

Walkerton Inquiry, Part II

Public Meeting #7 & 8:

Management of Water Providers; Laboratories

**Submission by the Association of Municipalities of Ontario,
Ontario Good Roads Association and Municipal Engineers
Association**

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Municipal government has been in the service delivery business for a very long time and as corporate bodies they continuously explore options within legislative and regulatory frameworks to reduce costs as a way to strengthen their financial capacity. Cost-reduction efficiencies can be created through a wide range of organizational, financial and engineering means. Municipal governments are always adopting these cost-saving strategies while trying to enhance the quality of service.

One common cost-saving strategy is to seek savings by creating economies-of-scale. There are many different kinds of economies-of-scale, whether in the water service delivery system or other service areas. For example, economies of scale can run the range from simple bulk purchasing of materials, to pooled investments, to joint operating agreements, to transferring the service to another municipal government or another entity. However, each of these are not without regard to clear accountability, risk analysis and due diligence. As well, any corporation must consider the perspective of its shareholders, and in the case of municipalities, these shareholders are ratepayers.

In terms of water systems, economies of scale may be achieved by merging the operations and/or ownership of water systems over a larger area. The current *Municipal Act* provides the authority whereby two or more municipalities may establish a joint operating agreement for specific services. (Section 207(5)). Under such an

arrangement, the municipalities involved jointly own and operate a water system that serves their communities. The advantage of municipally-determined joint operating agreements is that they consider local circumstances and agreements can and should reflect the appropriate water system governance framework that makes sense locally.

A good case in point was the Town of Napanee's treatment system. It had excess capacity, and its distribution system was already reaching beyond the municipal limits into adjacent municipalities. Rather than continue a contractual arrangement, whereby the two municipalities would pay Napanee for its drinking water services, a joint operating agreement was negotiated. This arrangement had several benefits for the smaller municipalities. Under a joint operating agreement, the participating municipalities negotiated a mutually agreeable water rate. In a contract arrangement, the one municipality has the power to raise the water fees arbitrarily and has final say on where additional water capacity will be diverted. If there is limited capacity, obviously connections within its own boundaries will be a priority. This serves the economic development interests of this community well, but not the other municipalities. Under a joint operating agreement, all participating municipalities have a say in how excess water capacity is used.

Such an agreement can also have benefits for the municipality with the water treatment plant, depending on the terms of the agreement. In the case of Napanee, it had excess treatment capacity, and the distribution system already extended beyond its boundaries so there was little additional cost to add on more customers. The financials in this instance was such that the cost per customer decreased. However, infrastructure replacement costs do generally increase with more customers, which is why each participating municipality finances their own distribution system capital costs. This also does not usurp each municipality's land use plan – publicly sanctioned and adopted objectives and policies.

In this case, the local circumstances made sense for an operating agreement – the smaller municipalities were spared the cost of building a treatment plant and benefitted from the economies of scale

in the operational costs. At the same time, the larger municipality benefited from the operating economies of scale.

In some cases, these joint operating agreements have been incorporated into municipal restructuring and Regions and those Regions that were restructured into single tiers are well on their way to potential operational and administrative economies of scale. The restructured County of Oxford, which is something of a hybrid county-region, has been given responsibility for all eight (8) lower-tier municipal water systems within its boundaries.

As has been discussed on previous occasions, whether savings are generated depends on the number of customers per kilometer, and the number of systems serving the area. It is about density of the customer and any merging of systems is a form of cross-subsidization, whereby one community shares the load of another community's higher per unit costs.

The question that is going to be inevitably posed is, "Should service delivery be simply framed in an economies of scale argument?" And if the answer is yes, then the next question is what system gets amalgamated with what other systems and who is to be responsible and accountable?

AMO submits that full scale amalgamation of water systems in one or several regional water authorities is not a necessary action in Ontario. There is no doubt that there are more economies-of-scale to be achieved within the current water delivery system, but we must also recognize that there has been a substantial amount of municipal amalgamation over the last year or so and this will start to hopefully impact in a positive manner the water operating costs and budgets. Municipal governments are already doing a number of efficiency activities and joint operating agreements that deal with local circumstances is also one option. If such an option is to be recommended, it must be accompanied by a business case, based on all local water system information, and presented with an accountability framework and publicly debated.

There is always continuous improvement in any service function, whether or not the service standards change. The transference of

information on joint operating ventures, the latest on innovation in treatment, having a clearinghouse of information on bulk purchasing opportunities – these are some of the activities that would strengthen efficient drinking water delivery systems and the financing of water.

A one-size-fits-all template has not been adopted for other types of services for a number of reasons, including accessibility to an accountable body. Different sources of drinking water, the varied geographic and human activities within southern, central, north and east and the varying condition of the infrastructure make a one-size fits all approach risky.