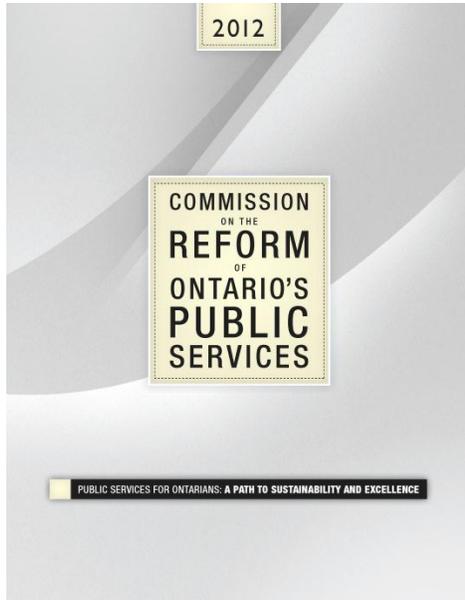


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A full copy of the report can be downloaded at:  
<http://www.fin.gov.on.ca/en/reformcommission/>



**Fabian Papa & Partners** is a boutique firm specializing in the planning, creation, maintenance and enhancement of municipal infrastructure driven by the development and re-development of land, or the ongoing needs of public sector utilities responsible for the operation, maintenance rehabilitation and replacement of these systems. Clients include municipalities, institutions and land developers. Services range from owner's representation and project management to detailed engineering planning, analysis, design and field services during construction and operations.

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## vatten

**Vatten Infrastructure** provides consultancy services to municipalities and the private sector in relation to urban water policy and the financial, technical and legal structuring of partnerships with the private sector for the delivery of water and wastewater projects and services.

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On 15 February 2012, the Ontario Government released a report from the Commission on the Reform of Ontario's Public Services titled "Public Services for Ontarians: A Path to Sustainability and Excellence". Colloquially known as The Drummond Report – named after the Chair of Commission, Don Drummond – this report outlines several important matters related to water and wastewater infrastructure in the Province and provides key recommendations toward addressing them. This note serves to highlight the salient passages in the report in relation to water and wastewater infrastructure for our readers.

*There are also cases where the fees charged for services provided via publicly owned infrastructure do not fully cover costs. Where discrepancies exist, the gap falls to taxpayers.*

*A prime example is in municipal water and wastewater services, where average capital investment chronically lags what is actually needed by \$1.5 billion per year. In these two sectors, where the equivalent of about half of the \$72 billion in municipally owned assets used to deliver these services needs renewal over the period from 2005 to 2019, a funding gap of that magnitude poses serious fiscal risks.*

For some time, we have been proponents of using price signals to help influence desired behaviour with respect to respecting our water resources. While there has been considerable discussion relating to this matter of full-cost pricing for quite some time, we are encouraged that the Commission has recognized that efforts to date, while useful, continue to fall short and that more needs to be done in this direction.

*While a degree of "catching up" has occurred, stable investment over the long term is more efficient and results in greater intergenerational fairness; Alternative Financing and Procurement (AFP) could be a useful tool in this regard.*

We believe that there is a role for increased private sector participation, including the shouldering of various elements of risk, in assisting the public sector to achieve sustainability and intergenerational fairness. Of course, any such arrangements must properly balance the risks and benefits accruing to the public and private sectors, however, there is ample scope to consider expanding procurement policies to allow for these sorts of arrangements to take place. Apart from public-private partnerships, an excellent example would include performance-based contracting with the private sector where payments are linked to measured benefits received by the public, allowing for a proper alignment of incentives.

*Moreover, full-cost pricing in water and wastewater services has the added benefit of encouraging conservation — an area in which Canada desperately lags the world's best. The electricity sector already operates on a cost recovery model; so too should water and wastewater services.*

Surprisingly, for such an economically advanced country, Canada is indeed a laggard with respect to the careful monitoring and control of water losses from distribution systems (to use a specific example). This has largely been driven by the abundance of clean water generally available from the environment and by the low pricing for the infrastructure that treats and delivers safe, reliable drinking water.

While water losses are not absurdly high as in some places around the world, there is currently opportunity to realize economic benefits associated with paying more attention to this matter now. These economic benefits will become increasingly more meaningful as the stock of infrastructure ages and the rate of leaks and breaks rises. Placing an appropriate price on these services (i.e., full-cost pricing) will serve to amplify business cases and drive decision makers to implement the right technologies and practices to manage our infrastructure better.

There is a lot of work to be done, and we see this report to be a step in the right direction. Of course, there needs to be follow up with appropriate legislation, regulation and steps toward industry transformation.