



Collingwood Public Utilities



**Presentation to
Town of Collingwood
Council**

Services Agreement Review



January 5th, 2015



Beacon 2020, Inc.
Smart Solutions Delivering Capacity & Efficiency in the
Public Sector



“Thank You” to All Those who Participated in the Review

- We want to thank everyone for their time in the 25 interviews and discussions we conducted as well as their time to help locate and provide us with the more than 60 documents used in the review
- Everyone was open and participated fully
- Everyone shares a passion for providing services valued by the rate payers and citizens of the Town of Collingwood

Rienk de Vries and Sandy Scott

Disclaimer

- The information contained in this document is of a general nature and not intended to address the circumstances of any particular individual.
- Although we have tried to provide accurate information, it is based solely on information from the documents provided and interviews conducted, and there is no guarantee that the information is accurate or complete as of the date it is received or that it will continue to be accurate in the future.
- Before using this information for a specific purpose, appropriate professional advice should be sought.

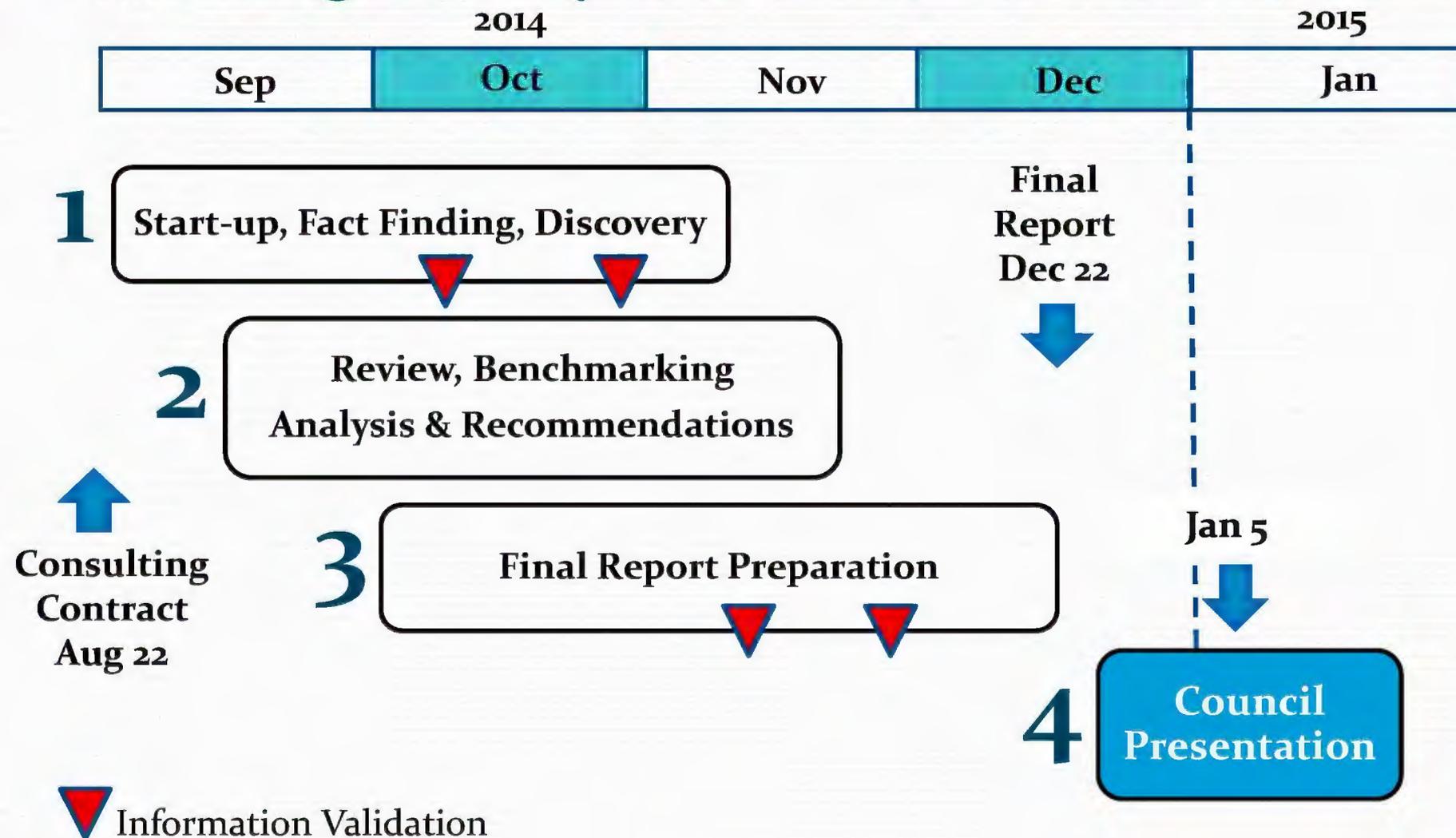
Beacon 2020, Inc. and True North Consultants

Clear Services Definition & Strong Performance Management Lead to Value-For-Money

1. Thorough Independent Review Process Conducted
2. Findings:
 - Agreement Does Not Represent Service Relationship
 - Lack of Performance Management of Agreement's Services Makes it Difficult to Determine Value-For-Money
3. Recommendations for Moving Forward & Delivering Clear, Well-Managed Core Water, Wastewater and Business Support Services in Collingwood
4. Next Steps
5. Conclusion

1

Thorough Independent Review Process



Multiple Sources of Information

1. Documentation associated with the Agreement (60+)
2. Interviews with key stakeholders (20+)
3. Observations
4. External sources of comparative data (i.e. benchmarking)

2

Agreement Does Not Represent the Service Relationship

<p><u>CONFIDENTIAL</u></p> <p>COLLINGWOOD PUBLIC UTILITIES COMMISSION</p> <p>- and -</p> <p>COLLUS SOLUTIONS CORP</p>
<p>SERVICES AGREEMENT</p>
<p>January 1, 2003</p>

- Represents services provided by Solutions to CPU
provide supervisory, operations, engineering, finance, administrative and other services to PUC ... at a base cost of \$670,000 for the first year of the agreement – with an automatic 3.5% per annum increase
- Describes rental of CPU computer equipment by Solutions⁽¹⁾
rent all computer hardware and software⁽²⁾ from PUC at a rate of \$84,000 for the first year of the agreement – with an automatic 3.5% per annum increase
- Signed June 1, 2003

(1) Moved to separate contract 2002-2003

(2) Billing & Collection System

2

Services in the Agreement

Services in Agreement	Service Delivered
Reconnect & Collection	YES
Meter Reading	YES
Billing & Collecting	YES
Customer Service	YES
Data Tracking (Information Technology?)	YES
Accounting	YES
Engineering Services	NO
Planning & Necessary Maintenance	NO
Contracting with Developers, Customers & Others	NO
Subcontracting Services	NO
After Hours Response (crew response)	NO
Normal Hours Response	NO
Emergency Preparedness (electricity only)	NO
Provision of Supervisory Services	NO
Management Services: HR	YES
Management Services: Policy Development	YES
Management Services: Regulatory Assistance	YES
Management Services: Reporting	YES
Activity: Capital Construction Activities	NO

Payments for the Services

- Original cost of services for 2003 set at \$670,000 (+3.5%)
- First recorded payment (2004) was \$544,000
- Payments actually based on cost allocation of Solutions staff costs,
 - Clients were CPU, Town and Collus Power / Collus PowerStream
 - Initial estimates for budgeting based on previous year's actuals – approximately 40% to water, 60% to electricity distribution
 - Charged at 1/12th of previous year's total each month, then adjusted based on time estimates by staff at end of year
 - Recently time management software has been implemented
 - No documented record of the cost allocation model until recently
 - Allocations to water ranged from 38% (2004) to 43% (2013)
 - Allocation for 2014 was around 33% and 2015 is projected at 34%

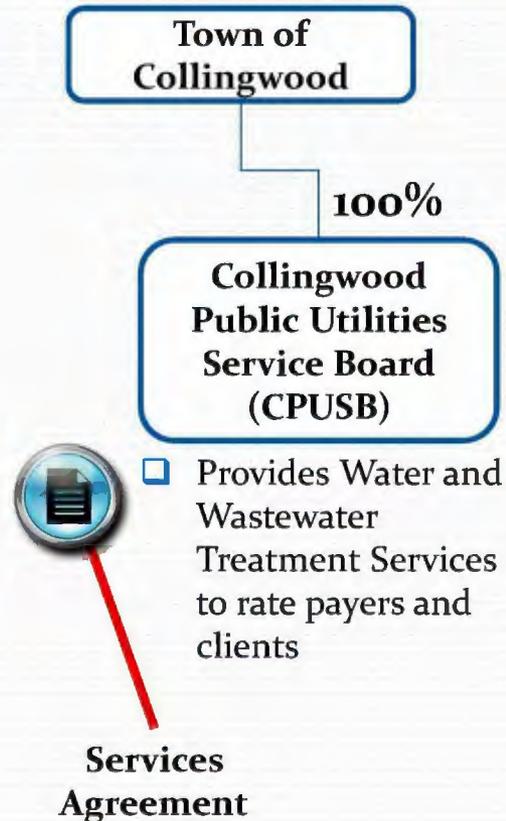
2

Governance of the Agreement

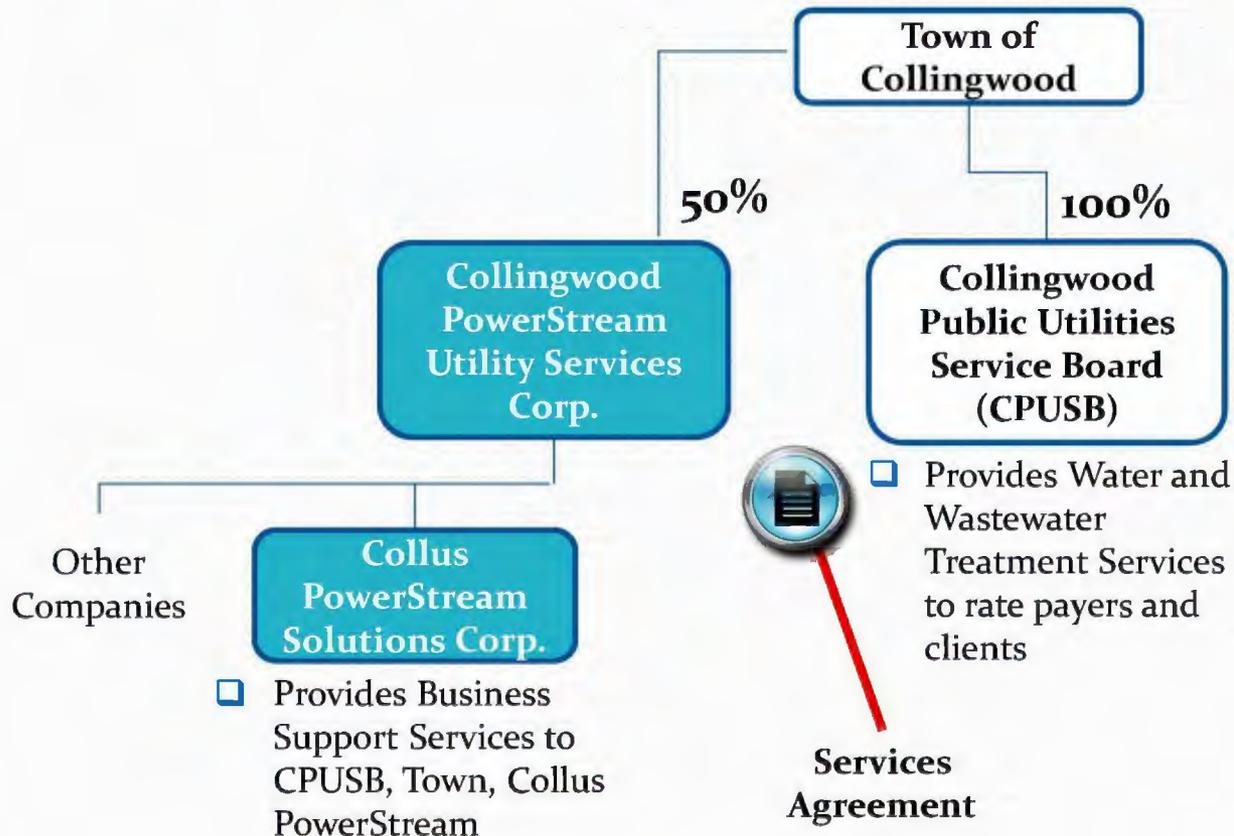


**Services
Agreement**

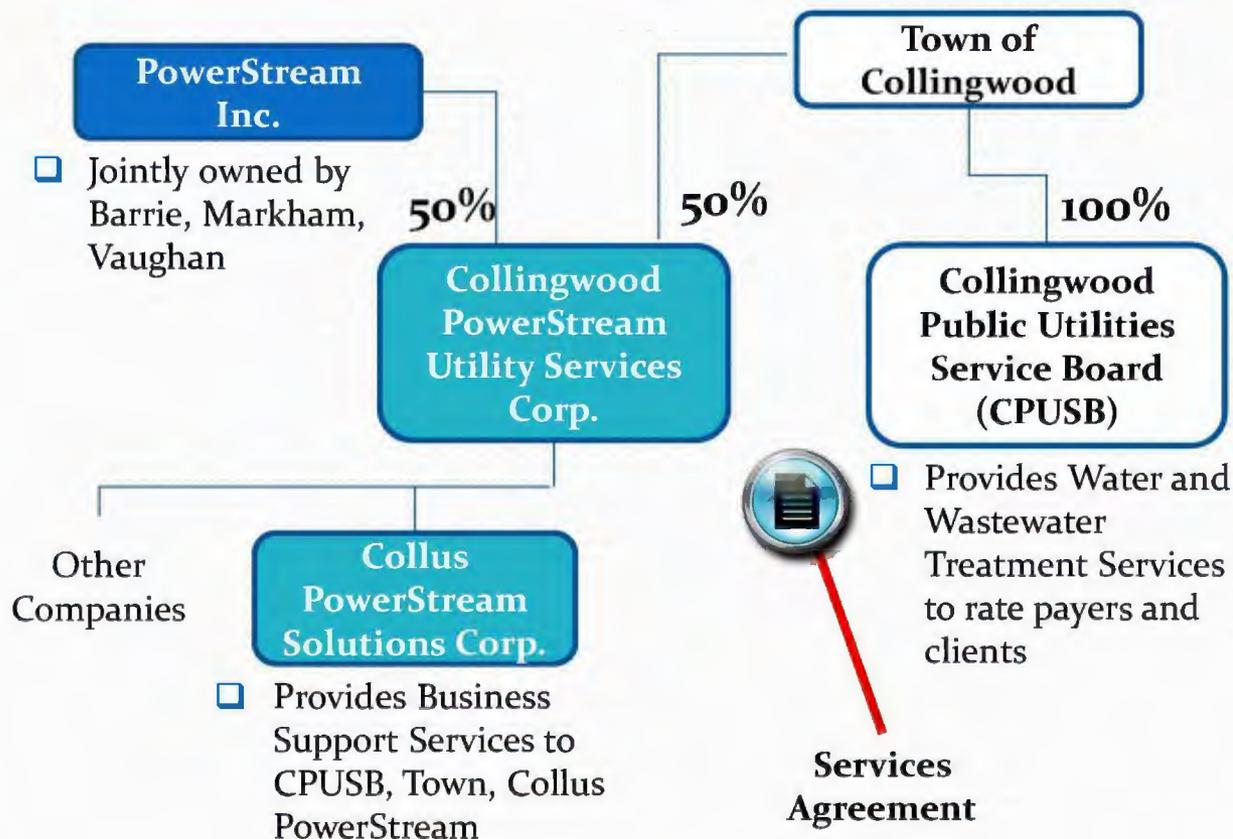
Governance of the Agreement



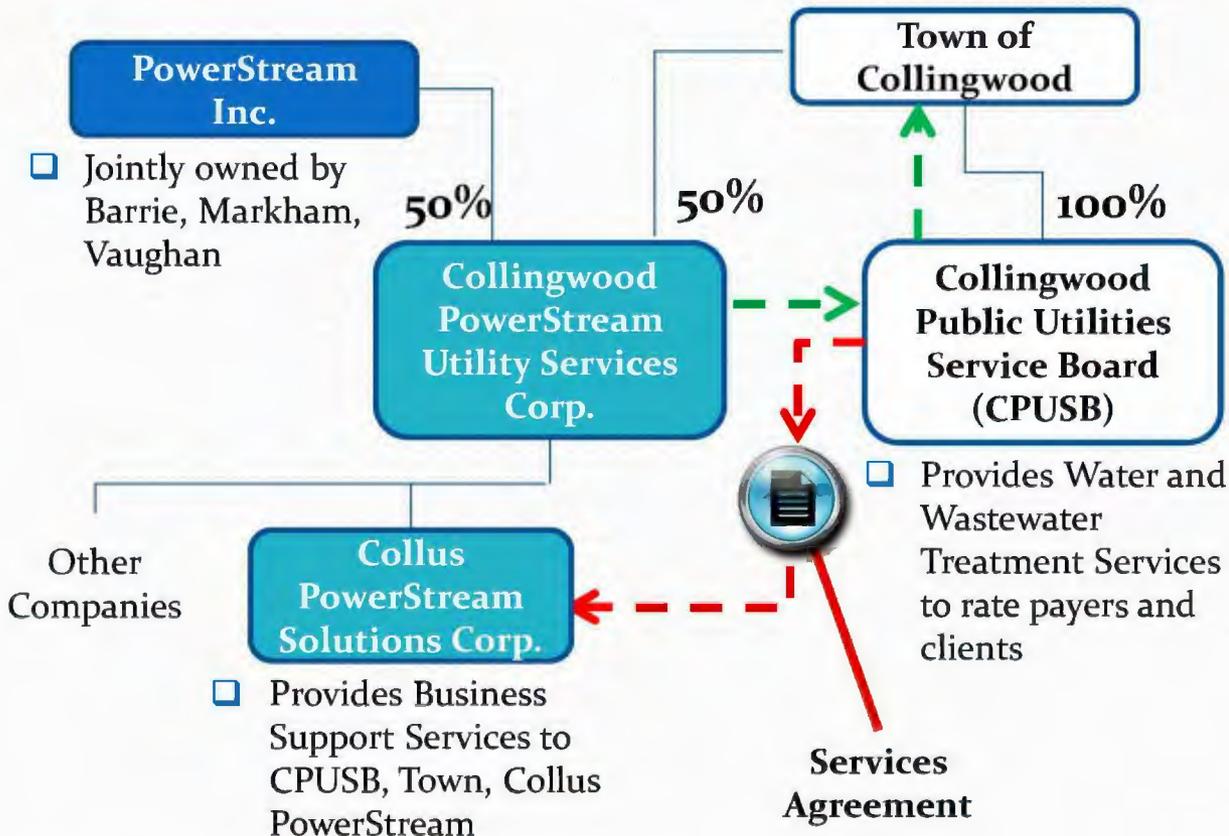
Governance of the Agreement



Governance of the Agreement

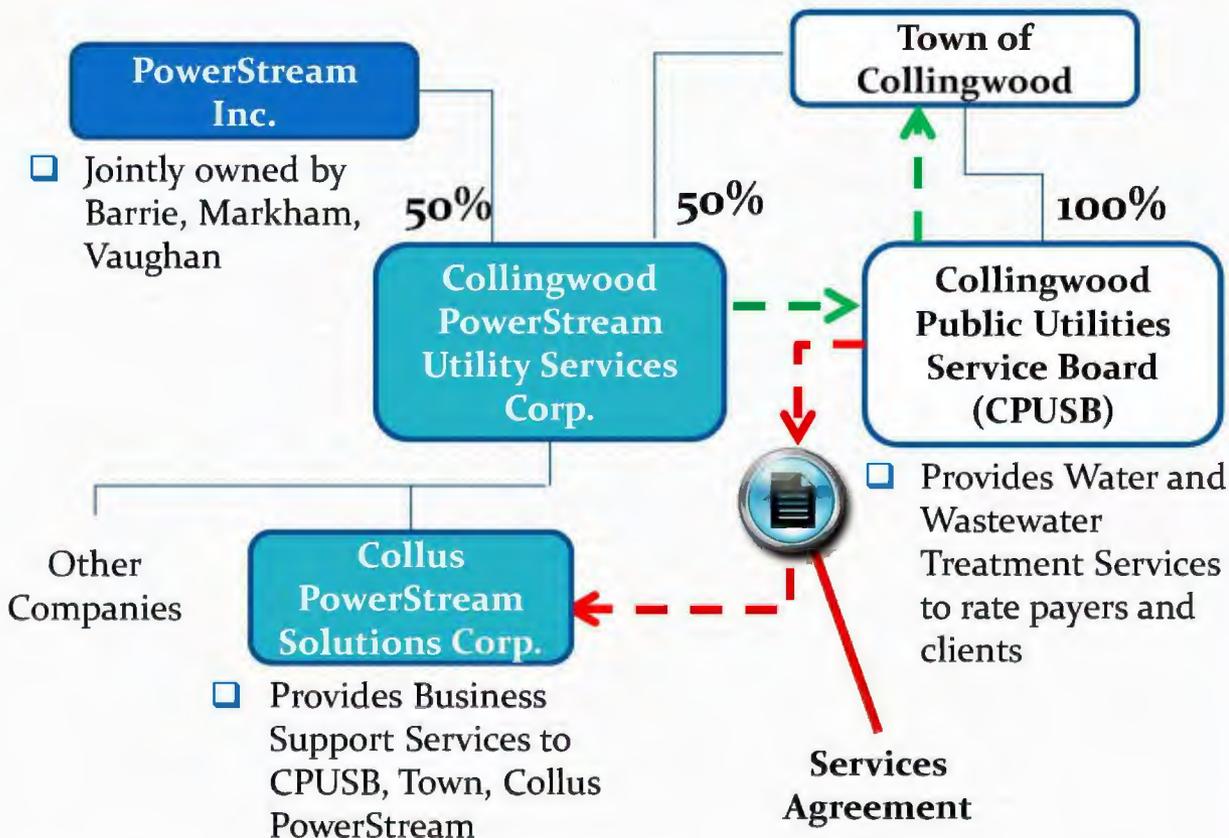


Governance of the Agreement



- - ->** Lease Payment \$216,000 (2013)
- - ->** Computer Payment \$21,792 (2013)
- - ->** Service Payment \$921,676 (2013)

Governance of the Agreement

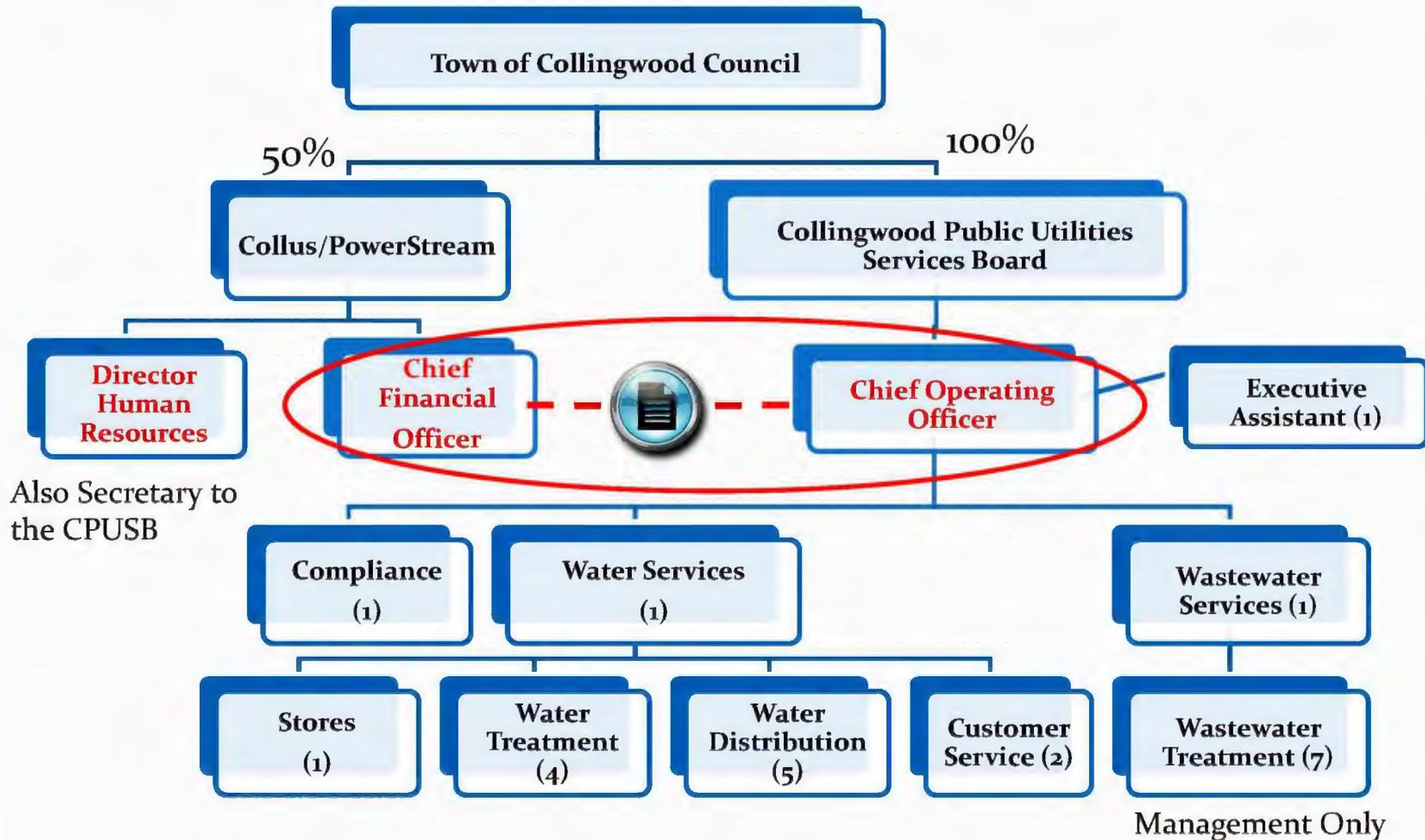


- CPUSB Board Voting Members (5)**
- * Mayor ⁽¹⁾
 - * 1 member appointed by Council
 - * President & CEO of Collus PowerStream
 - * 2 other members
- Updates on CPU business ⁽²⁾**
- * Mayor
 - * Staff presentations at Council
 - * President & CEO emails
 - * COO Business Plan
 - * Board minutes

- - -> Lease Payment \$216,000 (2013)
- - -> Computer Payment \$21,792 (2013)
- - -> Service Payment \$921,676 (2013)

- (1) Also on Collus PowerStream Board
(2) By-law 2012-096 and website

Management of the Agreement



Performance Management of the Services

- No record of any performance management reporting to CPU by Solutions
- Agreement appears to be for an electricity distribution client – NOT a water client
- Section 3.03: Performance Standards
 - a) ***“SERVCO will endeavour to perform in the top quartile of industry standards”***
 - b) ***“SERVCO will make all reasonable efforts to meet or exceed performance measures established by the PUC”***
 - c) ***“PUC/SERVCO commit to attempting to provide distribution price stability for customers”***
 - d) ***“SERVCO will use their bid policies to ensure that the most efficient purchases are made”***
- No market-testing performed since start of the agreement
- Limited benchmarking evidence suggests:
 - Overall service delivery costs for water (CPU) close to the industry median across Canada⁽¹⁾
 - Customer billing costs (Solutions) double the median at \$22.90 per customer connection⁽¹⁾
 - IT services (Solutions) cost-effective at approximately 1 FTE

⁽¹⁾ National Water & Wastewater Benchmarking Initiative – 2010, 2011, 2012

Status of Agreement is Uncertain

- Opinion #1: Gaviller & Company LLP Chartered Accountants – 2013 Year End Audit letter to CPUSB – May 12, 2014: ***“during the course of our audit we reviewed the services agreement between the service board and Collus PowerStream Solutions Corp. The term of this agreement ended January 1, 2005 and there is no indication an updated agreement exists”***
- Opinion #2: Aird & Berlis LLP Barristers and Solicitors – email to John Brown and Sara Almas – August 10, 2014: ***“based upon my review of the materials ... I am of the opinion that the Agreement appears to be still in effect”***
- In our opinion, the status of the Agreement is uncertain at best. Regardless of its status the Agreement does not properly represent the service relationship between Solutions and CPU

2

Summary Findings: Agreement is Unrepresentative - Further Impacted by 50% Sale of Collus PowerStream

- Agreement does not reflect actual services delivered, may have expired
- Payments based on lumped staff time allocation, not fee for services delivered
- Solutions staff passionate and working hard, new time management system recently added
- Governance change in 2012 caused apparent conflicts of interest and role confusion
- Lack of performance management made it difficult to determine value-for-money
 - No record of service performance management or reporting
 - Few relevant benchmarking comparators
 - No market-testing
- Difficulty finding documentation and lack of stakeholder awareness of the Agreement
- Recent cost allocation adjustments corrected previous inappropriate charges
- Lack of water and wastewater identity, little independence from Collus PowerStream

3

Interim Recommendations Provide Stability

- Distribute Final Report to Interview Participants
- Agree interim stage from January 1, 2015 to December 31, 2015:
 - Assume agreement is still in force
 - Retain CPUSB governance of water and wastewater
 - Change voting Board members, increase Town's administrative oversight and transparency
 - Provide notice to Solutions before June 1, 2015, expire current agreement by January 1, 2016

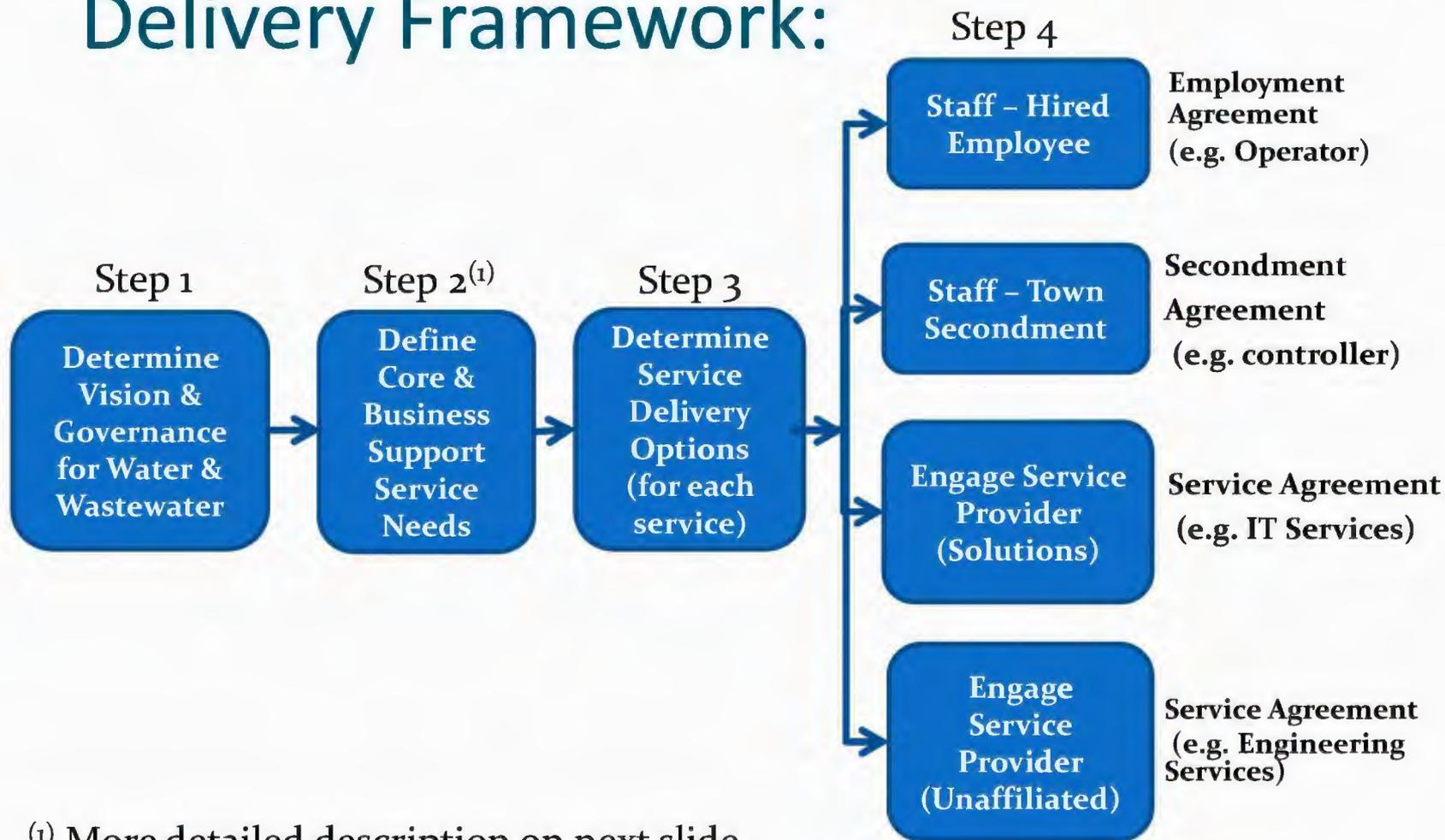
3

Long-Term Recommendations Provide Value-For-Money

- Start with first principles for water & wastewater: Apply the Competitive Service Delivery Framework
 - Set vision for water & wastewater
 - Define services and service performance needs
 - Decide best delivery method
 - Establish agreement(s) if required (as per Report APPENDIX 1)
 - Manage service performance (as per Report APPENDIX 4)
- Discuss opportunities for shared efficiencies with PowerStream
- Reflect good principles & best practices in any future service relationship(s)
- Apply fee-for-service type model, not cost-allocation in agreements with service providers
- Require monthly performance reporting and periodic benchmarking for business support services regardless of provider
- Build clear, strong identity for *CPU* / water and wastewater services
 - “Separate” water and wastewater from electricity distribution
 - Clarify responsibilities for wastewater service delivery

4

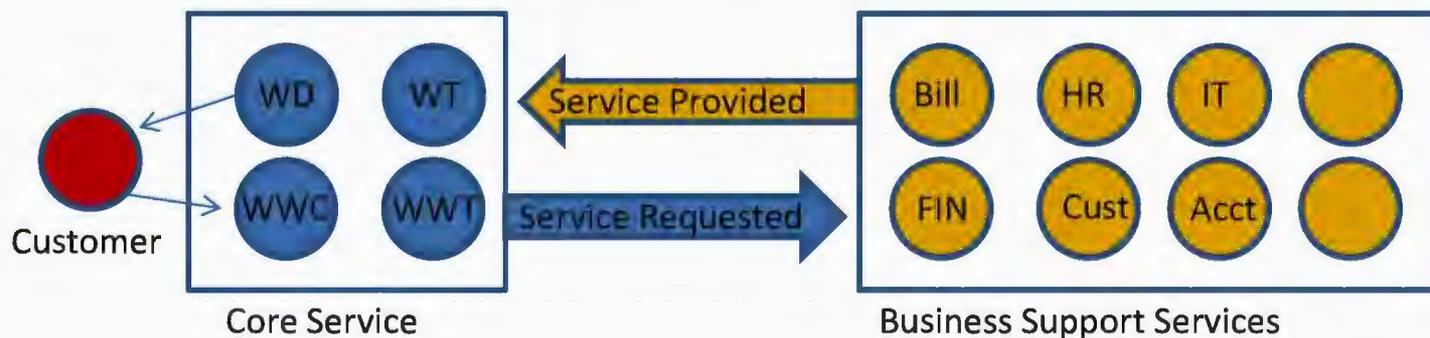
Next Steps: Apply Competitive Service Delivery Framework:



⁽¹⁾ More detailed description on next slide

4

Clearly Define Core and Business Support Services



5

Clear Services Definition & Strong Performance Management Lead to Value-For-Money

1. Thorough Independent Review Process Conducted
2. Findings:
 - Agreement Does Not Represent Service Relationship
 - Lack of Performance Management of Agreement's Services Makes it Difficult to Determine Value-For-Money
3. Recommendations for Moving Forward & Delivering Clear, Well-Managed Core Water, Wastewater and Business Support Services in Collingwood
4. Next Steps

APPENDIX

- Agreement Context: History
- Agreement Context: Legislation
- Agreement Financials



Questions?

Agreement Context: History

Water / Electricity Services Governance

- ❑ Collingwood **Water Works** was established in 1889
- ❑ Collingwood **Water & Light** Commission was formed January 6, 1908
- ❑ Changed to Collingwood Public Utilities Commission on July 24, 1912
- ❑ New Membrane Filtration Plant (1998)
- ❑ Walkerton Crisis (May 2000)
- ❑ Changed to Collingwood Utility Services Corp (COLLUS Power) for Electricity Operations on November 1, 2000, **Water Operations** continued as Collingwood Public Utilities Commission
- ❑ Purchased the Hydro Assets of Thornbury, Stayner and Creemore in July 2001
- ❑ Changed from Collingwood Public Utilities Commission to Collingwood Public Utilities Service Board in January 2004
- ❑ PowerStream acquires 50% shares and COLLUS Power Corp becomes Collus PowerStream in August of 2012

Support Services Governance

- ❑ Shared Support Services (no agreement)
- ❑ **Shared Services Agreement Dated January 1, 2003, Signed June 1, 2003**
- ❑ **Amended January 2004**

Agreement Context: Legislation

Water / Electricity Regulation

- ❑ **Ontario Water Resources Act** – statutory foundation of water policy
- ❑ **Capital Investment Plan Act (1993)** – created OCWA
- ❑ **Savings & Restructuring Act/ (1995)** - amalgamated municipalities from 815 to 445
- ❑ **Municipal Water & Sewage Transfer Act (1997)** – transferred ownership of W&WW assets from OCWA/Province to municipalities
- ❑ **Energy Competition Act (1998)** – end of almost all PUCs (electricity and water) / set up of electricity distribution companies / uniting water and wastewater services*
- ❑ **Safe Drinking Water Act, Reg. 170/03 (2002)** -
- ❑ **Sustainable Water & Sewage Systems Act (2002)** - all water and wastewater utilities develop asset management plans and set rates to fully recover operating and capital costs
- ❑ **Operator Full Re-certification (2006)**
- ❑ **Policy for Drinking Water Quality Management System (2006)**

Municipal Legislation, By-Laws, Policies, Rules and Procedures

- ❑ **Municipal Act, 2001, S.O. 2001, c. 25** – ability to pass by-laws to establish public utilities and systems – including water and wastewater utilities
- ❑ **Public Utilities Act** - s. 195 allows PUCs to continue as municipal service boards, s. 196 allows municipalities to establish a municipal services board (MSB)
- ❑ **Town of Collingwood By-law 04-29** – original 2004 By-law that established Collingwood Public Utilities Service Board (CPUSB) to govern water supply, appoint board members, regulate operations
- ❑ **Town of Collingwood By-law 2012-096 (August 13, 2012)** – repeals By-law 04-29 – re-establishes CPUSB, adding sewage and wastewater services in addition to water services:
 - ❑ Fulfil all requirements of the Sustainable Water and Sewage System Act, 2002 and Safe Drinking Water Act, 2002
 - ❑ Follow established municipal rules, policies, and procedures

* Most municipalities united water and wastewater within the municipality / set up separate utilities / outsourced treatment

Agreement Financials

Year	Bank of Canada Total CPI (2002 = 100)	Estimated Population Growth (%)	Expected Service Cost (considering growth & CPI)	Actual Expenditures - Paid by CPU to SERVCO (\$)	% Allocation to Water	% Fee Increase	Expected Cost based on fair initial service cost (\$)	Potential Over-allocation to Water (\$)	Bldg Lease Paid by SERVCO to CPU (\$)	Computer System Lease (based on contract +3.5%)	Computer Eq't Rental Paid by SERVCO to CPU (\$)
	Start at Jan 1, 2003	16,000 in 2001					Assume Initial Service Cost of \$544,441.78				
2003	102.00	1.60%	\$ 670,000	na	na	na	na	na	\$ 90,000	\$ 84,000	\$ 84,000
2004	103.30	1.60%	\$ 689,396	\$ 544,442	38%	na	\$ 544,442	\$ -	\$ 137,500	\$ 86,940	\$ 96,000
2005	105.30	1.60%	\$ 702,743	\$ 604,300	39%	11.0%	\$ 564,216	\$ 40,084	\$ 137,500	\$ 89,983	\$ 96,000
2006	108.20	1.60%	\$ 722,097	\$ 702,997	41%	16.3%	\$ 589,867	\$ 113,129	\$ 143,000	\$ 93,132	\$ 108,000
2007	109.40	2.15%	\$ 734,058	\$ 754,299	41%	7.3%	\$ 609,780	\$ 144,518	\$ 150,000	\$ 96,392	\$ 117,000
2008	111.80	2.15%	\$ 750,162	\$ 783,917	41%	3.9%	\$ 637,840	\$ 146,077	\$ 194,000	\$ 99,766	\$ 117,000
2009	113.00	2.15%	\$ 758,213	\$ 811,881	41%	3.6%	\$ 659,372	\$ 152,509	\$ 200,000	\$ 103,257	\$ 117,000
2010	115.10	2.15%	\$ 772,304	\$ 881,803	41%	8.6%	\$ 687,693	\$ 194,110	\$ 200,000	\$ 106,871	\$ 117,000
2011	117.80	2.15%	\$ 790,421	\$ 937,020	43%	6.3%	\$ 721,445	\$ 215,575	\$ 216,000	\$ 110,612	\$ 80,000
2012	120.70	2.00%	\$ 808,690	\$ 1,057,925	41%	12.9%	\$ 757,215	\$ 300,711	\$ 216,000	\$ 114,483	\$ 80,000
2013	121.30	2.00%	\$ 812,710	\$ 921,676	43%	-12.9%	\$ 776,993	\$ 144,683	\$ 216,000	\$ 118,490	\$ 21,792
2014 (B)	123.10	2.00%	\$ 824,770	\$ 718,688	33%	-22.0%	\$ 806,798	-\$ 88,110	\$ 216,000		
2015 (P)					34%						