify and quantify (where possible) synergies that would be lost as well as gained under each restructuring option.

Most of the municipalities which have restructured their water supply services, as reviewed in this report, conducted a broad-based review of their water supply options. In some cases, the process led to unexpected outcomes; what appeared to be the most desirable option at the start proved not to be the preferred option, upon careful study. This indicates the importance of comparing all available options,

including an 'improved status quo' option, in a restructuring process. The analysis conducted in this report demonstrates that a variety of corporatization options are available to municipalities. These different corporatization options are explored in detail in section 3. An important difference between the two main types of corporatization employed in the water and wastewater sector is the allocation of asset ownership. Corporatization can involve the creation of a corporation which provides solely services (operations and maintenance) while the municipality retains asset ownership; or corporatization can entail the creation of a corporation which owns the assets, as well as providing services. If a municipality wishes to consider corporatization as part of its restructuring review, these different varieties of corporatized provision should be considered in the review.

This review process should be conducted in an open, transparent manner which allows the full and fair comparison of different restructuring options. In this manner, it is similar to a tendering process, whereby competition between different bidders for a contract helps to ensure that the most effective, best-value option is chosen, and public scrutiny increases transparency.

Council needs to play a key role in the restructuring process. This involves initiating the restructuring review, and mandating professional staff to examine alternatives and identify problems they are facing, gather the information necessary for an assessment of options, and/or to directly oversee any external studies commissioned. The City's governance principles need to inform the decision-making process, which has to be transparent and involve meaningful public participation from all stakeholders, including citizens.

Recommendation 4: Should the municipality decide to restructure, it should create a separate 'restructuring unit' responsible for overseeing the restructuring process.

Restructuring is a complex and time-consuming task; restructuring of water services is a vitally important process leading to vitally important decisions. The restructuring process requires dedicated staff; the examples surveyed for this report indicate that effective and successful restructuring requires dedicated staff, able to draw upon required expertise. While Council would lead the strategic, participatory process which establishes good governance principles and identifies potential business models, the restructuring unit would be mandated to oversee the comparative study of restructuring options, recommend the most desirable option, implement the transition (if any), including the design and implementation of required regulatory frameworks. As effective regulation is a key criterion for successful management of utilities, municipalities should ensure that sufficient resources are available to support the design and implementation of their regulatory framework, and should consider investigating the experience of other jurisdictions with respect to regulation. In terms of customer service standards, for example, the Office of Water Services standards for water companies in England and Wales provide a comprehensive, workable model with clear guidelines and penalties.

Recommendation 5: If it decides to create an arms-length entity to run its water and wastewater supply services, the municipality should not lose sight of the fact that, as owner of the infrastructure, it remains accountable.

The municipality should ensure that it has access to good information and resources sufficient to carry out its oversight duties. In the case of water, given its public health implications, this requires frequent and comprehensive reporting to the Council. In addition, the Council may wish to require independent performance audits, conducted by a third party. The results of these audits should be made publicly available. The costs of regulation and enforcement may in some cases be significant; municipalities should have factored these costs into their restructuring review. Regulation of an external agency is invariable time-consuming; this should not dissuade Councils from focusing on the regulatory task, which is essential if organizations are to perform effectively. The statutory 'standard of care' currently being considered by the provincial government of Ontario in its proposed *Safe Drinking Water Act* would require infrastructure owners to act "honestly, competently, and with integrity to protect citizens" (Office of the Premier 2002). Regardless of the restructuring option chosen, this proposed legislation may imply additional oversight duties for municipalities and Councillors, and may require changes to accountability

structures. In the case of management of water supply systems by external agencies, Council will need carefully to consider the mechanisms by which it ensures accountability.

Recommendation 6: Because of the potential for conflicts of interest, municipalities should ensure that the advice they obtain from advisers, consultants and managers is impartial.

Restructuring (particularly corporatization, private sector participation, and privatization) usually generates substantial fees paid to advisors and consultants. It is important to ensure that consultants/advisors retained by the City and its subsidiaries are independent. Council may wish to consider legal and contractual mechanisms to prevent advisors, directors and managers from benefiting from the restructuring process. These mechanisms might include a form of restrictive covenant; provisions in the procedures used to appoint directors; or changes to by-laws. Organizations and individuals advising the City on restructuring should have an arms-length relationship to the process.

Recommendation 7: Municipal contracts with external operating agencies should be made public. The municipality should actively solicit the views of residents before entering into such agreements so that the community can have a role in determining the preferred course of action.

The weakening of political accountability under contracts with external agencies was one of the key factors in the recommendation of the Walkerton Inquiry that municipal contracts with external operating agencies should be made public (O'Connor 2002, Recommendation 49). In his report on Part II of the Walkerton Inquiry, Justice O'Connor made specific reference to the City of Hamilton's experience, while noting that "changes in ownership have the potential to generate instability with respect to the operating agreement" (O'Connor 2002, 326). Following on from this observation, Justice O'Connor noted that

"A municipality contemplating the engagement of an external operating agency to deliver water services should ensure that the proposed transaction is fully transparent. The concern for water quality justifies full publicity in the operation of a community's water system, whether it is run privately, by the public, or as a mixed system. *Municipalities should actively solicit the views of residents before entering into such agreements so that the community can have a role in determining the preferred course of action*" (O'Connor 2002, 327; emphasis added).

The following seven recommendations are made with respect to the City of Hamilton's review of restructuring options for water supply and wastewater services.

Recommendation 8: As part of its review of restructuring options for water and wastewater management, it is recommended that the City of Hamilton conduct an independent, third-party assessment of its delegated management contract for wastewater services. The 'lessons learnt' from this assessment should be incorporated into the restructuring review.

Recommendation 9: It is recommended that the municipality of Hamilton investigate and compare, at a minimum, three distinct business models in its restructuring review process, including a municipal department (improved status quo), a municipal services board, and a corporatized utility. See also Recommendation 12.

Recommendation 10: As part of its review of restructuring options, it is recommended that the City extend its public education initiative, in parallel with public consultation research which establishes the informed willingness-to-pay of Hamilton residents for sustainable water and wastewater infrastructure.

Recommendation 11: It is recommended that Council revisit its Alternative Service Delivery policy and Strategic Plan documents. These documents, and the principles and best practices contained in them, can constructively inform the City's consideration of governance of water supply prior to selecting options for consideration in its restructuring review. In particular, the ASD principles and process steps specified in the policy could form a basis for the City's review of restructuring options for water and wastewater. Council should review the ASD policy's criteria for screening services and programmes, and modify them where necessary, to include additional principles of good governance for water and wastewater which it establishes.

Recommendation 12: If the City chooses to consider corporatization in its review of restructuring options, the City should consider two separate options: (1) corporatization of services (with the municipality retaining asset ownership); and (2) corporatization of services and asset ownership. The City should bear in mind that corporatization can take many forms, and should note that municipalities which have corporatized their water services in Ontario to date have chosen to corporatize services (operations and maintenance functions), but not asset ownership.

Recommendation 13: In undertaking a review of options for restructuring water and wastewater supply services, the City should revisit its core values as defined in its recently developed Strategic Plan. It should consider integrating relevant Strategic Plan goals into its review of restructuring options.

Recommendation 14: It is recommended that Council revisit the Vision 2020 document, and associated action plans, which have been regularly updated. The Vision 2020 principles were established through broad-based community consultation; these principles could be integrated into the good governance principles for water supply governance in the Region. The Vision 2020 process is an ongoing initiative which has created a robust network of expertise in the City. The City should involve Vision 2020 stakeholders (such as the Vision 2020 Task Force) in meaningful participation in its review of restructuring options.

INTERVIEWS

Twenty-nine interviews were conducted with councillors and the mayor of the City of Hamilton, City of Hamilton staff, HUC staff, union representatives, representatives of environmental and community groups, and employees of municipal water supply departments and utilities in Ontario and Alberta. Only those who agreed to be identified by name are identified. Interviews were conducted separately by Karen Bakker and David Cameron, and are listed separately.

In addition, the principal author attended (as an observer) meetings between the City of Hamilton's Steering Committee and the Mayor of the City of Edmonton, and between Committee members and senior management and union representatives from the City of Edmonton's wholly-owned corporatized utility, EPCOR.

The following interviews were conducted by Karen Bakker.

The City of Hamilton

Mayor Robert Wade. November 7, 2002.
Councillor Chad Collins. November 13, 2002 (written comments).
Councillor Murray Ferguson. November 7, 2002.
Joe Rinaldo, General Manager, Finance and Corporate Services. November 7, 2002.
Lou di Gironimo. Manager, Water and Wastewater Division, TOE. October 21, 2002.
Peter Crockett, General Manager, Transportation, Operations and Environment. November 7, 2002.

Canadian Union of Public Employees

Gus Oliveira, President, CUPE Local 167. October 21, 2002.

International Brotherhood of Electrical Workers

Peter Routeiff, International Representative, First District (Canada). November 7, 2002.

Hamilton Utilities Corporation

Art Leitch, President and CEO, Hamilton Utilities Corporation. October 22, 2002.
John Basilio, CFO, Hamilton Utilities Corporation. November 13, 2002.

City of Kingston

Jim Keech, Utilities Kingston. October 22, 2002.

City of Peterborough

Wayne Stiver, Vice-President, Peterborough Utilities Services Inc. October 22, 2002.

City of Edmonton

Tim Boston, Director, Government Relations, EPCOR. November 7, 2002.

Other

Sarah Miller, Coordinator, Canadian Environmental Law Association. October 18, 2002.
Louise Comeau, Director, Centre for Sustainable Community Development, Federation of Canadian Municipalities. November 7, 2002.
Ed Waitzer. Former Chair, Ontario Securities Commission. Chair, Stikeman Elliott. November 12, 2002 (written comments).

INTERVIEWS

The following interviews were conducted in support of David Cameron's Issue Paper for the Walkerton Inquiry (Cameron 2002); material from these interviews has been used in this report.

City of Hamilton

Robert Crane, Director, Water and Wastewater Division, May 17, 2001.

Jeff McIntyre, Manager of Water Quality, May 17, 2001.

International Union of Operating Engineers

Greg Hoath, Business Agent, Local 772, Hamilton. May 10, 2001.

York Region

Deborah Korolnek, Director, Water and Wastewater Division. May 10, 2001.

Region of Peel

John Savage, Director, Water and Wastewater Division. May 15, 2001.

Ontario Clean Water Agency

Michael Brady, General Counsel. June 13, 2001.

Nick Reid, Vice-President Business Development. June 13, 2001.

Louise Morrow Wickson, Vice-President Finance and Corporate Services. June 13, 2001.

Ontario Public Service Employees Union

Tim Hadwen, Legal Counsel. May 14, 2001.

Azurix North America

Dave Clancy, Senior Vice-President Operation and Maintenance. June 29, 2001.

Klaus Stolch, Senior Vice-President Engineering. June 29, 2001.

Laird Smith, Chief Operating Officer, June 29, 2001.

Mark Hudson, Marketing and Public Relations. June 29, 2001.

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