



TORONTO STAFF REPORT

March 20, 2003

To: Policy and Finance Committee

From: Chief Administrative Officer

Subject: Designating Water and Wastewater Services as a “Business Unit”

Purpose:

To provide details on designating Water and Wastewater Services as a “Business Unit”, to provide an update on the review of inter- and intra-departmental charges currently underway, and to comment on the implications of the Auditor General’s study on procurement.

Financial Implications and Impact Statement:

Costs associated with implementation of “Business Unit” status in 2003 will be accommodated through the Council-approved 2003 operating budget for Water and Wastewater Services. Future impacts on the operating budgets of Water and Wastewater Services and other programs will be identified through the 2004 budget process.

The Chief Financial Officer and Treasurer has reviewed this report and concurs with the financial impact statement.

Recommendations:

It is recommended that:

- (1) the Water and Wastewater Services Division of the Works and Emergency Services Department be designated a “Business Unit” such that the Division would:
 - remain within the Works and Emergency Services Department (WES) and continue to report through the Commissioner of WES;
 - be eligible to be granted a greater degree of delegated financial and operational authority, as set out in this report;
 - have certain administrative policies and procedures tailored to serve its needs, as set out in this report;
 - have increased ability to determine support service levels;
 - have Service Level Agreements with service providers for all centrally-provided services;

- have greater control over its resources, including revenue streams; and
 - be subject to enhanced, results-oriented performance measurement and stringent reporting requirements;
- (2) to implement Council's designation of Water and Wastewater Services as a "Business Unit", the following actions be undertaken:
- (i) Chapter 71 of the Municipal Code (the Financial Control By-law) be amended to permit the Commissioner of Works and Emergency Services to delegate up to his/her full spending authority to the General Manager of Water and Wastewater, within the same constraints and controls;
 - (ii) Chapter 195 of the Municipal Code (the Purchasing By-law) be amended to permit the Commissioner of Works and Emergency Services to delegate up to his/her full purchasing authority to the General Manager of Water and Wastewater Services, within the same constraints and controls;
 - (iii) the City Policy for the Selection and Hiring of Consulting Services be amended to permit the Commissioner of Works and Emergency Services to delegate up to his/her full authority to engage consultants to the General Manager of Water and Wastewater Services, within the same constraints and controls;
 - (iv) the Commissioner of Works and Emergency Services and the City Solicitor jointly report back to Council prior to the end of the year on what, if any, amendments they recommend be made to any other City By-laws with respect to the "Business Unit" designation of Water and Wastewater;
 - (v) the position of General Manager of Water and Wastewater Services remain unchanged under the "Business Unit" designation;
 - (vi) the Commissioner of Works and Emergency Services, in consultation with the General Manager of Water and Wastewater Services, develop and implement an enhanced system of results-oriented performance measures for Water and Wastewater Services vis-a-vis the increased delegated financial and operational authority which are recommended in this report;
 - (vii) the General Manager of Water and Wastewater Services prepare the unit's first annual Business Plan for submission to Council through the 2004 budget process, said Business Plan to include the multi-year implementation plan for and resource implications of developing greater capacity in:
 - business planning;
 - financial planning, control and reporting;
 - implementation and monitoring of Service Level Agreements;
 - project management;
 - capital project planning, including tender preparation and evaluation;
 - performance measurement and reporting; and

- research and policy development;
 - (viii) the General Manager of Water and Wastewater Services and the Chief Financial Officer and Treasurer report jointly to Council prior to the end of each year with recommendations for the following year's water and wastewater rate in the context of the Water and Wastewater Business Plan;
 - (ix) the General Manager of Water and Wastewater Services and the Chief Financial Officer and Treasurer work together to develop an enhanced system of financial reporting for Water and Wastewater Services;
 - (x) the Chief Financial Officer and Treasurer, when consulting on the use of reserve and reserve funds monies as stipulated by Section 227-4 of Chapter 227 of the Municipal Code (Reserves and Reserve Funds), consult with the General Manager of Water and Wastewater Services on the water and wastewater program area;
 - (xi) the CAO ensure that the relevant Commissioners and heads of City agencies, boards and commissions develop Service Level Agreements with service providers and recipients for all services provided to and by Water and Wastewater Services, to be in place for the 2004 budget year;
 - (xii) the Commissioner of Works and Emergency Services enter into discussions with the other Commissioners and the heads of City agencies, boards and commissions to determine the appropriate recovery charges for water and wastewater services where they are not already in place, the results to be reported by the General Manager of Water and Wastewater Services to the Budget Advisory Committee and Council through the 2004 budget processes; and
- (3) the appropriate City Officials be authorized and directed to take the necessary action to give effect thereto, including the introduction of any necessary bills in Council.

Background:

At its meeting on November 26, 27 and 28, 2002, Council considered but did not adopt a report from the Chief Administrative Officer which provided implementation details for establishing a Municipal Service Board for Water and Wastewater Services (W&WW). Council instead adopted, with amendment, a series of recommendations from the joint Policy & Finance and Works Committee meeting of November 19, 2002. In doing so, Council endorsed a governance model consisting of a special Water Committee of seven Councillors with sole responsibility for water and wastewater matters and appropriate delegated powers, and directed that:

“the Water and Wastewater Services Division be afforded “Business Unit” status within the Works and Emergency Services Department consistent with the model described in the report of the Chief Administrative Officer dated May 31, 2002.”

Council also directed that two reviews then underway give special consideration to the business needs of W&WW; those two reviews were the review of inter- and intra-departmental charges and the Auditor General's study on procurement.

This report responds to Council's direction to report on the details of the "Business Unit", the review of inter- and intra-departmental charges, and the Auditor General's study on procurement. As per Council's direction, the details of "Business Unit" status for Water and Wastewater Services have been developed in consultation with the City's Water Advocate.

A separate report on the Council Governance Review, now scheduled to be submitted to Policy & Finance Committee in May 2003, will address the issue of establishing a special Water Committee with delegated powers as requested by Council at the November 26, 27 and 28, 2002 meeting.

Comments:

1. "Business Unit" Status for Water and Wastewater Services

The CAO's report entitled "Recommended Governance Structure for Water & Wastewater Services" (May 31, 2002) introduced the concept of "Business Unit" status in a description of possible modifications that could be made to the status quo governance option, that is, with W&WW remaining within the City's departmental structure.

It was noted in the CAO's May 2002 report that the City of Toronto has no program in place for establishing "Business Units". Nevertheless, at its meeting on November 26, 27 and 28, 2002, Council directed that Water and Wastewater Services be afforded "Business Unit" status, and this report describes steps that can be taken in that regard to achieve some benefit for the service.

1.1 Water and Wastewater Services

As noted in the CAO's report of May 31, 2002, the rationale for assigning special status to W&WW is based on three significant and unique features of the service:

- W&WW's annual operating and capital funding requirements are met entirely through revenues derived from fees and charges (primarily the water and wastewater rate), capital-from-current contributions and reserve funding, without reliance on the property tax base;
- Ontario Regulation 244/02, Fees and Charges, prohibits the water rate from subsidizing the tax base by prohibiting the revenues collected from exceeding the cost of the service; and
- Provincial Bill 175, the *Sustainable Water and Sewage Systems Act, 2002*, will, once in force, require full-cost accounting, reporting of said costs, and full-cost recovery.

W&WW has recently been the subject of an extensive governance review during which these and other business issues came to the fore. Most critical of those business issues is that of financing the accelerated capital investment needed to address the system's significant infrastructure deficit.

It is therefore recommended that modifications be made to the status quo under which W&WW currently operates and that these modifications be considered to confer “Business Unit” status on W&WW such that W&WW would:

- remain within the Works and Emergency Services Department (WES) and continue to report through the Commissioner of WES;
- be eligible to be granted a greater degree of delegated financial and operational authority, as set out in this report;
- have certain administrative policies and procedures tailored to serve its needs, as set out in this report;
- have increased ability to determine support service levels;
- have Service Level Agreements with service providers for all centrally-provided services;
- have greater control over its resources, including revenue streams; and
- be subject to enhanced, results-oriented performance measurement and stringent reporting requirements.

In conferring “Business Unit” status, Council would be recognizing the unique nature of W&WW, its independent revenue stream (water rates), and the legislative requirement to isolate and manage its costs and revenues.

1.2 Business Issues

A number of business issues faced by W&WW came to light through the course of the governance review undertaken in 2002. These issues can be addressed to varying degrees by implementing specific elements of “Business Unit” status as follows:

(a) Capital Infrastructure Program

A major issue for W&WW is that years of inhibited water rate increases have resulted in a significant infrastructure deficit. The pressure relates mostly to the City’s ageing underground infrastructure but also encompasses important new initiatives such as the implementation of the Wet Weather Flow Management Master Plan. The unit’s capital need projections call for a doubling of capital expenditure for a sustained period of at least 10 years.

W&WW does not have a good “track record” when it comes to spending its Council-approved capital program. It has, over the five years since amalgamation, only managed to spend between 54% and 76% of each year’s approved capital budget. The reasons for this are varied and relate in different degrees to the following key stages for implementing capital projects:

- the capital project planning phase, including identification of the nature and timing of program needs and the preparation of specifications for inclusion in tender documents, Requests for Quotation and Requests for Proposals;
- the administrative processes for issuing tenders, evaluating bids and executing and managing contracts; and

- the financial and contract approvals processes based on stepped levels of delegated authority to staff, Bid Committee, standing committees and Council, as established in the City's Purchasing By-law (Chapter 195 of the Municipal Code).

(i) Capital Projects Planning

W&WW issues over 7,000 purchase orders, departmental purchase orders and blanket orders and over 1,000 construction-related contracts annually, yet the unit as it is currently structured does not seem to interface effectively with the procurement process. In his report on the recently completed Purchasing Review, the Auditor General observes that there is a need for City departments to pay close attention to proper planning and identification of their procurement needs, and to work co-operatively with Purchasing Services and Legal Services in this regard.

For W&WW, the centralized administrative support structure of WES is an additional consideration. W&WW's capital project planning requires W&WW to work in close partnership with the department's Technical Services and Support Services Divisions.

In order for W&WW to achieve better results in its capital program, the unit needs to first develop greater capacity in capital programming and then strengthen its ability to meet the City's requirements for the tendering process. It is not necessary for this increased capacity to reside entirely within W&WW; resources could be provided to W&WW by other WES divisions through purchase-of-service arrangements. In that case, the co-location of such staff within the W&WW "Business Unit" would greatly enhance the value of such an arrangement.

Capacity could be developed through a combination of training of existing staff, reassignment of staff and increase in staff resources. It is recommended that this issue be reviewed by the Commissioner of WES and the General Manager of W&WW, along with the Executive Director of Technical Services and the Director of Support Services, and be addressed in the unit's first Business Plan.

(ii) Administrative Procedures

The administrative procedures relating to the procurement process have been reviewed by the Auditor General, and his draft report makes many recommendations for significantly streamlining and re-focussing the purchasing process. Section 3 of this report provides an overview of the Auditor General's draft recommendations.

The Auditor General is recommending that the organizational structure of the Purchasing and Materials Management Division of Finance be revisited to ensure that it is effective in meeting the Division's objectives, and in doing so the feasibility of moving to a portfolio-based approach to improve customer service be considered. While it is suggested that there could be some value to this approach, W&WW, as a "Business Unit", might benefit further from having its Buyers co-located within the unit. This would allow the Buyers to gain greater insight and knowledge about the unit and its procurement needs, as well as

general knowledge about the sector. Although the Auditor General has not explicitly recommended co-location, the Chief Financial Officer and Treasurer could, during the course of the organizational structure review, give consideration to co-locating the Buyers for Water and Wastewater Services within W&WW.

(iii) Approvals Process

The Auditor General's draft report recommends that no change be made to the levels delegated to Bid Committee or standing committees, and recommends that the proposed Water Committee be granted the same authorities to award contracts as standing committees. That authority is for the awarding of contracts between \$2.5 and \$5.0 million, where the award is based on lowest price. Contracts for amounts higher than \$5.0 million, and contracts for any amount where the award is based on criteria other than lowest price, would continue to require Council approval.

It is the opinion of the City Solicitor that City Council can delegate to staff and/or committees only those matters that are administrative in nature, that is, matters where specific, non-discretionary decision-making criteria (such as "lowest price") are the only determining factors. This opinion supports the current requirement for all awards based on criteria involving any discretion whatsoever to be approved by Council.

(b) Operational Issues

(i) Delegated Authority

The Purchasing By-law authorizes department heads to make awards without the involvement of Purchasing Services if they are within the departmental direct purchase limit (\$7,500.00). In addition, the Purchasing By-law and the Financial Control By-law (Municipal Code Chapter 71) authorize department heads to make purchases beyond the departmental direct purchase limit without the involvement of Purchasing Services in cases where:

- an event occurs that is determined by the CAO or the department head to be a threat to public health, the maintenance of essential City services, the welfare of persons or of public property, the security of the City's interest, or financial liability arising from environmental conditions; and
- the occurrence requires the immediate delivery of goods and services and time does not permit the department to allow the Purchasing Agent (the Director of P&MM or his or her designate) to acquire such goods and services.

As a reflection of W&WW's "Business Unit" status, it is recommended that Municipal Code Chapter 195 be amended to permit the Commissioner of WES to delegate this authority to the General Manager of W&WW.

The City's Financial Control By-law (Municipal Code Chapter 71) authorizes department heads to commit funds up to \$500,000.00, provided that purchasing procedures have been followed and funds have been provided in the interim operating budget, operating budget

or capital budget. The same section of the By-law (71-11B) authorizes department heads to delegate spending authority of up to \$250,000.00 to a director or general manager. The Commissioner of WES regularly delegates that authority.

The Financial Control By-law also authorizes department heads to incur over-expenditures of up to 10%, but not beyond \$500,000 on approved capital projects without seeking approval from the appropriate standing committee, provided the excess funds are available in another capital project to fund the over-expenditure.

As a reflection of W&WW's "Business Unit" status, it is recommended that the relevant sections of Chapter 71 of the Municipal Code be amended to permit the Commissioner of WES to delegate to the General Manager of W&WW the same level of financial authority as the department head.

The City's Policy for the Selection and Hiring of Consulting Services authorizes both department heads and general managers to engage consultants up to \$250,000.00 where approved procurement procedures regarding competitive bidding have been followed. The policy authorizes department heads to sole-source the engagement of consultants up to \$50,000.00 where the application of normal purchasing procedures is not possible, but general managers are only authorized to sole-source consultants up to \$25,000.00 under the same conditions.

As a reflection of W&WW's "Business Unit" status, it is recommended that the Policy for the Selection and Hiring of Consulting Services be amended to permit the Commissioner of WES to delegate to the General Manager of W&WW the ability to sole-source consultants up to \$50,000.00 where the applications of normal purchasing procedures is not possible.

(ii) Service Levels and Service Level Agreements

W&WW is fully integrated into the City structure and bound by City policy and practice to purchase services from various divisions in WES, Corporate Services and Finance. W&WW has at times expressed dissatisfaction with services received, although service providers have worked hard to meet W&WW's needs while striving to achieve efficiencies and effectively serve a broad spectrum of City operations.

Under the terms of the "Business Unit" designation, the General Manager of W&WW is delegated a greater degree of authority over the operation of W&WW but assumes a greater degree of responsibility for the results.

The General Manager of W&WW should determine and document the unit's upcoming service requirements in the course of developing formal Service Level Agreements (SLAs) with internal service providers each year. The internal service providers should determine the manner in which those needs can best be met and the costs of meeting them. The Agreements will specify service standards and costs, and clarify roles and expectations.

Similarly, Service Level Agreements should be implemented for the services that W&WW provides to other units (i.e., catch basin cleaning).

It is recommended that the relevant Commissioners and heads of City agencies, boards and commissions ensure that SLAs for all services provided to and by W&WW are in place for the 2004 budget year.

It is further recommended that resource requirements, both staffing and systems, for developing, maintaining and monitoring SLAs be reviewed by the Commissioner of WES and the General Manager of W&WW and addressed in the unit's first Business Plan.

(c) Inter- and Intra-departmental Charges and Recoveries

As noted previously, Provincial legislation prohibits the revenues derived from fees and charges for water consumption and use of a sewage system to exceed the cost of providing water and sewage services (O. Reg. 244/02). It is therefore imperative that the calculation of "costs" be appropriate. Bill 175, the *Sustainable Water and Sewage Systems Act, 2002*, defines full cost to include: source protection costs, operating costs, financing costs, renewal and replacement costs, and improvement costs associated with the operation of water and wastewater systems. Operating costs should include both the costs incurred directly by the unit (salaries, etc.) as well as the costs to the unit of purchasing required goods and services.

These legislative requirements underscore the need to clarify and refine the inter- and intra-departmental charges and overhead allocations applied to W&WW for services provided. Section 2 of this report provides an update on the review that is currently underway. At issue is not only the appropriateness of the current charges, but also the determination of the cost to be charged for those services which are currently provided at no cost. The full-cost recovery requirements of Bill 175 necessitate all relevant costs be attributed to W&WW.

With regard to recoveries for services it provides, W&WW currently receives payment for services supplied to some, but not all, City departments, agencies, boards and commissions. Recognizing that there may be reasons to take different approaches to recovery charges for different services, it is recommended that the Commissioner of WES work with the other Commissioners and heads of City agencies, boards and commissions to implement appropriate recovery schemes for water and wastewater services received.

The results of the review of inter- and intra-departmental charges and of the implementation of recovery measures will be reported out through the 2004 budget process.

(d) Special Projects

While W&WW delivers regular, ongoing services, the operations are routinely overlaid with special projects of various dimensions. Some projects are site-specific, involving intensive local community consultation; others, like the Wet Weather Flow Management Master Plan, are city-wide, with cross-jurisdictional impacts, and involve years of study and consultation prior to embarking on long-term project implementation.

Other projects, such as Works Best Practices (WBP) and District Service Improvements (DSI), are internal to the organization, and require significant resources to plan, implement, monitor and evaluate.

The organizational structure of W&WW as it currently exists does not include a central strategic planning or project management function. Rather, special projects are planned and managed variously by operations staff and outside consultants.

The DSI consultants' report, approved by Council in July 2002, set out some proposed changes to the internal organizational structure of W&WW, and included the establishment of a Special Projects function reporting directly to the General Manager. This function should now be reconsidered in light of the designation of W&WW as a "Business Unit", which supports the need for increased capacity in project management, research and policy development.

As with the organizational issues raised regarding capital project planning, project management capacity could be developed through a combination of training of existing staff, reassignment of staff and increase in staff resources. It is not necessary for this increased capacity to reside entirely within W&WW; resources could be provided to W&WW by other WES divisions through purchase-of-service arrangements. In that case, the co-location of such staff within the W&WW "Business Unit" would greatly enhance the function.

It is recommended that these issues be reviewed by the Commissioner of WES and the General Manager of W&WW and addressed in the unit's first Business Plan.

(e) Infrastructure Financing

The operating and capital requirements of W&WW are funded by revenues generated by water and wastewater fees and charges. Revenues are allocated to both operating and capital expenditures. Capital programs are financed by contributions to reserves and reserve funds.

In the CAO's report of May 31, 2002, it was noted that the "modified status quo" option would not provide avenues for alternative financing arrangements, as might a stand-alone, municipally-owned corporation. It was also noted that rate-setting and reserve fund management would remain under Council's purview. Nevertheless, there are still three issues related to infrastructure financing that can be addressed within the "Business Unit" designation for W&WW.

(i) Rate Setting and Revenues

Council annually considers reports recommending the following year's water and wastewater rate. In the early years following amalgamation, these reports were prepared by the Finance Department. Since 2002, this has been a joint report, prepared by the CFO in consultation with the Commissioner of WES and the General Manager of W&WW. The current report provides rate increase options based on a Finance Rate model that incorporates factors such as water consumption projections, expenditure pressures and analysis of capital financing through debenture issuance. The report also provides rate comparisons to other municipalities.

To more fully inform Council's decision-making on the water and wastewater rate, the rate recommendations should also reflect W&WW's strategic and business plans, including its long-term capital needs assessment, operational plans, conservation efforts, etc. Projected rate forecasts should form part of W&WW's annual Business Plan in relation to the unit's long-term expenditure requirements.

It is therefore recommended that the General Manager of Water and Wastewater Services and the Chief Financial Officer and Treasurer report jointly to Council prior to the end of each year with recommendations for the following year's water and wastewater rate in the context of the Water and Wastewater Business Plan.

In addition, corporate financial reporting should be enhanced to provide tools for the General Manager of W&WW to monitor revenue flows on an ongoing basis in order to be able to make operational adjustments in response to variances as they are experienced. It is therefore recommended that the General Manager of W&WW and the Chief Financial Officer and Treasurer work together to develop an enhanced system of financial reporting for W&WW.

(ii) Reserves and Reserve Funds

As Justice O'Connor pointed out in Part 2 of the Walkerton Inquiry Report, providing water and wastewater services from within a City's administrative structure leaves the door open for the possibility of water-related revenues being diverted to other purposes. One way that that can happen is through the withdrawal of funds from reserve and reserve fund accounts for purposes other than the designated purpose of the accounts. The City Auditor is currently concluding a Council-directed review of all additions to and withdrawals from W&WW reserves and reserve funds since amalgamation to determine to what degree this practice may have been manifest.

It is crucial that the Chief Financial Officer and Treasurer ensure that the funds in the W&WW reserves and reserve fund accounts, derived from fees and charges for water consumption and sewer use, are used solely for the purposes of supporting the water and wastewater systems. Section 227-4 of the Reserves and Reserve Funds By-law (Chapter 227 of the Municipal Code) states that the Treasurer shall make his/her determination as to whether the use of reserve and reserve fund monies is appropriate "in consultation with the

program area”. It is recommended that, in the case of the use of monies from water and wastewater reserves and reserve fund accounts, the Treasurer consult with the General Manager of W&WW.

1.3 Accountability

Any change to any City program or service must address the issues of accountability and public transparency to ensure no erosion of these fundamental principles. As a direct reflection of “Business Unit” status and its attendant increase in delegated authority, changes respecting W&WW should be implemented in the following areas to guarantee continued accountability:

(a) Performance Measures

In order to reflect the responsibilities tied to the increases in delegated authority being granted W&WW, a system of detailed, results-oriented performance indicators needs to be developed and implemented. Each year’s Business Plan can then set out targets based on these indicators, and the unit’s performance can be assessed against these targets.

Measures should not merely be transactional (i.e., m³ of water distributed annually), but must reflect the results of efforts expended to improve the system and the service. Indicators should be developed to measure results like customer satisfaction, cost savings achieved, and % of capital program implemented.

It is therefore recommended that the Commissioner of WES develop a system of appropriate performance indicators in conjunction with the General Manager of W&WW. It is also recommended that resource requirements for developing and implementing an enhanced system of performance indicators be reviewed by the Commissioner of WES and the General Manager of W&WW and addressed in the unit’s first Business Plan.

(b) Reporting Requirements

The City’s Corporate Management Framework, approved by Council in May 1998, recommended the development of multi-year plans for all programs as part of the framework to translate Council’s strategic goals into the planning and delivery of services. W&WW’s annual budget submission to Council needs to take the form of a Business Plan which includes strategic goals and directions, business case analyses for new programs, and meaningful performance targets. The Business Plan should also include operating and capital budgets, multi-year capital plans, and revenue projections.

It is recommended that the General Manager of Water and Wastewater Services prepare the unit’s first annual Business Plan for submission through the 2004 budget process. In addition to an annual Business Plan, W&WW should develop a regular reporting schedule to monitor its performance against the targets set in the Business Plan. This could take the form of monthly reports to the committee of Council to which it reports.

It is recommended that resource requirements, both staffing and systems, for enhanced business planning and financial planning, control and reporting for the unit be reviewed by the Commissioner of WES and the General Manager of W&WW and addressed in the unit's first Business Plan.

Consideration should be given at some future date to preparing and submitting the W&WW Business Plan, including operating and capital budgets, at the same time the water and wastewater rate-recommendation report is submitted to Council.

(c) Council Authority

The W&WW "Business Unit" will report through the Commissioner of WES to a Standing Committee (to be determined through the Council Governance Review currently underway). That committee will consider reports from W&WW and make recommendations to Council. Because the W&WW "Business Unit" remains within the City's core administrative structure, Council retains its oversight role as well as full authority over all public policy issues relating to water and wastewater services.

In order to support the development of sound public policy with respect to its services, the unit needs to develop greater capacity in research and policy development. It is recommended that this issue be reviewed by the Commissioner of WES and the General Manager of W&WW and addressed in the unit's first Business Plan.

(d) Advisory Committees

Another mechanism for ensuring and strengthening accountability for the W&WW "Business Unit" is the continued use of citizen advisory committees. W&WW currently involves residents and technical experts on a variety of site- and project-specific committees. Meaningful public input into project planning and policy development provides a necessary counterbalance to the increased delegated financial and operational authority of the "Business Unit" model.

At its meeting of November 26, 27 and 28, 2002, Council directed that its preferred governance model of a special committee for water and wastewater include two advisory committees reporting to the special committee. One is to be a technical advisory committee providing advice on the operational needs of W&WW, and the other is to be a citizen advisory committee representing a wide range of stakeholders.

The upcoming report on the Council Governance Review will comment on the implementation of the special committee cited by Council as its preferred governance option for water and wastewater services. Terms of Reference for advisory committees as directed by Council will be developed once the reporting relationship for W&WW is confirmed. In the meantime, existing advisory committees will continue to provide valuable advice and assistance to W&WW.

1.4 Implementation

Initial implementation of “Business Unit” status can start immediately and be in place for the 2004 budget year. Development of Service Level Agreements for internally-provided services, for example, should be complete by the end of the year. Similarly, amendments to the Municipal Code and revisions to City policies to increase the delegated financial and operational authority of the General Manager can be made in 2003 to take effect in 2004. In addition to the Municipal Code amendments recommended in this report, the Commissioner of WES and the City Solicitor should jointly report to Council prior to the end of the year on any amendments they recommend be made to other City By-laws to reflect W&WW’s status as a “Business Unit”. It is recommended that the position of General Manager of W&WW remain unchanged under the “Business Unit” designation. The current General Manager of W&WW would continue as General Manager of the W&WW “Business Unit”.

Implementation of the balance of the “Business Unit” features will require significant time and effort. This report proposes a three-year roll out, from 2004 to 2006, of organizational and administrative changes needed to effectively transform the unit.

This report has identified the need for W&WW to increase its capacity in business planning, financial planning, control and reporting, project management, capital project planning, tender preparation and evaluation, performance measurement and reporting, implementation of Service Level Agreements, research and policy development. The need should be addressed through the unit’s business- and financial-planning exercises. In each case it will be necessary to determine:

- the specific skill sets and expertise required;
- the appropriate location for these skills (in W&WW, elsewhere in WES or in another location);
- training and development needs and costs;
- the cost to increase the staff complement, if required;
- other resource requirements; and
- a priority-based implementation schedule.

1.5 Evaluation

Because “Business Unit” designation is a new undertaking for the City of Toronto, it is important that its effectiveness and its impacts be monitored. The CAO and the Commissioner of WES will jointly monitor and review the results of the changes implemented.

2. Inter- and Intra-departmental Charges

Bill 175, the *Sustainable Water and Sewage Systems Act, 2002*, will, when it comes into force, require full-cost reporting and full-cost recovery for water and wastewater systems across the Province. This requirement makes it crucial for W&WW to have an accurate and clear accounting for all its costs, including the costs charged to it for services provided by other City divisions and departments. Regulations pertaining to Bill 175 will set out the Provincial

framework for full-cost accounting, asset management and full-cost recovery. It is expected that those regulations will be published towards the end of 2003.

It is also imperative to be accurate in the costing of services charged-back to W&WW because of the legislated prohibition on revenues from the Water Rate being used to subsidize the tax base (Ontario Regulation 244/02, Fees and Charges).

As part of the W&WW governance review undertaken in 2002, the CFO and Treasurer initiated a review of inter- and intra-departmental services charges for W&WW, including a review of the array of services provided and the costing methodologies used. Finance staff have been working to complete an inventory of support services and cost allocation methods. Where charges are not currently in place, appropriate cost-drivers are being identified. Simultaneously, W&WW staff have been reviewing current service levels to determine if adjustments are desired in any specific areas.

The next phase of the review will be discussions between W&WW and the service-providing units to confirm expected levels of service. The cost to be charged for those services will then be determined and made explicit in Service Level Agreements to be signed by W&WW and the service providers, in keeping with the designation of W&WW as a "Business Unit". The intent is for this review to be complete and to have Service Level Agreements in place for 2004.

The review of inter- and intra-departmental charges is being conducted concurrent with two related corporate-wide reviews:

- a review of the City's use of inter- and intra-departmental chargebacks for budgeting purposes; and
- a review of the allocation of indirect costs and corporate overheads being undertaken in response to the Provincial requirements for MPMP and other costing and benchmarking needs.

The results of these corporate-wide reviews may impact the determination of cost for services provided to W&WW beyond impacts resulting from changes in levels of service.

3. Auditor General's Study on Procurement:

In November 2001, the Administration Committee requested a review by the Chief Administrative Officer, in conjunction with the City Auditor, of the City's purchasing function. The review was to include, but not be limited to, an examination of the role, responsibility, authority, and reporting structure of the Purchasing and Materials Management Division of the Finance Department. Purchasing procedures, as well as quality assurance and internal control measures, were to be assessed in terms of their effectiveness in ensuring a fair and competitive and cost effective procurement process that meets departmental operational and business requirements. In the course of this review, the Purchasing and Financial Control By-laws were also to be reviewed.

The CAO and City Auditor subsequently agreed that the Auditor General should undertake the purchasing review. At its meeting of November 26, 27 and 28, 2002, Council directed the

Auditor General to include in this review consideration of the special procurement needs of W&WW.

The Auditor General has recently completed the purchasing review and will present his report to the Audit Committee in April 2003. The current draft of the report recommends a number of administrative changes which, if implemented, will effectively address issues raised by W&WW and other operating departments in recent years. Accordingly, the Auditor General is not recommending any W&WW-specific modifications to the procurement process.

Among others, the following recommendations in the Auditor General's report will help resolve issues raised by W&WW and other operating units:

- roles and responsibilities of Purchasing Services staff vis-à-vis departmental staff be more clearly delineated and documented;
- the customer-service aspect of Purchasing Services be enhanced;
- Purchase Cards be issued to front-line staff to facilitate routine purchases from pre-approved suppliers; and
- the process for single-source purchase approvals be simplified.

The Auditor General is recommending no change to the bid review and approvals processes, nor to the levels of authority granted to departmental staff, the Bid Committee and Standing Committees.

Conclusion:

Providing Water & Wastewater services with specific delegated authorities and tailoring certain administrative policies to their needs addresses a number of business issues which have been cited as impeding the efficiency and effectiveness of the unit. Changes to the procurement process being recommended by the Auditor General will help streamline that process and assist W&WW to meet their ambitious capital program targets. Service Level Agreements will document the services being provided to W&WW by other City divisions, departments, agencies, boards and commissions, and at what cost. As a counterpart to the review being undertaken of inter-and intra-departmental charges, a system of recoveries for water and wastewater services provided to tax-supported programs should be implemented.

Also significant is the identified need for increased capacity in W&WW a number of areas, such as capital projects planning, policy development, project management, and business- and financial-planning, among others. The organizational redesign of W&WW will be key to the success of its designation as a "Business Unit".

As this is a new initiative for the City of Toronto, it is important that the results of conferring "Business Unit" status on this division be monitored. This can be accomplished through performance reviews against targets set through the Business Plan and by the CAO and the Commissioner of WES reviewing the results of the changes implemented on a regular basis.

Staff from Water and Wastewater Services, WES, Finance, Legal Services, Human Resources, Corporate Services and the Auditor General's Office have been consulted in the writing of this report.

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