
Background Paper:

**Best Practices for Moving Toward Change in the
Delivery of Local Government Services**

**Prepared for: Task Force
on Community Opportunities**

Prepared By: Urban Systems Ltd.

June 16, 2005

TABLE OF CONTENTS

Introduction	1
Defining Regional and Alternative Service Delivery	1
What is the Legislative Authority for Regional and Alternative Service Delivery in the Province?	2
What are the Trends and Factors Impacting the Delivery of Local Government Services?	3
When Should Local Government Consider the Provision of Services on a Regional Basis or Through Alternative Service Delivery Arrangements?	5
What are the Obstacles to the Regional and Alternative Service Delivery?	7
Addressing the Obstacles to Regional and Alternative Service Delivery Arrangements	10
Water Services – A Case Study	11
Opportunities for Establishing Public Private Partnerships.....	19
Best Practices	22
Questions to Consider in Encouraging Regional and Alternative Delivery of Local Government Services	27

INTRODUCTION

Local government services are vital to the achievement of important community and Provincial objectives including economic development, protection of health and safety, environment protection and the achievement of a high quality of life for the citizens of the province. The availability, capacity and quality of local government services also have important implications for the rate and nature of development within a community and often impact the ability of an entire region to sustain economic development. Given the importance of local government services, considerable attention has been devoted over the years to how they are provided and paid for. While there are many considerations to be taken into account in the provision of local government services, much of the focus has been on how effectively and efficiently services are provided. The Premier of British Columbia has recently indicated that the question is not whether taxpayers are sending us enough of their resources. The question is, how do we deliver services that people need as cost effectively as possible?

This discussion paper examines two opportunities which are available to local government for increasing the effectiveness and efficiency of local government service provision. These include the delivery of local government services on a regional basis and the use of service delivery models other than direct provision and production of local government services by local government staff – called alternative service delivery. These arrangements are not new and there are many existing examples in the province where these models have been successfully implemented.

This discussion paper outlines some broad trends and factors which are prompting an increased emphasis on regional and alternative service delivery as well as identifying both the opportunities and obstacles to the increased use of these service delivery models by local government. The discussion paper also discusses some best practices which should be considered by local government in the provision of services using the regional and alternative service delivery models. Given the important differences in the nature of the various local government services and the great variation within regional and alternative service delivery models, this paper focuses on the provision of water services as a case study in the discussion of best practices.

DEFINING REGIONAL AND ALTERNATIVE SERVICE DELIVERY

There are a number of ways in which regional and alternative service delivery can be defined. For the purposes of this discussion paper, the following definitions have been used.

Regional Service Delivery refers to the provision and/or delivery of one or more public services over a region containing more than one government jurisdiction or service provider. It involves agreements between these jurisdictions concerning the nature, scope and production of the services to be provided, how the costs will be allocated and recovered and how decisions will be made among the participating jurisdictions. Arrangements can range from simple contracts between two jurisdictions for short-term service provision to more complex and long-term arrangements which require permanent, formalized governance and organizational structures. The political jurisdictions involved in regional service delivery arrangements can be diverse including municipalities, regional district electoral and service areas, improvement districts, First Nations and even privately owned services. Regional service delivery as defined in this paper does not include consolidation or amalgamation of local government jurisdictions although this may be the ultimate result of a regional service delivery arrangement.

Alternative Service Delivery (ASD) is generally defined as the provision of public services through arrangements other than traditional, hierarchal, vertically integrated government departments. It requires a rethinking of the role of government in direct service delivery and emphasizes a range of activities, arrangements and funding options involving the broader public sector, the private sector and not for profit organizations. ASD is based on the premise that the sharing of responsibilities and service delivery functions between the public, private and not-for-profit sectors creates synergies by drawing on a greater diversity of expertise in these sectors resulting in increased customer satisfaction and cost savings to the taxpayer. ASD includes various service delivery options including enhanced direct delivery, delegation to other agencies, devolution, external purchase (contracting and outsourcing), partnerships, franchising and privatization. In B.C., the most prevalent forms of ASD include contracting and outsourcing, public private partnerships and franchising. An overview of possible ASD arrangements is provided in Figure 1.

Of these, contracting, outsourcing, public private partnerships and other agreements between local government and the private sector offer the greatest opportunities in the future. These arrangements are characterized by the sharing of investment, risk, responsibility and reward between the partners in order to build on their mutual strengths and create synergies which result in more cost effective service provision.

WHAT IS THE LEGISLATIVE AUTHORITY FOR REGIONAL AND ALTERNATIVE SERVICE DELIVERY IN THE PROVINCE?

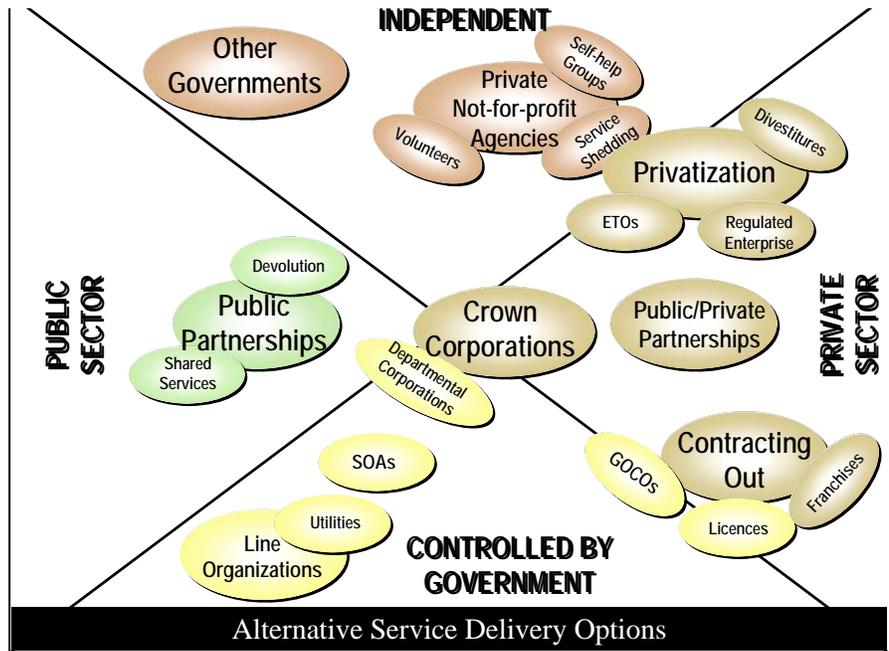
The *Community Charter* and the *Local Government Act* provide considerable breadth and

flexibility in the establishment of both regional and alternative service delivery arrangements. In particular, the introduction of natural persons powers and service powers in the *Community Charter* provides considerable opportunity for municipalities to become involved in a wide variety of agreements or to create other corporations or commissions for the delivery of services. The partnership provisions contained in Division 1 of Part 3 of the *Community Charter* address a number of the obstacles to partnerships previously contained in the *Local Government Act* by increasing the scope of assistance (e.g. tax exemptions) which municipalities can provide to a private sector partner. This provides greater flexibility in the negotiation of agreements. The partnership provisions of the *Community Charter* also provide for partnerships with other public authorities including First Nations, school districts, health authorities, Crown corporations and senior levels of government. Regional districts have less flexibility in structuring agreements with the private sector in that the partnership provisions similar to those set out in the *Community Charter* do not apply to regional districts.

In addition to the provisions of the *Local Government Act*, which enable the creation of regional and sub-regional servicing arrangements through regional districts, Division 3 of Part 2 of the *Community Charter* also provides for the establishment of inter-municipal servicing schemes. The legislation authorizing inter-municipal servicing schemes opens the door to a wide range of flexible and innovative inter-municipal schemes which allow municipalities to address some of their issues related to such arrangements through regional districts (e.g. complex service withdrawal provisions, excessive overhead).

While the legislative authority for both regional and alternative delivery arrangements is comprehensive and progressive, there are a number of issues related to the legislation which are discussed later in the paper.

Figure 1
Review of Possible ASD Arrangements
 (Source: World Bank Group, *Alternative Service Delivery Mechanisms*)



WHAT ARE THE TRENDS AND FACTORS IMPACTING THE DELIVERY OF LOCAL GOVERNMENT SERVICES?

There are a number of trends and factors which are prompting a greater emphasis on regional and alternative delivery of local government services in the province.

- **More stringent provincial government standards or requirements.** While local governments have considerable discretion in the range level, quality and standard of service they provide, services must be provided within the framework of provincial government legislation, regulations and requirements. Important changes have recently occurred in provincial legislation and regulations which require many local governments to change their approach to the provision of services. For example, increasingly stringent government standards set out in *Drinking Water Protection Act* and Regulation are having widespread implications for how local governments provide water services. The regulation is also prompting smaller water service agencies, which are not in a position to comply with the Provincial requirements, to investigate other service delivery arrangements.
- **Increasing emphasis on regional service provision by partnering agencies.** Local governments often rely on other agencies for the actual production of local government services. A case in point is policing services where the RCMP delivers the service for many municipalities in the province. Many of these agencies, including the RCMP, are placing a greater emphasis on regional and alternative service provision models in order to eliminate redundancies and duplication, make use of economies of scale and scope, improve coordination and generally improve the quality of service within increasing financial constraints. This increasing focus on regional production of services by partner agencies is requiring local governments to re-evaluate their broader approach to service provision.
- **Provincial requirements for regional service delivery.** On occasion, the Provincial Government has mandated that certain local government services be provided on a regional basis due to obvious economies of scale, the need for intra-regional coordination or to enable local governments to fully comply with Provincial requirements. These include solid waste management and more recently, the provision of emergency response services.
- **Rising consumer expectations and demands.** Consumers of local government services are expecting a wider range of services and a higher standard and quality of services. They are also expecting that local governments deliver such services in an efficient and effective manner, preferably within existing levels of taxation or rates. The dual pressures of increasing consumer demands and constrained local government revenues are forcing local governments to consider measures which would enable the service to be provided and produced in a more cost effective manner.

North East B.C. Regional Policing Proposal

The municipalities and electoral areas of both the Northern Rockies Regional District and the Peace River Regional District worked with the RCMP and the Provincial Solicitor General's Ministry in developing an innovative regional police services proposal. The proposal sought to increase the level of service in the region without significant increases in the overall level of funding. The proposal was based on the following:

- Merging of the seven existing detachments into one regional detachment thereby taking advantage of economies of scale in functions such as human resources management, data entry, records management and other functions which lend themselves to economies of scale or scope.
- Provision of more specialized policing functions such as plain clothes units, major crime units and forensic identification units in the region due to the size of the detachment.
- Retention of existing police stations in the communities where they are now situated.
- Elimination of duplication in equipment and specialized vehicles among the existing detachments.
- Elimination of administrative functions for policing staff allowing more efficient deployment of policing resources.

The proposal provided for three levels of service within Northeast B.C. to reflect the differences in policing requirements.

The proposal provided for an equitable sharing of costs based on converted assessment but provided for three levels of taxation to reflect the differing levels of service provided in the region.

An innovative governance structure was established to enable integrated decision making at the community and regional level.

The proposal has not advanced for police services as the Provincial Government delayed the implementation of taxation of rural areas and municipalities under 5,000.

- **Increasing complexity in the provision and production of local government services.** The provision and production of local government services is becoming more complex due to a growing sophistication among consumers, rapid technological changes, constrained revenues and more stringent provincial requirements. Associated with this growing complexity is an increase in liability and risk. These trends are placing increased pressure on local governments to expand the range and depth of their managerial, administrative, technical and legal expertise. Many smaller local governments do not have, nor will they ever be able to generate, the financial resources to provide the level and range of expertise required to address the growing complexity in service delivery.
 - **Rising servicing costs.** Rising consumer demands, increasing complexity in the provision and delivery of services, more stringent government standards, rapidly rising liability insurance premiums, requirements for training and other factors are all serving to increase the cost of providing services. Many smaller local governments do not have the ability to generate the required revenues due to the limitations of their tax bases.
 - **Rapidly rising capital costs due to aging or substandard infrastructure.** The issue of aging or substandard local government infrastructure is a problem which has been widely recognized in the US and Canada. In Canada, if the current level of infrastructure under-investment is allowed to continue, the deficit could balloon to \$1 trillion in 60 years. British Columbia's local governments are not exempt from this problem. In fact, B.C. is among the provinces where this problem is most pronounced, particularly with water infrastructure. Many local governments may not have the financial resources or capacity to adequately deal with their infrastructure problems on their own. Provincial grants as a percentage of municipal water and sewer expenditures have also declined dramatically over the last ten years suggesting that Provincial funding will not offer the solution.
 - **Lack of access to capital funding and limited financial capacity.** Many smaller local governments do not have access to capital funding or are constrained in their ability to borrow. They are, therefore, not in a position to make the investments required in their infrastructure to meet more stringent Provincial requirements or growing expectations.
 - **Provincial government policy which emphasizes the provision of local government services by local governments.** At present, many public services normally provided by municipalities and regional districts are provided by improvement districts, privately owned utilities or the provincial government. The provincial government has adopted policies which limit the expansion of existing improvement districts or the creation of new ones except where no other options exist. The province also limits access to capital grant programs by improvement districts and private utilities. These policies, when taken with the more stringent regulations, and the continued pressure for growth in rural areas, create significant opportunities for municipal and regional district involvement in the provision of services now provided by improvement districts or private utilities. The provincial government is also moving to reduce its financial involvement in the provision of local services in the unincorporated areas and smaller municipalities of the province as evidenced by the move to recover Provincial policing costs through increased property taxation in the unincorporated areas and smaller municipalities.
 - **A requirement for a regional perspective in the provision of local government services.** Increasingly, local government servicing issues involve or are impacted by the larger region in which they find themselves. For example, air quality management, water resources management, economic development and transportation are all issues that are best addressed on a more regional basis. In these cases, a regional perspective is required both in decision-making and the implementation of decisions.
 - **New technology.** Changes in technology are having an impact on how local government services are delivered. For example, advances in supervisory controls and data acquisition (SCADA) enable water and sewer systems to be monitored and operated from a distance. This allows specialized expertise to be provided to a number of systems, thus reducing the cost of providing such specialized services.
-

WHEN SHOULD LOCAL GOVERNMENT CONSIDER THE PROVISION OF SERVICES ON A REGIONAL BASIS OR THROUGH ALTERNATIVE SERVICE DELIVERY ARRANGEMENTS?

The decision to enter into a regional or alternative service delivery arrangement requires careful consideration by local governments based on sound analysis, deliberation and consultation rather than on ideological grounds. What follows is a general description of the circumstances in which regional and alternative service arrangements might be considered.

Circumstances in Which Regional Service Delivery Should be Considered

Regional service provision should be considered in the following circumstances:

- **There is an ability to capture economies of scale and scope.** Certain types of local government services or facilities possess economies of scale. This means that the more customers that are served (or units of service produced), the lower the average cost to the consumer. These services are generally capital intensive and involve high fixed costs which are best spread over a larger customer base. Often, the ability to benefit from economies of scale are limited by jurisdictional boundaries. For example, customers in one municipality would pay less for sewer services if they were able to receive their services from an expanded wastewater treatment plant in a neighbouring municipality rather than constructing and operating a plant in their own municipality. Economies of scope occur when two or more activities are produced simultaneously. For example, a parks maintenance staff may also assist police in reporting possible criminal activity in parks.
 - **Opportunities exist for one or more jurisdictions to access the surplus capacity of another jurisdiction's services including infrastructure.** For example, a small municipality may not have the financial capacity to construct and operate its own arena but enters into an agreement with a larger, adjacent municipality for the use of the surplus capacity its arena.
 - **Opportunities to secure specialized expertise from another jurisdiction.** In addition to accessing the capacity of major community facilities and infrastructure, local governments may also access technical, managerial or administrative expertise of another jurisdiction thereby putting them in a position of providing either a higher level or quality of service or better managing risk and liability. A smaller jurisdiction may also be able to access the expertise necessary to design and implement the most cost effective and innovative approach to delivering a service.
 - **The service is best delivered on a regional basis to ensure a regional perspective in decision-making and also to fully implement servicing decisions.** There are situations where regional service delivery makes sense not only from the perspective of cost efficiency but also from bringing a regional perspective to servicing decisions and ensuring that regional solutions can be fully implemented. For example, a number of local governments may wish to have a greater voice in the management of their watersheds in order to be in a better position to implement the province's multiple barrier approach to safe drinking water. In order to fully achieve their objectives for supplying safe drinking water, they may choose to enter into regional service delivery arrangements with other local governments to enable them to have a greater voice in decision-making concerning their watersheds and to be in a better position to implement their collective decisions. Such arrangements may also involve partnerships with Provincial agencies such as the Ministry of Forests or provincial corporations such as Land and Water BC Inc.
 - **The benefits or costs of a local government service extend beyond its boundaries and are best managed through the provision of the service on a regional basis.** Often the benefits of a local government service extend beyond the boundaries of the local government creating the service. This usually occurs when the nature of the service makes it difficult to control access to the service. Examples include air quality management, economic development planning, and the provision of roads. In these cases it might be appropriate to pursue regional service arrangements so that those benefiting from the service also contribute to the cost of the service and have a voice in decisions concerning the provision and delivery of the service. In other situations, the delivery of a service by a local government or provincial agency may negatively impact another jurisdiction. In these cases, it may again be appropriate to identify possible arrangements whereby those negatively impacted can be brought into the decisions concerning the provision of the service. In the case of Provincial agencies, this may require partnerships between local governments and provincial agencies.
-

- **Opportunities exist to improve performance, provide a higher quality of service or to increase value to the customer through regionalization.** For example, regional service delivery may allow important service thresholds to be reached enabling local governments to:
 - upgrade or introduce new innovative technologies;
 - make investments in infrastructure which have not been affordable for individual local governments;
 - increase the level of technical, managerial or administrative expertise available to design and implement local government servicing arrangements; or
 - invest in infrastructure upgrading or provision of new facilities.
- **Eliminating the collateral impacts of differential service levels in a region.** There are many cases in the Province where differing levels of service provided by two or more local government jurisdictions have broader policy and development implications. The most common is the situation where an unincorporated area with a low level of services (and low servicing requirements) is located near a municipality with a high level of services (and high servicing requirements). The differing service levels may cause development, which would have normally taken place in the municipality, to locate in the fringe area due to lower servicing requirements and costs. This creates unwanted market dynamics and policy implications which could be addressed by providing similar levels of services in both areas particularly if both are urbanized areas.
- **Provision of specialized services.** A number of local government services are highly specialized and although desirable, may not be affordable by individual local governments. These could include services such as library service or specialized inspections.
- **Shared regional vision.** Circumstances may arise in which the various political jurisdictions within a region share the same vision for the provision of a regional service. This may be prompted by a unified response to an event (e.g. wildfire, economic downturn, etc.), or the outcome of a shared planning process (e.g. regional growth strategy) in which there is a consensus on region wide actions to be taken by the local governments within a region.

Circumstances in Which Alternative Service Delivery Should be Considered

As the term alternative service delivery encompasses a wide spectrum of different arrangements, it is difficult to identify specific circumstances where all forms of ASD would be relevant. There are, nonetheless, some fundamental criteria which could be used to determine the applicability of ASD to particular circumstances.

Generally, ASD should be considered in circumstances where increased access to capital, specialized expertise and other resources allows a local government to:

- Provide a service or project that it could not have provided on its own.
- Provide a higher standard or quality of service than it could have provided on its own.
- Provide services more cost effectively than it would have provided on its own.
- Provide greater value to its customers by providing a higher level of service more cost effectively.

Fundamental to determining the relevance of ASD to a particular circumstance is the undertaking of a sound business case analysis of a service in order to determine the opportunities for achieving the benefits listed above.

Specific forms of ASD often require specific circumstances in order for them to be considered. For example, public private partnerships should be considered where the following circumstances exist.

- The service or project cannot be provided with the financial resources of the local government alone.
- The private partner would increase the level of service from that which the local government or water service agency could provide on its own.
- There is opportunity for competition among prospective partners.
- There are opportunities for economies of scale to be realized which cross political boundaries.
- There are no regulatory or legislative prohibitions to working with a private partner in the provision of a service as a project.
- The output of the service can be measured and easily priced (as in the case of water services).
- The cost of the service or project can be recovered through the implementation of user fees.
- The service or project provides an opportunity for innovation.
- The private partner would allow the service or project to be implemented sooner.
- There is support from the users of the service for the involvement of a private partner.

The greatest opportunities for the development of servicing arrangements which provide high quality and cost effective services involve a combination of regional and alternative service arrangements. For example, a regional authority may be prepared to enter into an arrangement with various smaller water service agencies to manage, operate and maintain their water systems. By doing so, economies of scale present themselves in the delivery of various components of the service as well as allowing new technologies to be introduced which will potentially improve the quality of service and allow the service to be provided more cost effectively. The regional authority believes that a private sector partner is in the best position to provide these services (due to the ability to best manage the risk and provide the necessary expertise and innovation) and enters into a partnership agreement with a private partner to deliver the service.

WHAT ARE THE OBSTACLES TO THE REGIONAL AND ALTERNATIVE SERVICE DELIVERY?

Some obstacles are common to both the regional and alternative service models while others are specific to each model.

Obstacles Common to both Regional and ASD Models

- **Concerns over loss of control.** All regional and alternative services arrangements require the sharing of control. Jurisdictions may believe that entry into regional or alternative service delivery arrangement reduces their ability to control the various aspects of service delivery (e.g. rates, quality and level of service) and constrains their ability to make decisions in other key policy areas which are impacted by the provision and delivery of specific services. For example, the provision of water services impacts important policy areas such as growth management and land use as well as affecting the delivery of other services such as fire protection. Concern over loss of control can also reflect a reluctance to give up a function which may have a proud history of accomplishment and may have involved considerable investment by volunteers. The provision of water services, for example, is viewed in most jurisdictions as a service that is fundamentally tied to the life and future well being of the community and is seen quite differently than other utilities such as power, gas and telecommunications.
 - **Uncertain control during emergencies.** Certain local government services, such as provision of drinking water, fire protection, waste management and disposal are extremely important in times of emergency. The emergency may in fact be related to the local government's provision of a service (e.g. vandalism of a reservoir). Local governments are often reluctant to give up full control of such services given the potential impacts of emergencies on the future vitality of their communities.
-

- **Perceived loss or blurring of accountability for service provision.** There is often the perception on the part of consumers and local government officials that lines of authority and communication become more complex and decision making processes less clear in regional or alternative delivery models. Ironically, private sector firms have charged that accountability for service provision at the local government level is generally poor, particularly in the management of utilities, and would be significantly improved with increased involvement of the private sector.
- **Collective agreements may preclude or constrain regional or ASD agreements.** Public sector unions may oppose changes in service delivery arrangements which involve significant changes in the staffing levels, levels of compensation, job description and other job related policies and practices. Collective agreements may also contain provisions which limit a local government's flexibility in these areas. In most jurisdictions including BC, labour laws provide for succession of labour contracts although opposition may still be encountered based on principle or ideology.
- **Legislative constraints.** While the legislation in BC provides considerable flexibility for both regional and alternative service delivery arrangements, a limited number of constraints exist. These include the assent requirements for the establishment of regional district services and a number of legislative issues related to partnership arrangements.
- **Perception that regional and alternative service delivery arrangements involve considerable political risk.** Many local government elected officials believe that the political risks associated with establishing regional and alternative service delivery arrangements outweigh the economic and financial benefits which are generated through these arrangements. The establishment of such arrangements tend to generate considerable public debate and often involve lengthy approval processes. This is particularly true of alternative service arrangements involving the private sector where the debate can often be along more fundamental, ideological lines.
- **Lack of expertise in designing and implementing regional and alternative service arrangements.** The limited experience and understanding of many forms of alternative service delivery is a result of inadequate knowledge and expertise in both the public and private sector for the design and implementation of such arrangements. There is often also a lack of experience and expertise in the actual analysis of local government service delivery by the application of economic and business case principles.
- **The high cost of procurement and negotiation of agreements.** Undoubtedly, many regional and alternative service delivery arrangements are complex and require many difficult issues to be resolved. The requirement for a fair and transparent procurement process (supported by provincial legislation and best practices) also requires local governments to establish processes which involve extensive stakeholder consultation. It is the perception on the part of many local governments that the cost and length of both the procurement and negotiation processes are onerous and a barrier to involvement in such arrangements.

Obstacles to Regional Services Model

There are various obstacles and challenges which are specific to regional water service arrangements:

- **Difficulty in developing agreement on regional servicing arrangements among the participating jurisdictions.** There are numerous issues on which agreement must be reached by the participants in a regional service delivery arrangement including:
 - scope, level and area to be serviced;
 - allocation and recovery of servicing costs including setting of rates; and
 - governance involving delegation, and decision making, etc.

Difficulties in reaching a consensus on these matters reflect differences among participating jurisdictions in terms of servicing and funding policies, differing servicing standards and requirements, ability or willingness to pay and other factors.

- **Risk avoidance.** Local governments may not be prepared to take on service delivery responsibilities within a regional servicing arrangement given the high degree of risk and liability associated with these responsibilities.
- **Assent requirements established in the *Local Government Act* for the establishment of regional district service areas and regional functions.** Bylaws establishing regional district services require the assent of the electors residing in unincorporated areas. Obtaining assent is difficult in situations where the residents are already benefiting or would benefit from the service to be regionalized irrespective of whether they contribute to the cost of the service or not. Obtaining assent is also difficult where the service to be provided would result in fewer benefits in a rural area than in a municipality. While the requirement for assent is based on a reasonable assumption (that specific communities should determine the services which they wish to pay for), the requirement becomes less convincing when rural residents form an integral part of the functioning community and benefit from the services to the same extent as those paying for it. At times, the cost (or opportunity cost) for consensus may be too high.

Obstacles to the ASD Model

The obstacles which are specific to ASD arrangements include:

- **Limited number of successful models in the Province for specific types of alternative service arrangements.** Various forms of alternative service delivery are well established among local governments including outsourcing and contracting with private firms. Other models such as partnerships, particularly public private partnerships are not as common and are not as well understood at both the political and administrative level. A number of efforts to establish such partnerships at the local government level have also not been successful further detracting from the interest to pursue such arrangements. The lack of information and familiarity with such arrangements results in a fear of the unknown or in a partial, often incorrect understanding of the arrangements based on anecdotal information.
 - **Limited number of qualified private partners for certain types of services.** Competition between private partners to enter into public-private partnership arrangements is essential for local governments to realize the benefits of such arrangements. While certain areas of service provision are well developed in the private sector such as professional services, equipment suppliers and small scale utility contractors and operators, there is a more limited number of firms that can undertake a broader range of responsibilities on larger projects or service delivery arrangements. For example, in the area of water service and wastewater, there are two major firms active in the province at the present time, one of which is a corporation created by the City of Edmonton. Only very large projects draw the interest of large firms. The limited number of qualified partners reduces the level of competition and, therefore, reduces the opportunity to generate many of the benefits associated with such arrangements.
 - **Lack of full cost pricing for services.** Private firms see the lack of full cost pricing and accounting as a major obstacle to increased involvement in the delivery of services particularly those provided by municipal utilities. As private firms must reflect the full cost in the prices they charge and must account for costs on an accrual rather than cash basis, they are rarely competitive with local governments who do not price and account on a full cost basis. The private sector believes that the failure to reflect the full cost in local government rates has resulted in the present infrastructure crisis and the tendency of some local governments to solve the outcome of their mismanagement by seeking general tax payer subsidies in the form of senior government grants. Some private firms would like to see a level playing field where all utility rates for example are regulated by an independent regulator, while others believe that this would lead private firms to be less diligent in managing costs and risks.
 - **Unrealistic expectations for the transfer of risk.** Private firms believe that a major obstacle to partnership agreements is local governments' unrealistic expectations concerning the transfer of risk to private firms. Local government wishes to transfer significant risks but does not always want to balance this with reasonable rewards and control. The private sector believes that local governments in general, do not understand the value of risk.
-

ADDRESSING THE OBSTACLES TO REGIONAL AND ALTERNATIVE SERVICE DELIVERY ARRANGEMENTS

Addressing the obstacles to regional and alternative service delivery will require a concerted effort on the part of various agencies over time. The responsibility to address the obstacles lies not only with the provincial government but also with local government and associated organizations such as UBCM, LGMA and GFOA. It also lies with the private sector and the organizations which have been established to support increased involvement of the private sector in the delivery of public services, such as the Canadian Council for Public Private Partnerships.

The public and private sector have a joint responsibility to raise the profile of regional and alternative service delivery models. There is also a need to increase the level of confidence and ability of local government staff and private firms in evaluating methods of service delivery and structuring sound servicing agreements with other governments and private sector companies.

Some obstacles also involve provincial government policy, programs and legislative constraints. Initiatives which could be considered include:

- **Rethinking the manner in which capital grant programs for infrastructure are designed.** The private sector believes that present provincial programs reward bad behaviour in that priority is given to local governments that have allowed their infrastructure to deteriorate due to improper management and pricing practices. The private sector companies involved in the delivery of water services in the province believe that capital grant programs should be restructured to provide incentives for restructuring of service delivery arrangements to provide a smoother transition to more viable arrangements that are able to cost effectively manage water services and infrastructure.
 - **Ensuring that standards and requirements for local government services are equally applied and enforced.** A case in point is the implementation of Drinking Water Protection Regulation. While some consideration should be given to smaller systems, providing dispensation from the provincial regulation for the smaller systems will stop the impetus for change in how water services are presently structured in the province. The result is that the provincial objectives as stated in the Drinking Water Action Plan will not be achieved and water services will continue to be provided in a fragmented, inefficient and ineffective manner.
 - **Reducing the role of the Provincial Government in the provision and funding of local government services in unincorporated areas.** Increased transfer of funding responsibility for services such as policing to the smaller communities and unincorporated areas will provide impetus for regional policing arrangements, which will ultimately result in a better level of service and increased local involvement in the decisions concerning the provision of the service.
 - **Some legislative changes may still be necessary.** The inability of regional districts to establish partnership arrangements including the granting of assistance is a policy issue which clearly needs to be discussed from more than the perspective of effective and efficient provision of local government services. In the case of water services, the reality is that the most significant opportunities for private sector involvement in this province involve regional districts. The requirements for elector assent for ratification of partnership agreements is also an issue given that municipalities have been given significant freedom and flexibility in making other forms of agreements in the *Community Charter*. There are other minor issues such as updating the legislation relating to franchises. The most significant constraint to establishing regional service arrangements is the assent requirements for the establishment of regional district services. Again, the benefits of providing for assent and allowing self determination of unincorporated areas need to be balanced against the benefits that would be created through the establishment of more regional service arrangements.
 - **Explanation of the possibilities provided in the legislation.** There may also be opportunities to more fully promote and explain the range of possibilities the present legislation offers through the preparation of guides and presentations at various conferences and workshops. Some of these opportunities, such as inter-municipal agreements, are not well understood.
-

WATER SERVICES – A CASE STUDY

The provision of water supply, treatment and distribution is a vitally important service provided by local government in the Province. Increasingly, water is becoming a critical factor in the future economic growth of the Province's communities and regions. In a recent economic development planning process involving the entire Okanagan Valley (carried out under the banner of the "Okanagan Partnership"), the availability of an adequate supply and quality of water was identified as one of the limiting factors in the future economic growth and development of the valley. The importance of water to economic development, human health and safety is well understood by all local governments throughout the province.

Water service agencies, whether they be municipalities, regional districts, water improvement districts or private utilities are all facing similar pressures. These include:

- rising consumer expectations for safe, clean and reliable water supplies;
- increasingly stringent government standards;
- rising capital and operating costs;
- increased complexity in the governance, management and administration of service delivery;
- rapidly changing technologies and increased technological complexity;
- aging and decaying infrastructure and mounting infrastructure deficits;
- the political imperative to control costs and limit rate increases; and
- increasing pressure on watersheds and competition from other users of water.

It is becoming evident to many that the present fragmented manner in which the delivery of water services is structured in the province is not sustainable and changes are required. The regionalization of water services is a promising opportunity which is gaining some momentum in the province given the numerous small agencies involved in the provision of water. Alternative service delivery strategies, particularly contracting, outsourcing and public private partnerships are also viewed as opportunities for water service agencies to respond to the challenges. The following key trends and factors point to the need for increased regional and alternative service delivery of water services in BC.

The Nature of Water Services

Water services lend themselves well to delivery on a regional basis as many components of the service such as supply, treatment, administration and operations, lend themselves to economies of scale and scope. They are also capital intensive with high fixed costs and they often require specialized expertise in the operation of the service. These characteristics lend themselves to provision on a broader, regional scale.

Water services also lend themselves to various forms of alternative service delivery. They are particularly well suited to partnerships with the private sector in that:

- access to the service can be restricted;
 - the output of the services can easily be measured and priced;
 - the cost can be recovered through user fees;
 - economies of scale exist across political boundaries; and
 - the service provides opportunity for innovation.
-

Fragmentation of Water Service Delivery

The provision of water services in the province is extremely fragmented. Water services are provided by a variety of agencies including special water districts (e.g. Greater Vancouver Water District), municipalities, regional districts, water improvement districts, private water utilities, water users communities, First Nations, Crown corporations such as B.C. Hydro and BCBC, as well provincial agencies such as B.C. Parks. The vast majority of the over 3,300 systems are small with 2,000 having fewer than 15 connections.

The Growing Water Infrastructure Problem

Various government and professional organizations have drawn attention to B.C.'s aging infrastructure services including water systems. In 1996, a federal government report found that B.C.'s water distribution and supply systems were, on average, the second oldest in the country and had an average age beyond the expected life span for such systems. It is evident

that the scale of the capital investment required to bring water systems up to regional standards is enormous and well beyond the capacity of many smaller water service agencies, including municipalities, in the province.

More Stringent Provincial Regulations - Action Plan For Safe Drinking Water In British Columbia

The Provincial Government has embarked on the implementation of its Action Plan For Safer Drinking Water In British Columbia. The implementation of the province's action plan will result in changes in the manner in which water services are provided including water systems on First Nations reserves. A letter sent from the Minister of Health Services to all drinking water suppliers in B.C. in 2003 advised that the *Drinking Water Protection Act* and regulation had come into force and advised of the important changes required to meet the requirements of the new legislation. These included:

- The need to undertake an assessment of water systems and develop an assessment response plan.
- The need for operators to be certified.
- Increasing the requirement for sampling, monitoring and reporting of water quality.
- The preparation of a public report on emergency response plan, water monitoring results and any assessment or assessment response plan developed by the agency.

For smaller systems, some flexibility will be provided in complying with the new legislation and regulation and there is a possibility that very small systems (four or less connections) will be exempt from the provisions of the legislation and regulation. Small systems, larger than four connections, will be addressed by using a risk management framework which will take into account the specific risks of individual systems with appropriate application of the legislation and regulation. The overall objective, however, is to ensure that these systems provide safe, reliable and accessible drinking water. Officials with the Health Services Ministry believe that increased regionalization of water services and the increased involvement of the private sector are required if the provincial objectives in the area of drinking water protection are to be achieved. In a letter sent to all drinking water suppliers, the Minister of Health Services suggested that smaller systems may wish to pool their resources or consider amalgamation with larger systems to meet some requirements of the new legislation. The implementation of more stringent government regulations, the need for increased capital investment in the water infrastructure of the province and the fact that certain components of water systems lend

British Columbia's Water Systems

There are more than 3,300 water systems in BC. The 96 systems operating in large municipalities serve close to 90% of the population. The remaining 10% of the population is served by a variety of public and private systems:

- Small municipalities (57 systems);
- Regional district service areas (97 systems);
- Improvement districts (211 systems);
- Private water utilities (185 systems);
- Water users communities (118 systems);
- First Nation reserves (468 systems);
- Individual private wells and domestic licensees (est. 63,000);
- Others including Crown Corporations, industrial operations; BC Parks and private campgrounds, mobile home parks, restaurants and service stations (estimated 2,100 systems).

Approximately 2,000 systems have fewer than 15 connections.

themselves to economies of scale suggest that there are significant opportunities for both the regionalization of water services as well as the delivery through alternative service delivery.

What Are The Opportunities For Increased Provision of Water On the Basis of Regional or Alternative Service Delivery Models?

The provision of water services through regional or alternative service delivery arrangements are not new in the province. There are numerous regional and sub-regional service arrangements in the province ranging from single contractual arrangements to regional water agencies which are largely autonomous in terms of governance and organization from their parent regional governments. Alternative source delivery, especially contracting and outsourcing for aspects on water service, is also not a new phenomenon in the province. Research carried out in the mid 1990's suggests that local governments in the province, particularly regional districts, contract extensively with the private sector for services including water services.

Regional Delivery of Water Services

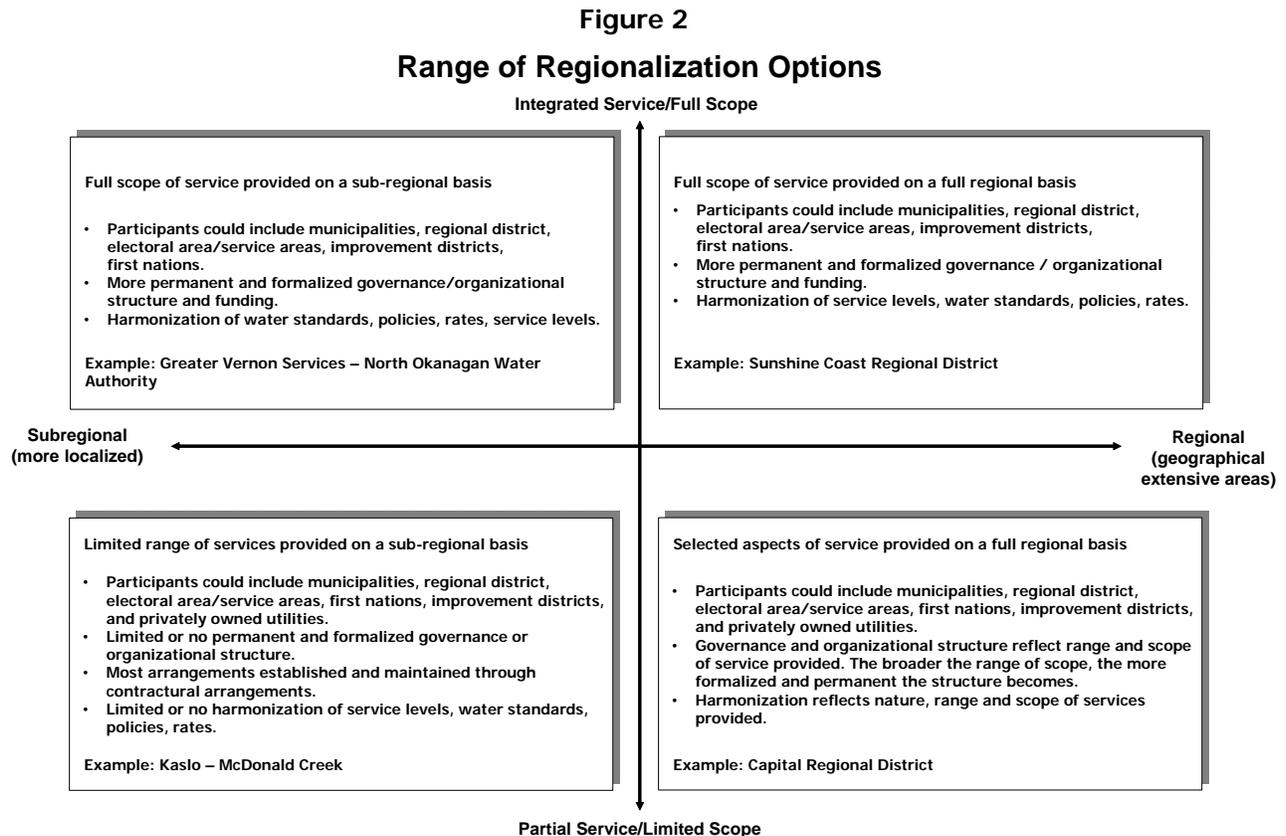
The opportunities for increased provision of water services on a regional basis are best described and differentiated by considering:

- The geographic extent of possible regional water arrangements (whether more sub-regional or regional).
- The range and scope of services provided through regional arrangements.

At present, regional delivery of water services in the province ranges from smaller sub-regional schemes in which a municipality supplies water to a surrounding unincorporated area, to more geographically extensive regional schemes in which water services are provided to a large number of incorporated and unincorporated communities by a regional government. The future opportunities in the Province will continue to reflect this spectrum of arrangements.

There are considerable variations in the range and level of integration of water services provided through existing regional arrangements. At one end of the spectrum are simple contractual arrangements between water service providers in which a specific aspect of service production, such as billing or sampling and testing, is contracted for. In these arrangements there are either limited or no formalized governance or organizational structures as the requirement for ongoing decision-making is limited. At the other extreme are fully integrated water services which encompass the full scope of services and require formalized and permanent governance and organizational structures. Often, arrangements for the regionalization of water services focus on those aspects of service delivery which possess economies of scale. These include water supply, treatment and a range of administrative and management activities such as billing, testing, etc. Again, the future opportunities for regionalization of water services encompass the full range of possible arrangements.

The scope of existing and possible future arrangements is summarized in Figure 2.



Sub-regional Arrangements

Sub regional arrangements provide one of the greatest opportunities for the increased provision of water services on a more regionalized basis. These arrangements can take many different forms ranging from simple ones whereby one agency contracts for specific services from another to the delivery of a full scope of water services requiring the establishment of more permanent and formalized governance and organizational structure and processes. Participants in such arrangements may include municipalities, regional district service areas, improvement districts, First Nations or privately owned water utilities. Various situations can give rise to the establishment of sub-regional arrangements and they generally result when two or more water service agencies are providing services in close geographical proximity to one another and recognize the advantages of them producing the service (or aspects of it) together. For a sub-regional arrangement to develop, the water service agencies must believe that the advantages of participating in a sub regional arrangement outweigh the costs. Motivation to enter into such arrangements could be the requirement to comply with new regulations, the ability to provide a higher quality of service more cost effectively or to reduce costs to the users.

Typical situations which could give rise to sub-regional arrangements include:

- One or more unincorporated communities surrounding a municipality wish to obtain a higher level of service from the municipality and the municipality agrees to provide the service.
- Two or more municipalities located in close proximity to one another agree to jointly produce the water service (or elements of it).
- A municipality and an adjacent First Nations community agree to provide and produce water services (or specific elements of the service) jointly.
- A number of water improvement districts located adjacent to each other agree to provide and produce components of water services jointly through the establishment of a regional district service area.

Sub-regional Arrangements Involving A Limited Scope of Services

The most prevalent form of regionalized water services in the province are sub-regional schemes which involve the regionalization of specific aspects of water service production. These arrangements generally involve one or more water service agencies agreeing to produce a limited range of services jointly. These are established through contractual agreements or through the establishment of service areas through regional districts where this is possible. Typically, these arrangements involve one agency providing a limited range of services to another agency on the basis of a contractual agreement which spells out the service to be provided and the compensation to be paid. In these types of arrangements, each agency maintains considerable, if not complete, autonomy in governance, decision-making, operations and financial management. The types of services generally provided through these arrangements are those which tend to have economies of scale or scope associated with them or which require specialized expertise or technology. These include certain administrative functions (e.g. billing, collections, accounting), specialized elements of operation and maintenance (e.g. hydrant maintenance), water demand management, and could involve aspects of water supply and treatment. Given the limited number and type of services generally provided, formalized governance and organizational structures are often minimal or non-existent as the requirement for ongoing decision-making is limited. Clearly, the more components of the services that are provided, the more formalized the governance and organized structures would become.

There are great opportunities for the establishment of sub-regional arrangements such as those discussed above. For example, the implementation of the *Drinking Water Protection Act* and Regulation will require regular sampling, testing and monitoring of drinking water quality. The legislation will also require that operators are fully certified and that emergency response plans and measures are in place. There will also be a requirement for providing a basic level of water treatment. It is suggested that many of the smaller water service agencies will not be in a position to comply with these requirements without entering into some form of agreement with other agencies to obtain these services.

Sub-regional Schemes Involving Broader Scope of Service

In contrast to the arrangements discussed above, these arrangements involve a fuller scope of water services. The arrangement requires a permanent, formalized governance and organizational structure to be put in place to facilitate ongoing decision-making. Generally it involves the creation of a new entity either through the regional district structure or through the establishment of a commission or separate corporate entity. These new entities may be established solely for the production of water services or they may also provide other public services. Ownership of the infrastructure assets of the participants may be transferred to this new entity or the parent local government creating the new entity. The actual systems may also be integrated to improve system performance and to create other benefits through the use of economies of scale and scope. All management, planning, administration, operations and maintenance of the system become the responsibility of the new entity. Only statutory bylaw making responsibilities are not delegated by the parent regional district. The actual production of services may be carried out in various ways including contracting to one or more of the participants in the arrangement, contracting to the private sector or production of the service through its own resources.

There are a number of sub-regional arrangements such as those presently in place in the Province although most are established through the regional district structure with much of the decision-making authority (other than statutory bylaw powers) being delegated to them. An example of this arrangement is the Greater Vernon Services Commission which operates the North Okanagan Water Authority.

Regional Arrangements

Regional schemes differ from sub regional schemes in that they have significantly larger service geographies and generally involve a greater number and variety of participants. Like sub regional schemes, regional schemes can take many forms ranging from arrangements where only a limited component of the service is provided on a regional basis to a fully integrated regional water service. Participants in regional schemes may include municipalities, regional district electoral and service areas, improvement districts, First Nations and privately owned utilities. Regional schemes are established when there is agreement among the participants to deliver either a component of water service or a fully integrated range of water services on a regional basis. As in the case of sub regional schemes, every participant must believe that the advantages of participating in a regional scheme outweigh the costs.

Greater Vernon Governance Service

In late 2000, the City of Vernon, the District of Coldstream and the Regional District of North Okanagan proposed the creation of a Greater Vernon Governance Service as a framework for the delivery of specific local services that benefit all Greater Vernon residents and as a forum for the discussion of issues that are important to the broader community. A memorandum of understanding between the three parties was signed in June of 2000 and the bylaws establishing the Greater Vernon Governance Service were enacted in August of 2001. The services administered under the Greater Vernon Governance function include:

- North Okanagan Water Authority;
- Greater Vernon Parks, Recreation and Culture;
- Multi-Use Facility;
- Community Theatre Complex;
- Tourism/Economic Development; and
- Vernon and District Queen's Committee

Authority for the management of these services have been delegated to the Greater Vernon Services Commission other than those powers exercisable by by-law or other matters that must be dealt with by the regional board in legislation. The Greater Vernon Services Commission consists of a representative of each of the agencies and each member has one vote. A two thirds majority is required for every decision made by the commission.

The North Okanagan Water Authority (NOWA) which comes under the authority of the Commission is responsible for the provision of all water services within the Greater Vernon. The regional service was established in 1994 through the amalgamation of the City of Vernon, District of Coldstream and Vernon Irrigation water services. The regional service has established a common rate structure and has harmonized policies and standards between the three services. Actual delivery of the service is contracted back to the City of Vernon, District of Coldstream and Vernon Irrigation District within their respective boundaries.

Regional Water Arrangements Providing Full Scope of Service

Under this arrangement a fully integrated regional water service is provided by a regional authority over a geographically extensive region. The arrangement again requires a formalized and permanent governance and organizational structure to enable ongoing decision making. This arrangement may involve the creation of a new entity outside of the existing regional district structure or more commonly, it could become a service provided through the regional district structure. All management, planning, administration, operations and maintenance of the regional water system(s) would become the responsibility of the new authority or entity. The regional water service would in all probability consist of a number of systems given the extensive service area. However, it is possible that all system users could be subject to the same rates. The actual production of services could again take place through a variety of means such as production by the new entity itself, contracting to participating agencies or partnering with the private sector.

Sunshine Coast Regional District

In 1990, the Sunshine Coast Regional District established a local service area over all of the regional district including six electoral areas and the District of Sechelt for the purposes of providing the full scope of water services. Excluded are the Town of Gibsons and the Sechelt Indian Government District although the regional district supplies bulk water to the Town of Gibsons to augment the Town's supply. It also provides service to the Sechelt Indian Government under a contract negotiated some years ago. The service area includes a number of improvement districts which are exempt from the local service area. All properties served by the water system throughout the regional district pay the same parcel tax and user fee rates. Governance is provided through the regional board while management, administrative and technical support is provided by regional district staff. The regional district contracts for a number of services from the private sector.

The only jurisdiction in the province which comes close to providing a fully integrated regional water service is the Sunshine Coast Regional District although the Town of Gibsons and the Sechelt Indian Government District only obtain bulk water supply from the Regional District.

The opportunities in the province for the establishment of a fully integrated regional water service are most evident in emerging urban regions in the province in which water service provision is fragmented and where the benefits of a single service provider would provide for greater uniformity in the quality and standard of services as well as providing the service more cost effectively. Potential candidates could include the Central Okanagan, the Nanaimo area and similar urbanizing regions.

Regional Service Arrangements Providing Select Aspects of Water Service

In these types of arrangements, a regional authority provides and produces only certain elements of water services over a geographically extensive region. The range and scope of the specific services provided may vary considerably under these arrangements. At one end of the scale, a regional authority may be responsible for the supply and treatment of drinking water for the entire region requiring it to carry out a range of ancillary responsibilities such as watershed management and transmission of supply to community systems. At the other end of the range, a regional authority, such as a regional district, may provide a single service such as administering a water conservation program. Given the increased number and variety of participants, some form of permanent governance and organizational structure is generally required. As in other regional and sub-regional schemes, the emphasis is usually on those functions which benefit from economies of scale and scope.

Existing examples of this model in the Province include the Greater Vancouver Water District and the Capital Regional District which supply and treat water for the GVRD and CRD. Examples of the opportunities for this form of arrangement in the province include:

- A regional district agreeing to provide components of water service (such as sampling, testing and maintaining) to all existing water improvement districts and water users communities within its boundaries through the establishment of service areas for specific services.
- A regional district in an urbanized region agreeing to provide water supply and treatment throughout the region and establishing a commission to oversee it.

Capital Regional District Water Services

Prior to 1997, the supply, treatment and major supply lines servicing the Capital Regional District (CRD) were owned and operated by the Greater Victoria Water District (GVWD). The GVWD also owned and operated the distribution systems in the western communities (Langford, Colwood, Metchosin, View Royal) and Sooke. In 1997, the *Capital Region Water Supply and Sooke Hills Protection Act* was adopted, which transferred ownership of the system to the CRD. The CRD provides bulk water supply, treatment and transmission to various municipalities which own and operated their own distribution systems. The exception is in the western communities where the CRD provides both bulk supply and owns and operates the distribution system.

The CRD has established three standing committees which are responsible for decision making with regards to the provision of water services. These include:

- The Regional Water Supply Commission which oversees the provision of bulk water to the municipalities of the CRD.
- Juan de Fuca Distribution Commission which oversees the supply and distribution of water within the western communities.
- The Saanich Peninsula Water Commission which oversees the provision of bulk water services to the municipalities on the Saanich Peninsula.

The commissions are responsible for overall policy direction, budget development and system planning. Authority to award contracts has been delegated from the CRD board to the commissions provided that expenditures are within the approved budget.

Services are delivered by two CRD departments including the Capital Regional Water Services department and the Environmental Services Department which manages smaller systems on the Gulf Islands and Port Renfrew.

OPPORTUNITIES FOR ESTABLISHING PUBLIC PRIVATE PARTNERSHIPS

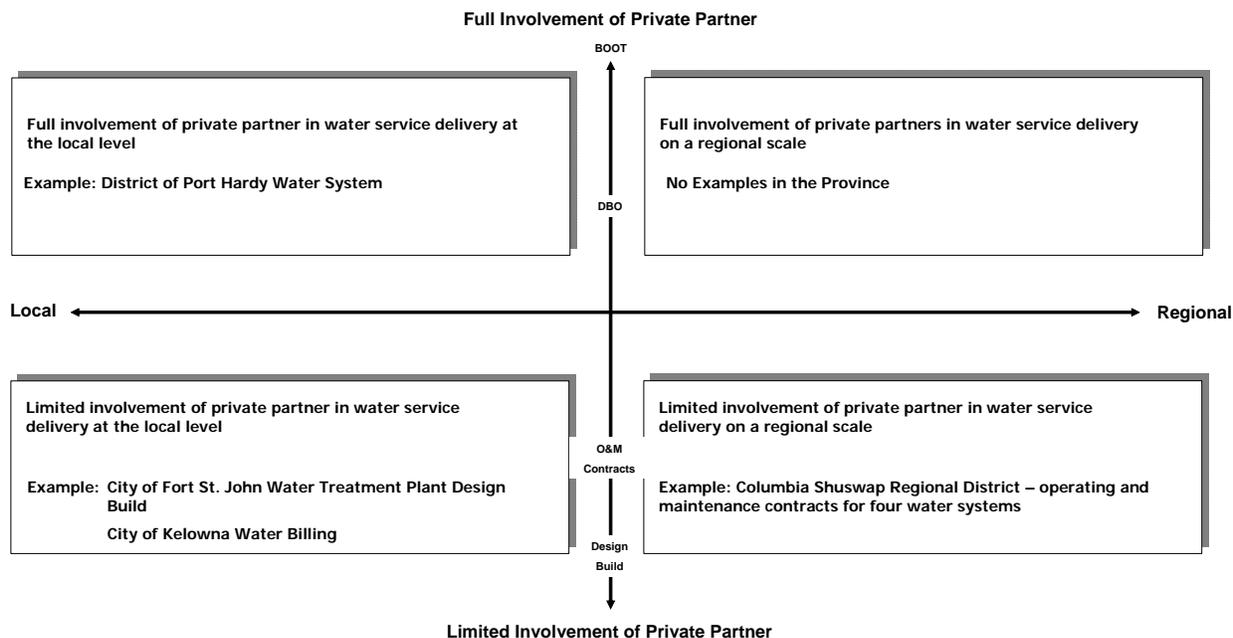
As in the case of regional service delivery, there are numerous opportunities for alternative service delivery arrangements for the delivery of water services. This discussion focuses on public private partnerships as they present the most immediate opportunity in the province. The opportunities again range from simple contractual agreements with private firms for the provision of a limited range of services to arrangements in which the private firm designs, constructs, finances, owns and operates the water system. An overview of the more common public private partnership arrangements are described in Figure 3 although the application of preconceived models should be avoided.

Figure 3
More Common Forms of Public Private Partnership

<p>Operations and Maintenance Contracts</p>	<p>The local government contracts with a private partner to operate and maintain a publicly owned facility.</p>
<p>Design Build</p>	<p>The local government contracts with a private partner to design and build a facility that conforms to the standards and performance requirements of the local government. Once the facility has been built, the local government takes ownership and is responsible for the operation of the facility.</p>
<p>Design Build Operate</p>	<p>A local government contracts with a private partner who designs, builds and operates a facility to the standards and performance requirements of the local government. The period of operation by the private partner is established in the agreement. The facility remains in public ownership.</p>
<p>Build Own Operate Transfer</p>	<p>The private partner obtains an exclusive franchise to finance, build, operate, maintain, manage and collect fees for a fixed period of time to amortize the investment. At the end of the franchise, ownership of the facility is transferred to the public authority.</p>

Partnership arrangements, like regional servicing arrangements, can vary on the basis of the characteristics of the local government and the geographical extent of the service area. Partnership arrangements can range from partnerships involving a single municipality with a localized service area to a regional entity providing service to a large geographical area. Figure 4 provides an overview of the potential partnership arrangements and provides examples of such arrangements presently in the province.

**Figure 4
Range of Public Private Partnership Opportunities**



Localized Partnership Arrangements Providing A Limited Scope of Services

Localized partnership arrangements involve a municipality entering into a contractual arrangement with a private partner to provide a single aspect of water service or at most a limited range of services. These services can be project related such as engineering and construction services under a design build contract or they can also involve ongoing limited aspects of operations, maintenance or administration. Examples in the Province include the design construction contract for the Fort St. John water treatment plant or the provision of water billing services provided by Terasen to the City of Kelowna. Circumstances where arrangements such as these should be considered are where only specific aspects of water service delivery would benefit from the involvement of a private partner.

Localized Partnerships Arrangements Providing Full Scope of Service

Public private partnership arrangements in which the private partner provides the full scope of service delivery responsibilities are not common in the Province. These arrangements can take many forms such as:

- Design-build-operate arrangements in which the private partner is responsible for designing, constructing and operating all facets of the water system for a specified period of time.
- Design-build-own-operate arrangements in which the private partner not only designs, constructs, finances and operates the system but also owns the system for a specified period of time.
- Full privatization in which the private partner owns the system in perpetuity and operates it on the basis of conditions negotiated with the public partner.

There are very few arrangements in the province in which private partners are responsible for the full scope of service delivery. The design build operate contract which was negotiated between the District of Port Hardy and Epcor is an example of this type of arrangement. There are a few more examples in the area of wastewater collection and treatment in the province including Port Hardy, Sooke and Langford. Water systems such as the one servicing the City of White Rock are not partnership arrangements in that it has always been operated as a privately owned utility.

District of Port Hardy

In 2000, the District of Port Hardy entered into a design, build operate agreement with Epcor for the construction of a water treatment plant. The arrangement also involved taking over operation and maintenance for the District's total water and sewer systems. The District arranged all financing net of senior government grants and has retained ownership of the systems.

Circumstances where arrangements such as those should be considered are where a private partner would be able to provide benefits for the full scope of water services.

Regional Partnership Arrangements Involving A Limited Scope of Services

These arrangements involve a partnership between a regional authority such as a regional district contracting with a private partner for the delivery of specific services. These arrangements are quite extensive in the province due to the dispersed location of water systems within the province's regions which makes it difficult to economically provide service using local government staff. These arrangements can involve one private partner providing service to the entire region or, more commonly, a number of contractors located throughout the region in the locations where the water systems are located. Services commonly provided through existing arrangements include ongoing operation and routine maintenance activities, repairs, testing, monitoring and reporting.

Numerous regional districts throughout the Province are presently involved in these arrangements including the Columbia Shuswap Regional District. It is suggested that this arrangement may prove to be the most promising in the future given the large number of smaller water service providers who will not be in a position to carry out the activities required of them under the new Drinking Water Regulation. An important role for regional districts will be to "bundle" these services in units which will make it attractive for larger, qualified private partners to become involved.

Columbia Shuswap Regional District

The Columbia Shuswap Regional District owns and operates four water systems including Eagle Bay (100 connections), Falkland (200 connections), Saratoga (80 connections) and Cedar Heights (400 connections). The regional district has a full time staff member who is a certified water system operator but the ongoing operation and maintenance of the systems are provided by four contractors who reside in the communities in which the water systems are located.

Regional Partnership Arrangements Providing a Full Scope of Service

At present, there are no partnership arrangements in the province in which the private partner provides the full scope of services for an entire region. It is suggested that this opportunity will only arise with increased regionalization of water services in the province.

BEST PRACTICES

Entire guides have been prepared to guide local governments in structuring both regional service delivery arrangements and public private partnership arrangements. The intention in this discussion paper is not to provide a comprehensive presentation of best practices but to provide an overview of the more fundamental basic practices which local governments should follow in structuring such agreements.

Best Practices For Developing Sustainable Regional Service Arrangements

Designing, implementing and maintaining regional service arrangements for the delivery of water services requires attention to both fundamental principles and the details of the actual arrangements. The obstacles identified in relationship to regional service arrangements in general also apply to regional water service delivery arrangements. These include:

- Concerns over loss of control over key service provision and delivery elements;
- Uncertain control during emergencies;
- Perceived loss of accountability and transparency in decision making;
- Opposition from public sector unions;
- Perceived political risks associated with regional service delivery arrangements; and
- Legislative constraints particularly the assent requirements established in the *Local Government Act* for the establishment of regional district service areas.

The following are recommended best practice that will assist in the establishment of sustainable regional water service delivery arrangements.

Undertake a business case analysis of the existing approach to the provision and delivery of water services. The most fundamental question that an existing provider of water services must ask is whether a change in the business model will result in the provision of a higher quality of service, allow the provision of water services in a more cost effective manner or both. In order to assess whether a change in the business model is required, a business case analysis should be undertaken. The analysis would assess whether a change in ownership, organizational structure, service area, allocation of responsibilities for operational management and/or infrastructure maintenance and improvement is required to better achieve the local government's objectives. The analysis would identify why changes are required and the expected benefits of making the changes to the business model. A business case analysis has important benefits to the local government as it now has a clear vision of what it is seeking in a possible restructuring of water services such as participation in regional service delivery arrangements.

What are the differences between a business model and governance model?

A business model is a description of the ownership and organizational structure, how the responsibilities and risks for operational management and/or infrastructure maintenance and improvement of a business. A water governance model refers to the range of political, organizational, and administrative processes through which communities articulate their interests, their input is absorbed, decisions are made and implemented and decision makers are held accountable in the development and management of water resources and the delivery of water services.

Structure an approach and process which will ensure that all of the issues are properly researched, discussed and resolved. When regional service arrangements fail, there are often a variety of reasons. These include:

- Not all of the important issues were identified and discussed (e.g. harmonization of policies and regulations, governance, risk sharing etc.)
- Decisions were not based on factual, objective research.
- Individual and shared goals of the participants were never clearly articulated and discussed.
- Important guiding principles were never established to guide the initial process and subsequent reviews.
- Potential changes due to growth, economic considerations, changes in tax base and revenues were not carefully considered or properly addressed and provided for.
- Key stakeholders were not properly consulted.

It is essential that sufficient time and resources are devoted to the process of assessing the feasibility of regional service delivery arrangements as well as properly designing and implementing the arrangement. Topics which should be considered in the context of designing regional service delivery arrangements have been identified in the **MCAWS Guide To Regional Service Arrangements and Reviews** and include:

- Establishing guiding principles which provide a reference point for discussion.
- Developing multi year service plans which anticipate growth and changes in the service area.
- Building in flexibility in the model to accommodate reviews and to adjust the model, policies, rate, etc.
- Building in formal review dates.
- Building in triggers that prompt reviews.
- Defining exit and entry conditions.
- Defining a dispute resolution process.

Design a business model that reflects the vision, objectives and characteristics of the proposed service, the prospective partners and the communities they represent. There is often a tendency to resort to default models or to borrow models from other jurisdictions without critically examining them to ensure that they are even remotely reflective of the circumstances in which the regional service arrangement is to be implemented. As there are bound to be important differences in the nature of the service to be provided, how the costs are allocated and recovered, and the manner in which decision will be made, it is vitally important to learn from the experiences of others but not necessarily to replicate or indiscriminately borrow aspects of their arrangements.

Ensure that the governance model reflects not only the business model but also broader governance principles.

Establishment of a regional water service delivery arrangement clearly requires changes to existing governance models or the design of completely new models. There are clearly many challenges in establishing fair and effective governance arrangements which do not lead to the dominance of one participant by another yet reflect important differences in the population, level of investment of resources in the regional arrangement and other relevant factors. The flexibility provided in Provincial legislation allows for a variety of innovative governance models which must not only reflect the specific nature of the business model but also broader governance principles. In addition to effectiveness and efficiency, other important principles should also be referenced including accountability, transparency, responsiveness, access to decision makers and participation. Often, highly cost effective regional servicing arrangements are compromised due to the failure to establish well conceived governance arrangements which reflect these broader principles. A well designed and supported governance model will go a long way to addressing the obstacles to

regional service delivery such as fear of losing control especially in emergencies, perceived loss or blurring of accountability and perceived political risks.

Best Practices for Developing and Maintaining Public Private Partnerships

The opportunities for partnerships and other agreements with the private sector in the future are significant. This is due to a number of factors.

- The large and growing requirement for replacing and upgrading the water infrastructure of the Province. Many smaller local governments and improvement districts will not be in a position to undertake this upgrading with their own expertise and financial resources.
- The enactment of more stringent Provincial regulation for drinking water. These will require local governments and other water service providers to undertake a range of responsibilities that will require staff resources and expertise which they presently do not have and which, due to their size, may never be able to provide.
- The growing familiarity with new partnership arrangements between local government and the private sector building on the extensive background and experience in contracting and outsourcing aspects of water service delivery.
- The legislative flexibility created through the enactment of the *Community Charter* for partnership arrangements and other types of agreements with the private sector.
- The growing capability of the private sector in the Province to become involved in larger scale and complex servicing arrangements.
- Water services and infrastructure possess the qualities which make them attractive to the private sector.

The flexibility created in the *Community Charter* provides for a wide range of partnership and other types of arrangements ranging from contracting and outsourcing of specific components of water services to full privatization of water services.

Developing, negotiating and implementing partnership agreements can be a complex, time consuming process requiring a range of expertise and financial resources. The consequences of entering into a poor agreement can be disastrous for local government whereas a well conceived agreement can allow local government to provide high quality services in a very cost effective manner to the consumers.

Much has been written about partnership agreements including best practices for designing, negotiating and managing them. What follows is an overview of some of the more fundamental best practices which should be practiced by local governments in the area of public private partnerships.

Avoid Responding To Unsolicited Proposals

While unsolicited proposals from private partners will be received by local government from time to time, it is vitally important that the process of engaging a partner involves competition among potential private partners. Local governments should not respond to unsolicited proposals and initiate negotiations on the basis of unsolicited proposals. The lack of competition negates the benefits of partnership arrangements which are to take advantage of competition among partners to identify the most innovative, cost effective approach to the delivery of water services.

Define The Service or Project

Many partnership arrangements are not successful because the service or project to be delivered has not been well defined by the local government. There are a number of considerations which should be taken into account:

- The service or project should be well defined including objectives, scope and extent, service area, costs (business case analysis), and non negotiables.
- Preferably, the service or project will have its genesis in a broader strategy, plan or program of the local government.
- Efforts have been made by the local government to consult with the key stakeholders and obtain buy in.
- All approvals which can be secured before initiating discussions with potential private partners should be secured.

Often, opposition to a partnership agreement is not directed to the agreement itself but to the proposed service or project.

Assess Commitment To The Service and Project

Before initiating the process of selecting a partner, there must be support for moving ahead with the project at all levels, particularly at the political level. A great deal of credibility has been lost with the private sector in initiating partnership processes with less than full commitment. Even more credibility has been lost in situations where local governments have initiated processes with the intention of flying a trial balloon to assess project feasibility or support. The preparation of expressions of interest and proposals is an extremely costly proposition for the private sector and should not be exploited.

Assess Project Delivery Options

Once the service or project has been defined, the local government should assess the methods of delivering both existing and new services in a proactive manner ensuring that a range of possible models are examined. The goals should be to provide the highest possible value to consumers in the most cost effective manner. Prior to considering partnership arrangements local governments should undertake a business case analysis which establishes the true costs and benefits of the service should it be provided by the municipality itself. This is known as the shadow bid. Partnership models should be evaluated to determine whether or not they can provide greater value or a more extensive range of benefits in a more cost effective manner. Both quantifiable and non quantifiable benefits should be assessed. Local governments should be clear on how they wish to share risks, control and rewards with the private partner. If a partnership arrangement does not demonstrate benefits over conventional delivery partnership arrangements, it should not be pursued. The preparation of a base case analysis or shadow bid places the local government in the position of being able to properly assess partnership proposals made by prospective private partners.

Assess Consistency With Broader Local Government Mission, Policy

Partnership arrangements must be considered in the broader context of local government goals, values, policies and culture. Support at the political level is also vitally important as ideological and other political considerations may preclude the serious consideration of partnership arrangements for service delivery. These considerations will often determine the success or failure of a partnership process. Some local governments have missions, values, policies and a culture which are highly supportive of engaging the private sector in the provision of certain public services. Others do not. Before launching into partnership arrangements with the private sector it is vitally important to assess whether there is broad political support for this approach to delivering services and whether the policies, values and culture of the organization are supportive.

Address Public Policy Issues Early In The Process

Before initiating the process of engaging a partner it is important for the local government to ensure that the public policy issues associated with the proposed project or service have been clearly identified and addressed. These may have been identified during consultations with stakeholders or with elected officials. Clarity should be established around the nature of the public interest, the relative importance of the public interest and who is in the best position to take responsibility that the public interest is protected. Failure to address the public interest and policy issues at the outset of partnership discussions greatly complicates the subsequent process.

Design The Partnership Arrangement To Address Objectives and Policies

The exact nature of the agreement will not be determined until negotiations have been concluded. However, it is appropriate for the local government to begin the process of defining an arrangement which it believes will provide the greatest service benefit in the most cost effective manner within its preferred approach to sharing of risks, rewards and control.

Ensure The Required Expertise and Competencies Are Available

Given the complexity of many alternative service delivery models, local government and water services agencies must prepare themselves to participate in the design, negotiation and implementation of partnership arrangements. These include:

- Identifying who in the organization will be responsible for alternative service delivery arrangements and who has the authority for the ultimate decisions to enter into them.
- Developing or accessing the expertise necessary to evaluate, negotiate and implement alternative service delivery arrangements.
- Establishing policies to guide decision making in alternative service delivery matters.
- Establishing procedures that enable effective formulation and delivery of service through the alternative service delivery model.

Assess Whether The Proposed Partnership Arrangement Will Be Attractive To Qualified Firms

The private sector's ability to respond or to find the partnership proposal attractive should be assessed given the importance of competition in the selection of a partner. The partnership proposal should be objectively assessed from the private partner's perspective to ensure fairness in the allocation of risks, rewards and control. Often, local government's expectations for risk transfer and the valuation of risk are unrealistic resulting in a poor response from qualified partners.

Commitment To A Fair Transparent Process

Local government must commit and carry out a fair, transparent process and ensure that the process is competitive. Throughout the process, local government must clearly communicate its objectives and ask for the right things. It must also be up front on the criteria and process which will be used to select the preferred partner. The process must be designed to enable local government to make its decision on the best information, analysis and advice it can obtain.

Monitoring and Quality Control

The successful negotiation of a contract marks the beginning of the project or service delivery arrangement. It is local government's obligation to monitor the performance of the private partner to ensure that the level, quality and standard of service negotiated in the agreement is being provided to the consumer of the service.

QUESTIONS TO CONSIDER IN ENCOURAGING REGIONAL AND ALTERNATIVE DELIVERY OF LOCAL GOVERNMENT SERVICES

Both the regional and alternative service delivery models provide opportunities for local government to deliver services more effectively and efficiently in the province. This is particularly true of services which, due to their nature, lend themselves well to these models. The obstacles to increased use of these models are varied. Some apply to both models while others are specific to each model. Addressing the obstacles will require a concerted effort on the part of various agencies. Many of the obstacles are deeply rooted in legislation and long standing policy and will take time to address. Others are straight forward and could be addressed quickly. No one agency can address all of the issues. It will take a concerted effort by local government and related bodies such as UBCM, private industry and the provincial government to create the environment which will encourage the use of these models. The following are some issues which require discussion.

Reducing or eliminating the role of the provincial government in the provision and funding of local services in the unincorporated areas of the province. Unincorporated areas of the province receive local services which involve a subsidy from the rest of the taxpayers of the province. Local services provided to the unincorporated areas by the province include policing, road maintenance including maintenance of road related drainage works, subdivision approval and other services. All costs related to these services are borne by the taxpayers of the province as a whole. The current approach is not only unfair but also creates the expectation that residents benefiting from these services will not be required to pay for the full cost of these services. This expectation also tends to skew discussions between municipalities and unincorporated areas related to payment for municipal services which benefit rural residents. Increased transfer of funding responsibility for services such as policing, roads, subdivision approval to the unincorporated areas will provide an impetus for regional service delivery arrangements and also serve to manage unrealistic expectations concerning the continued subsidization of local services in rural areas.

Addressing the issue of misaligned municipal boundaries. Not all municipal and regional district boundaries coincide with the boundaries of functioning communities and regions.

In the case of regions, regional district boundaries do not always align with functioning regions from an economic and social perspective. This creates difficulties in the design of effective, efficient and representative regional servicing arrangements.

This issue is even more evident at the community level. Communities which function as single communities from an economic and social perspective are fragmented by jurisdictional boundaries allowing part of the community to fall within unincorporated areas and part within incorporated communities. This has a number of implications. First, designing service delivery areas which provide for the effective and efficient provision and delivery of services becomes difficult. Servicing decisions by councils of incorporated municipalities result in impacts in the unincorporated area. These can be positive for the rural residents in that they might derive a benefit from the services provided by municipalities without contributing to their cost. However, this poses problems for the incorporated municipalities in that they are creating a benefit but unable to recover the costs of providing the service. The decisions of municipal councils may also have negative impacts on rural residents. An example might be the rezoning of land located on the boundary of the municipality for industrial purposes near rural residential uses.

The reverse can also be true. The regional districts, representing the unincorporated areas, might make decisions which impact the incorporated communities in a positive or negative way. There are numerous situations within the province where this misalignment is evident. There are two possible solutions to this issue. One is to restructure the boundaries of the municipality to more accurately reflect the boundaries of the functioning community. This is often difficult in that rural residents who enjoy the benefits of being part of the broader community are not always prepared to become part of the municipality due to property tax impacts and other reasons. As the present incorporation process requires the assent of electors in the rural areas for a boundary restructure to proceed, many logical restructures, from a service delivery perspective, are often defeated in the province. Another option is the development of regional or sub regional servicing arrangements that have the ability to provide the basis for establishing service geographies that reduce or eliminate externalities. Again, the assent provisions of the *Local Government Act* for the establishment of regional district service areas is a significant constraint. In these situations there is little incentive for those residing in the unincorporated part of the community to support regional or sub-regional servicing arrangements as they are in a position to benefit from a range of services without contributing to the cost of the services. This is a difficult issue to resolve. On the

one hand it is desirable and essential for communities to determine the range of services they wish to provide and pay for. This logic begins to fall apart in situations where unincorporated areas clearly form an integral part of a broader functioning community and benefit from the services provided by an adjoining municipality. One suggestion is that assent requirements be waived in situations where there is agreement for the delivery of a service at the planning or policy level as discussed in the next point.

Questions to consider:

Do the present assent provisions for the establishment of regional district service areas strike the right balance between the ability of communities to determine their own destiny with respect to service provision and the establishment of effective, efficient and fair servicing arrangements?

Does the present legislation related to boundary restructures need to be revised?

Is there a need to realign some of the regional district boundaries to better reflect functioning regions?

Eliminating the need for assent for the provision of services on a regional or sub regional basis

Often the failure of regional or sub regional service arrangements to proceed is due to a flawed process in that servicing issues and solutions are not dealt with adequately at a broader policy or planning level before they are placed before the electors in the form of a by-law. It is suggested that agreement on regional servicing initiatives at the planning or policy level could result in increased level of support at the bylaw stage. Agreement by the participating jurisdictions at the plan or policy level may also enable servicing arrangements to proceed without elector assent thereby removing a significant barrier to a larger number of regional servicing arrangements in the province. A possible model which might be considered is the Province's liquid waste management process. In this process, there is a requirement for significant stakeholder involvement throughout the process including ongoing involvement of an advisory committee. The plan requires the approval of all participating jurisdictions and the approval of the minister responsible. Once approved, the *Community Charter* and *Local Government Act* do not require elector assent for any of the projects or services established in the plan. It is suggested that the legislation be changed to enable processes such as the liquid waste management process to be applied to other regional service issues such as the provision of drinking water, policing and fire protection among others.

Question to consider:

Should legislation similar to that established for liquid waste management planning be considered for other types of services particularly those proposed for delivery on a regional basis?

Addressing the "loss of control" issue. One of the key reasons why individual local governments resist participation in regional service arrangements is the fear of losing control. This often manifests itself in two ways. Larger local governments, which are the deliverer of services, do not wish to relinquish control and even ownership of their service infrastructure to a governance arrangement established through a regional district. Smaller local governments or rural communities are often fearful of being dominated by larger municipalities in decisions concerning the service. The largest obstacle to the establishment of more regional service delivery arrangements is the reluctance of larger municipalities to relinquish control. There are a number of suggestions which might be considered in addressing the loss of control issue:

- ◆ Regional district voting rules should be changed to provide for more weighted votes particularly on service provision and delivery issues. This would occur both in the case where authority has been delegated by the board and at the regional board itself.
 - ◆ Weighted votes should seek to provide for more proportionate representation than is now the case.
 - ◆ Consideration should be given to making the procedures for exiting regional service delivery arrangements more straightforward and less complex. This might be offset by increased requirements for the exiting jurisdiction to provide compensation to the other partners.
-

Questions to consider:

Should the present voting rules for regional districts be modified to address the issue of loss of control?

Should the service exit provisions be modified to enable easier exit from service arrangements with offsetting increases in the level of compensation paid to the remaining partners?

Ensuring that standards and requirements for local government services are equally applied and enforced. A case in point is the implementation of the *Drinking Water Protection Act* and Regulation. While it may be reasonable to provide some consideration to smaller jurisdictions, providing dispensation from the provincial standards and requirements to smaller jurisdictions will stop the impetus for change in how water services are presently structured and delivered in the province. The result will be that provincial objectives for the provision of safe drinking water will not be met and water services will continue to be provided in a fragmented, inefficient and ineffective manner. The application and enforcement of provincial standards and regulations should be universal and should not take into consideration the size or capacities of the jurisdictions. Rather, more attention and incentives should be provided to enable smaller jurisdictions to enter into arrangements with both public and private partners to enable them to achieve provincial standards.

Questions to consider:

Should the size of a jurisdiction be a factor in the application and enforcement of provincial legislation, regulation, policy and programs?

How could smaller jurisdictions be supported in structuring service delivery arrangements which enable them to meet provincial standards and regulations?

Rethinking the manner in which capital grant programs for infrastructure are designed. In the opinion of private firms presently involved in partnership arrangements, provincial grant programs reward bad behaviour in that priority is given to local governments that have allowed their infrastructure to deteriorate due to improper management and pricing practices. Private sector companies involved in the provision of infrastructure services in the province believe that provincial grant programs should be changed to provide incentives for restructuring of service delivery to encourage the establishment of more viable, sustainable arrangements that provide for the cost effective delivery of services.

Question to consider:

Should provincial and federal infrastructure grant programs be redesigned to provide incentives to the establishment of more effective and efficient service delivery arrangements?

Incentives for investigating innovative regional and alternative servicing arrangements. Consideration might be given to establishing grant programs which enable the local governments to assess the present manner in which services are delivered and to jointly investigate regional and alternative service delivery models with other jurisdictions within their region.

Question to consider:

Should the province introduce grants which provide incentives for local governments to assess present service delivery arrangements and to investigate other, more innovative arrangements which increase the effectiveness and efficiency of service delivery.

Addressing the legislative constraints. The legislation in the province for the establishment of both regional and alternative service delivery arrangements is quite comprehensive and provides for considerable flexibility. A few issues remain such as the need for elector assent for the ratification of a partnership agreement. Private partners question the need for ratification of partnership

agreements when municipalities have been empowered to act in other matters without elector assent. Another issue is that the partnership legislation that applies to municipalities does not apply to regional districts. This does not suggest that regional districts are not able to enter into partnership arrangements. Rather, they are more constrained in the assistance they can provide to private partners in the context of partnership agreements.

Questions to consider:

Should public assent be required for partnership agreements?

Should regional districts be given the same powers as municipalities in the structuring of partnership agreements?

Explanation of the possibilities on the legislation. The present legislation provides for a much broader range of arrangements than are presently established in the province. There may be opportunities to more fully promote and explain the range of possibilities the present legislation offers through the preparation of guides and presentations at various conferences and workshops. Some of the opportunities such as inter-municipal agreements are not well understood yet offer tremendous potential.

Question to consider:

Who should take responsibility to fully explaining the opportunities which are presently available in the legislation and what is the best way of doing this?

Developing the competencies to structure partnership and other alternative service delivery arrangements. An important constraint to the design and implementation of innovative service delivery arrangements is the lack of knowledge and experience in both local government and the private sector of these arrangements. Efforts to establish more opportunities for learning, training and knowledge transfer should be considered. These could be carried out by local government organizations such as UBCM, LGMA, GFOA and professional organizations in the accounting, legal, engineering and public administration fields. Partnerships with private industry organizations such as the Canadian Council For Public Private Partnerships and academic institutions should also be considered.

Question to consider:

Who should take the lead in developing learning, training and knowledge transfer opportunities to increase the level of knowledge and competence in structuring partnership and other alternative service delivery arrangements?

Local governments' role in the design and implementation of innovative service delivery arrangements. While the provincial government and others can help set the stage and provide the legislative tools for local government to establish innovative regional and alternative service delivery arrangements, it is the actions of local government which will determine the successful implementation of such arrangements. Local governments should consider the following:

- ◆ Systematically assessing their present approach to the delivery of services using a business case approach to determine whether their present approach is the most cost effective or provides the greatest value to the consumers.
 - ◆ Review their culture, values, mission and policies to assess where the constraints to more innovative, cost effective approaches to service delivery might exist.
 - ◆ Develop the internal capability to assess alternative service delivery arrangements and establish an "organizational home" for this competency.
 - ◆ When considering alternative or regional service delivery arrangements ensure that the best practices for such arrangements are adhered to.
-