LEAKY GOVERNANCE

ALTERNATIVE SERVICE DELIVERY AND THE MYTH OF WATER UTILITY INDEPENDENCE

Kathryn Furlong

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Preface

My life working on water issues began when I was an engineering student at Carleton University in the 1990s. I found problems related to water – its movement, control, and decontamination – fascinating because of their complexity, especially in relation to groundwater. I spent two summers working at the National Research Council's Canadian Hydraulics Centre, where I modelled river contaminant flows. I loved the problem-solving element with its inherent potential for success. You could get your model to "work," to imitate a quasi-known reality, and thus, hopefully, predict future patterns. Moving from engineering to geography by way of environmental management was an attempt to gain a broader and deeper understanding of the technical issues with which I was grappling. I never went back to the technical world. In many ways, I have found my efforts to analyze water's social – even socio-technical – nature far more complex. There is no right answer to a problem or clear end to a project. There is only greater and deeper understanding, a process characterized by perseverance more than achievement.

When I began studying water supply issues from a political ecology perspective, debates on utility privatization were raging. Unknown to many, however, they had also reached their peak. As it turned out, not only was privatization socially contentious, it was also unprofitable. Even if there had been a way to overcome the overwhelming public resistance, water supply rarely offered an attractive return on private investment. When it came

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to underserved areas in the global South, even the heads of water multinationals complained that it was "unrealistic" to expect them to solve protracted problems of underinvestment. Rather than cleaning up after "state failure," the private sector could work in areas where the state had already established a record of reliable services or was able to subsidize the private endeavour. Even in England and Wales, where the Conservative government of Margaret Thatcher sold water infrastructure at a bargain in 1989, the level of regulation necessary to protect public health ultimately cut into profitability and dampened the allure of "the water business."

Water privatization was on the wane, but the logic that drove it was not. Typically qualified as neoliberal, this logic had gained significant ground over the course of the 1990s. Key related trends fall within the framework of new public management, the subset of neoliberal thinking directed at the public sector. Central to this is the rhetoric of state failure, according to which the fundamental problem in public sector governance is the state itself, especially local government. This thinking – however simplistic – has led to major reforms of the public sector, local government, and service delivery. In Ontario, few municipalities escaped the consequences of the associated "revolution" that plowed through the province under the Progressive Conservative government of Premier Mike Harris (1995–2002).

When Harris came to power in 1995, I had just moved to Ottawa from Labrador to study engineering. My youth in Newfoundland had been one where budget cuts were a normal aspect of life in what had long been a have-not province. What was alien to me, however, was the exceptionally ideological and confrontational nature with which they were pursued in Ontario. The public sector and local government, now viewed as the sworn enemies of efficiency and cost savings, were targeted in what was far from a collaborative process. Deemed wasteful, their already limited authority and capacity were curbed. In this, the Progressive Conservative government was well in line with the approach championed in the 1980s by Ronald Reagan in the United States and Thatcher in Britain. It seems that British conservatives appreciated Premier Harris as well: when I moved to England to study in the late 1990s, they had launched a platform called *The Common Sense Revolution,* adopting the moniker that first brought the Harris government to power in 1995.

Unlike in England, water privatization did not become a serious contender for utility reform in Ontario, yet reform there was – all kinds of reform. This was the case in other countries as well: major utility reforms took place while the private sector was relegated to the sidelines. Beginning

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in the mid-1990s, municipalities in Ontario – like their counterparts in Alberta, the United States, and countries around the world – began grappling with how to continue providing a growing range of services under increasing budget restraint. Municipalities and utilities across the province conducted a series of studies and opted for a variety of service delivery options, options well beyond what can be discussed within the confines of a debate still dominated by public versus private management.

This debate has limited what we are able to talk about in terms of water supply and its relationship to urban governance. The binary opposition pits public against private, state against market, politics against management, and institutions against organizations. We are called to take sides. Lost is the complexity of local service delivery that blends and blurs all of these apparently analytical, organizational, and ideological lines. In the quest for an analysis that breaks down these oppositions, a study of Ontario is well placed to move our debates about municipal governance and service delivery forward. The province presents a lively opportunity to move beyond binary debates and examine a range of service delivery options and the complex relationships that they imply.

When I first arrived in Ontario to study the rapid changes in the organization of water supply, I fully expected to find a two-sided debate in which one side touted the neoliberal ideology while the other defended public values. This was far from the case. What I learned, in fact, was that to understand water supply reform, one must first recognize the limits of neoliberal ideology as a framework for explanation. Ideas about arm's-length utility reform do not come strictly from above, and many of the problems that such reform is meant to address are exacerbated rather than created by processes of neoliberalization. Utility managers who promote alternative service delivery (ASD) are typically taking a pragmatic rather than ideological stance in the face of increasingly complex challenges.

Faced with infrastructure deficits, more exigent regulation, and limited revenue, urban utility managers whom I interviewed across Canada underscored the urgency of ASD – especially corporatization – to provide the autonomy needed to borrow independently of municipal governments, to ensure timely investment, to meet purchasing and hiring demands, and to protect their revenues and reserve funds from being used for other municipal projects (which were also crying out for funding). This is not simply a local expression of neoliberal dogma. Rather, already strained relationships between water utilities and other branches of local government were exacerbated by neoliberal reforms compelling them to "do more with less."

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This is key to recognizing what is actually happening at the local level and to moving beyond suspicions that all utility reform constitutes a backdoor policy to eventual privatization. This research shows that ASD is an end in itself. For many, in fact, ASD is a way to have it all: independence from municipal government without relinquishing control over the utility. This is rarely recognized; instead, the slippery-slope argument limits empirical engagement with alternative service delivery options other than privatization and private sector participation. It is thus time to look seriously at all ASD options without dismissing them as handmaidens of privatization.

Indeed, while detractors of ASD often lump it together with privatization, its promoters tend not to dig much deeper. Where ASD has been studied, the literature – written primarily by government-contracted consultants – has tended to be promotional rather than analytical. Taking an analytical approach necessarily shifts the focus of the discussion. Rather than asking how ASD improves services, this study attempts to uncover how a diversity of models function relative to the goals for which municipalities and utilities adopted them.

Often what is assumed is that particular features of an organizational model engender particular management practices and governance outcomes. A corporate model is said to lead to independence from local government, enabling technocratic management and thus more efficient and sustainable services. As usual, however, life is more complicated. There is no unified corporate model. Organizational independence provides at best only leaky barriers to challenges in municipal governance. Processes at other scales matter. Independence does not necessarily excise inefficiency. And, finally, in the context of something as social and political as water, good decision making cannot be reduced to technocratic management.

While most of the research for this book was done between 2005 and 2010, my subsequent work on water utilities in Colombia and the Netherlands has only confirmed the importance of these issues. In two countries that have very different water supply issues and histories, not only from Canada but also from each other, much of the same importance is placed on utility autonomy and independence from municipal "politics." Yet, in those countries, as in Canada, there is little interest in relinquishing to the private sector a service so central to the municipal portfolio. Most branches of local government have good reasons for retaining public control; it is utility independence and how it will affect the other branches of local government that divides those involved.

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This is poorly understood in the literature. Like utility managers and advocates of new public management, those skeptical of the promises of alternative service delivery often see local government as a central impediment to sustainable water supply. Although their reasons may differ, all miss the deep complexity and diversity of interests that constitute the local state. Thus, despite the apparent imperative to insulate utilities from municipal government, this book is as much about municipal government as it is about water supply. How could it be otherwise?

Conflicts over water supply reform compelled me to explore the distinct implications of alternative service delivery for different actors within local government. By treating local government as more than a homogeneous policy unit or a space that pits politics against management, the diverse and complex relationships within it can be revealed. For many working in municipal government, arm's-length water supply is not necessarily favourable to their area of responsibility. In fact, the opposite may be true. This helps to explain the limited adoption of certain ASD models that have been actively promoted by governments at higher scales. It also means that for the activists who contest these reforms, there are often hidden allies in municipal government.

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Alternative Service Delivery

Rhetoric and Reform

Many municipalities face important water supply challenges. In the global South, 860 million people lack access to improved drinking water.[1] In medium- and high-income countries, municipal supply tends to suffer challenges of crumbling infrastructure, insufficient revenues, and inefficient water use.[2] Many have argued that these two sets of problems can be resolved with analogous policy reforms, that is, through the recognition of water as a scarce economic good that is most efficiently managed through private sector operation and the application of commercial principles.[3] Such thinking has stimulated a range of important shifts in water supply management, including the reorganization of utilities in accordance with the logics of alternative service delivery (ASD).[4]

Alternative service delivery entails organizational restructuring along a continuum from lesser to greater independence from local government. For water supply, it comprises a range of "alternatives" to the traditional (and dominant) direct delivery model, whereby water is managed by a department of a municipality. Most ASD models retain public ownership, through options such as stand-alone bodies, public commissions, municipal corporations, cooperatives, and outsourcing, but at their limit include private sector participation (PSP) and privatization.[5]

The last two options – privatization and PSP – have dominated water supply debates, whereas the wider range of ASD options have received remarkably less attention. This situation is increasingly unwarranted. Since

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the end of the 1990s, PSP and privatization have declined significantly while governments and international agencies have continued to look to alternative ways of commercializing and of reducing local government influence over water supply.[6] Worldwide, up to 90 percent of urban water is supplied by a public entity, increasingly with the incorporation of commercial principles, and private provision in rural and peri-urban areas is considered rare.[7]

In instances where reform has occurred, public ownership and operation have typically been retained. This is the case in Africa, Australia, North America, and Europe, excluding the United Kingdom and France.[8] Some attention has been paid to public sector utility reorganization, but studies have tended to concentrate on public corporations, leaving a variety of less controversial options unexplored.[9] It is therefore both pertinent and timely to expand the analysis of organizational models to include the range of public sector ASD options for water supply.

Beyond the empirical case, there are good theoretical grounds for widening the debate to include ASD. Some of these have been addressed in the literature. They include the conflation of neoliberalism with privatization,[10] and the charge that the public/private framing of the privatization debate obfuscates a range of other important water supply reforms and issues.[11] Importantly for this study, the binary public/private framing focuses attention too narrowly on the utility and thus discounts the important role that concomitant challenges in municipal governance play in driving reform. At the same time, the binary framing conflates reform with ideology and thereby misses the substance of organizational change that is not directed at PSP or privatization.

These issues are related. By assuming an ideological intent behind organizational reform toward the inclusion of the private sector, one necessarily becomes focused on the object of reform – the water utility – neglecting broader challenges in municipal governance to which the reforms are often a response. At the same time, by neglecting the importance of the municipal scale, one is blind to the range of pressures and incentives faced by water managers and to the range of actors in urban governance – that is, to the reasons why they seek, and resist, reform.

This is what makes a study of Ontario pertinent. There, alternative service delivery was widely held as the appropriate response to the mounting pressures facing municipal governments. From 1990 to 2005, municipalities in the province adopted and debated a variety of ASD models in response to policy changes akin to the neoliberal reforms that drove PSP and privatization elsewhere. Because the trends that drove ASD in Ontario

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are common to a range of jurisdictions, studying that province's experimentation with ASD can contribute to a broader understanding of the relationships between neoliberalism and water supply. Studying Ontario, moreover, presents an opportunity to comparatively examine a range of ASD models, revealing how they interact with their local governance and broader institutional environments. Together, their analysis challenges some key tenets of ASD, new public management, neoliberalism, and urban governance.

The conceptual project undertaken in this book is to help broaden the debate on municipalities and water supply through a study of alternative service delivery. This is done in two ways. First, it helps to transcend the public/private debate by exposing its limits at their most basic level. Many authors attempt to get beyond the debate by arguing that utility ownership (i.e., public versus private) does not matter, and that, instead, functioning institutions determine the quality of the services that people receive. This approach, however, sets up another binary – organizations versus institutions – and conflates organizations with ownership. An examination of ASD avoids both of these problems by engaging with a range of organizational possibilities, their relationship to institutions, and their complex characteristics beyond ownership.

Second, the broader focus draws attention back to the municipalities that are ultimately responsible for service provision, no matter how it is configured. As such, the study of ASD provides a lens into municipal governance. It exposes the nature of the challenges facing municipalities and what needs to be considered in enabling them to provide the growing range of services for which they are responsible as a legacy of late-twentieth-century rescaling. These challenges – financial, environmental, and infrastructural – are both immense and complex.

Indeed, transitions to and debates surrounding ASD tell us something about water supply, but they reveal even more about municipal governance. The conflicts that arise over ASD as a means of addressing the above challenges reveal the local state to be a complex environment, in which proposed responses can have divergent implications across a city's numerous responsibilities and functions. To understand urban government, we must do for the local state what John Agnew did for the national state; we must challenge the tendency to approach it as a "container."[12] Only then – and maybe not even – can we begin the work of reconciling the incongruities that can hinder the effective and equitable delivery of the services upon which we all depend.

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Given this complexity, ASD cannot in and of itself guarantee the desired outcomes of efficient, environmentally sound, and financially sustainable service delivery. While particular ASD models may exhibit certain tendencies, organizational barriers cannot eliminate the manifold interdependencies between utilities, municipalities, and governance processes at other scales. The organizational barriers sought through ASD are at best "leaky." Service delivery and municipal governance remain interdependent regardless of the organizational model. The result is "leaky governance" as opposed to independent, apolitical, and technocratic utilities. This is not to say that ASD models should not be examined or adopted, but that simplistic expectations of apolitical technocratic management should be avoided in favour of a more nuanced and holistic analysis of what ASD might offer in the context of particular – and often shifting – institutional and governance environments. Instead of relying on ASD to shield utilities against challenges in municipal governance, both need to be strengthened to meet contemporary water supply challenges.

Leaky Governance

Defining Alternative Service Delivery

Alternative service delivery places organizational options along a continuum from low to high independence from government – that is, from the municipal department (direct delivery) to municipal boards, commissions, and corporations, and ultimately to privatization.[13] Typical ASD models for water supply are arranged in Figure 1 in terms of their idealized independence from municipal government and the degree of public control. Notably, distance from government does not necessarily imply private sector control, and increased private sector control does not necessarily lead to more independence from government than models where public ownership is retained.

The arrows in Figure 1 betray the ideology at the heart of alternative service delivery. Ideologically, ASD seeks to put increased distance between "politics" and service delivery under the assumption that distance from government is synonymous with improved management; it is the organizational expression of the premise of "state failure." As such, definitions of ASD are often general, typically conflating processes and results. For example, while John Wilkins defines ASD as "the many and varied organizational forms and delivery mechanisms governments use to achieve their objectives," Robin Ford and David Zussman assert that it is "a creative and dynamic process ... that improves the delivery of services."[14]

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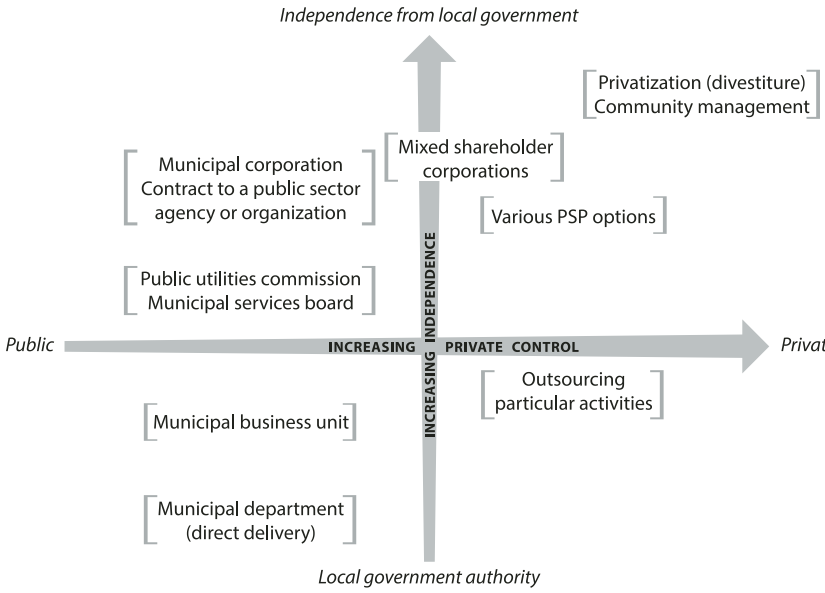
FIGURE 1
Schematic of alternative service delivery options for water supply



Source: Adapted from Furlong, "Good Water Governance without Good Urban Governance?" 224.

A key impediment to understanding alternative service delivery is the assumption that it constitutes a stand-alone solution to complex issues. Such amplified expectations can be understood in the context of the dominance of consultant and government reports in the literature on arm's-length agencies.[15] Consequently, many of the assumptions held by the proponents of ASD remain empirically underexamined. For this reason, it is worth noting that in this book, "ASD" is used as a convenient shorthand to encompass a range of service delivery options beyond direct delivery and privatization. With this usage, the deterministic assumptions often seen in the promotional literature are not adopted.[16] Because this study also differs from certain academic studies that examine "alternatives to privatization," it is useful here to include a brief note on definitions (Box 1).

Unpacking the Promotional Assumptions

Proponents of alternative service delivery often understand problems in service delivery to result from local government interference.[17] The solution

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• BOX 1 •
Alternative to what? A note on definitions

The use of the term "alternative service delivery" in this book differs from that in other recent studies in three ways. First, it is concerned with a range of alternatives to direct delivery, *including* private sector participation and privatization. This contrasts with scholarship that takes PSP or privatization as the base model against which to compare other options. In the collection *Alternatives to Privatization* edited by David McDonald and Greg Ruiters, for example, "alternative service delivery" is used to refer to alternatives to PSP and privatization.[1] In this book, the common – perhaps Canadian – usage of "alternative service delivery" as alternatives to direct government delivery is retained. This makes sense given that PSP and privatization are relatively rare for water supply,[2] and indeed for local service delivery in general.[3] PSP and privatization are in fact alternatives, rather than the norm against which other options ought to be measured.

Second, and following from the above, this book focuses primarily on the range of public sector alternatives for service delivery instead of various PSP options. This distinguishes it from the majority of studies on water supply reform, which have concentrated on *alternative forms of privatization* – such as management contracts, lease contracts, joint ventures, build-operate-transfer or BOT projects, and full divestiture – as opposed to *alternative forms of service*

1 McDonald and Ruiters, *Alternatives to Privatization.*

2 Budds and McGranahan, "Are the Debates on Water Privatization Missing the Point?"; Hall et al., *Public-Public Partnerships (PUPs) in Water.*

3 Warner and Hefetz, "Insourcing and Outsourcing."

then becomes to use ASD to create organizational barriers between municipal government and service delivery. These barriers are meant to enable service delivery to become more efficient and effective by insulating it from local "politics." There are three flaws in this reasoning. Each suggests a path for inquiry that can help us to understand ASD in a way that is meaningful for those charged with addressing contemporary service delivery issues,

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delivery. This study, by contrast, includes PSP options at one end of the continuum, but distinguishes between them only minimally. Given that these have been studied extensively elsewhere,[4] this research enables the examination of a range of public sector models that have generally been overlooked.

Third, this work is concerned with specific organizational models as opposed to the range of possible levels of engagement with either a market or a planning approach to governance.[5] For example, in a range of studies involving scholars from the United States, Canada, and Spain, researchers have focused on identifying shifts in service delivery that express market engagement but do not necessarily imply a change in organizational model. Thus, while municipal corporations are considered, so too are alternatives like dynamic market management,[6] government entrepreneurship, and cessation of services.[7]

This study concentrates on distinct organizational models that apply to water supply as opposed to the diverse management possibilities available for the delivery of all public services. Finally, like the studies mentioned above, this book adopts an analytical approach to the variety of options in question, avoiding the assumptions common in government and consultant reports.

4 E.g., Bakker, "Archipelagos and Networks"; Shirley, *Thirsting for Efficiency*.

5 For a discussion, see Bakker, "The 'Commons' Versus the 'Commodity.'"

6 Bel, Hebdon, and Warner, "Local Government Reform."

7 Hefetz and Warner, "Privatization and Its Reverse"; Warner and Hefetz, "Insourcing and Outsourcing"; Hebdon and Jalette, "The Restructuring of Municipal Services."

be they water managers, environmentalists, researchers, or government officials.

The first logical flaw is the assumption that municipal organizations and municipalities can be neatly separated. This research demonstrates that even under ASD, the challenges faced by municipal governments continue to impinge on water supply management – governance is leaky. In fact, in

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a recent article, I argue that one cannot expect to resolve the problems faced by water utilities without addressing those faced by municipalities.[18] Municipal problems tend to become service delivery problems regardless of the organizational model; the barriers offered by ASD rarely live up to the rhetoric. As desirable as divorce may be, the fates of the various partners remain intertwined; context – not just organizational form – matters. The question then becomes, what type of relationship can be expected with local governments under different variations of ASD, and what measures can be taken to improve it? Rather than seeking the best fences, we need to strengthen the capacity of municipal government and service providers with the aim of fostering mutually beneficial relationships.

The second logical flaw is the assumption that local organizations are immune to policies and practices at other orders of government or scales, in geographical terms.[19] As stated above, it is hard enough to put fences between local governments and utilities. However, it is nearly impossible to achieve one's goals if the institutions at higher scales (e.g., appropriate legislation) are not in place. Some issues that affect utilities are simply beyond either their control or the control of local governments. Actions from higher scales are needed to improve performance. This becomes especially clear in Chapter 6 when issues of water efficiency and conservation are discussed. Moreover, as governments become more vulnerable to international economic trends, utilities become more vulnerable as well; they simply cannot be shielded through ASD. This is another reason why strengthening municipal governance – as opposed to sidelining it – is important regardless of the service delivery model.

The third and final logical flaw used to promote alternative service delivery assumes that the politics that can engender poor management cannot exist within the utilities themselves. The presumption is that once the influence of local government is sidelined, utilities will be managed in a technocratic way according to business principles. Under this logic, efficiency, often defined in terms of cost reductions, is guaranteed. The technocratic can likewise be political, however. As this research shows, arm's-length ASD models can create their own incentives to perform inefficiently without any help from local government. Thus, returning to the first point, there is a need to examine the overlap and ambiguity between politics and management in service delivery, rather than to vainly seek to neutralize politics altogether. It must be accepted that how water is managed and conceptualized is political.[20] What remains is to openly negotiate the attendant political decisions.

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Alternative Service Delivery in Ontario

Ontario: A Key Case Study

Alternative service delivery is not new, but it is newly important. It is a reinvention of a long-held service delivery model with its origins in the Canadian railroad partnerships of the 1840s.[21] These evolved into a range of boards and commissions for railways, harbours, and the civil service that gained independence from government only in the first decade of the 1900s.[22] The modern roots of ASD, however, are found in the mid-1980s and early 1990s, when the focus on contracting out and cost cutting was used to justify the delegation of a range of government services to arm's-length government entities.[23]

This marked a significant shift in the nature of alternative service delivery. As Roger Wettenhall argues, both Australia and Canada were leaders in establishing arm's-length entities from the early twentieth century,[24] at which point they were dedicated to government programs of a commercial character and organized primarily at the federal scale.[25] This organizational form proliferated in a variety of countries.[26] With the rise of new public management (NPM), however, the governance of arm's-length entities shifted dramatically. For several authors, the social focus and public character of these agencies was lost; they developed a private sector ethos focused on "market profitability rather than customer service or social responsibility."[27]

In Ontario, alternative service delivery gained increasing prominence throughout the 1990s as a purportedly neutral and effective response to wide-ranging critiques of government leadership. Between 1996 and 2000, the government of Ontario boasted of the transfer of fourteen thousand jobs from direct delivery to ASD arrangements, along with the elimination of six thousand positions. One hundred and thirty countries visited the province to learn about its approach.[28] A cross-Canada study conducted by Robert Hebdon and Patrice Jalette in 2004 found that over a quarter of the municipalities surveyed had contracted out one or more services on a for-profit basis, with Ontario and Alberta leading the way.[29] In Ontario, the public service "changed dramatically"; with "55% of the public services operat[ing] outside of traditional departments" by the start of the new millennium, the alternative had become the norm.[30] Water supply did not escape the trend. Across Ontario, the larger municipalities experimented with a range of new service delivery models.[31]

To those visiting Ontario from around the world, the province was clearly an innovator and an exemplar of the future of service delivery at the vanguard of the new public management. For the activists who contested the

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reform, it was perhaps the canary in the coal mine. For the purposes of this book, Ontario is a key case study. It is a laboratory of service delivery experiments that can be harnessed for the purposes of understanding the challenges facing water supply and to what degree ASD is able, or even designed, to address them. Because of the diversity of the ASD models chosen in Ontario, it is possible to expand the debate beyond corporatized or privatized models to include an array of options, examining aspects of their performance in the context of processes of devolution, cost cutting, deregulation, and re-regulation that have been common across a range of countries.

Indeed, many of the reforms that drove ASD in Ontario are similar to those characterized as neoliberal and associated with promoting privatization and PSP in other parts of the world. Trends in municipal and water governance in Ontario from the early 1990s to the mid-2000s reflect those witnessed across a variety of jurisdictions. These include, but are not limited to, shifts in funding availability, the realignment of responsibilities between scales of government (or rescaling), the promotion of commercial practices within the public sector, new forms of evaluation, and new, more stringent regulation.[32] Consequently, the case provides us with a range of possible – and often unconsidered – responses to experiences that are widespread.

The Road to ASD in Ontario

Historical legacies of underfunding, new policy prescriptions, and certain tragic events combined to reform the water governance landscape in Ontario. Over the past two decades, a series of significant transformations have gone on to affect water governance across Canada. These include new legislative frameworks, new organizations, and new goals in almost all Canadian jurisdictions.[33]

By the 1990s, underinvestment in infrastructure caught up with municipalities across Ontario, as it had in Canada and many Western countries.[34] The Federation of Canadian Municipalities defines the infrastructure deficit as the difference between the quality and capacity of existing infrastructure and the quality and capacity of that which is needed.[35] The Canadian Water and Wastewater Association (CWWA) puts the required investment at $88.4 billion for the period from 1997 to 2012, a figure amplified by subsequent inaction.[36] The problem was especially acute in the older municipalities of eastern Canada, including some in Ontario, where the infrastructure averaged sixty to seventy-five years in age.[37] The situation

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seems to be improving for water supply, however, as a result of the implementation of infrastructure renewal plans in many Canadian cities.[38]

In Ontario, fiscal constraints and political and economic restructuring throughout the 1990s compounded these challenges. Reforms included provincial-to-municipal devolution of fiscal responsibilities for public service provision;[39] a shift in the ownership of infrastructure from higher scales of government to municipalities between 1961 and 2002;[40] increasing use of the private sector to support the provision of public services;[41] and funding and employment cutbacks to the public sector, especially to environmental oversight and municipalities.[42] A drinking water contamination scandal in the town of Walkerton, Ontario, in June 2000 and the public inquiry that followed – known as the Walkerton Inquiry – led to a range of new institutional measures to improve water supply in the province.[43]

In Ontario, long-term pressures on water supply and neoliberal policy reforms intersected to prompt significant and varied change across the province's water supply systems.[44] From 1990 to 2005, the reorganization of water utilities was debated in a number of municipalities and a variety of choices were made. Over a hundred municipalities engaged in some type of reorganization.[45] The following trends in service delivery models are notable.

First, there was a shift from provincial to local control, as a result of the transfer of assets from the province to municipalities. This affected mainly small municipalities. Second, there was a significant decline in the number of public utilities commissions (PUC), given the forced amalgamation of municipalities and the forced separation of energy from existing multi-utilities (Chapter 3). Third, although many service providers remain under municipal control, a closer look reveals that a variety of service delivery options other than direct delivery are employed.[46]

In fact, an array of distinctive models emerged across the province, including private sector participation, a municipal corporation, a public commission/corporation hybrid, a municipal business unit, and delegated management to the public sector.[47] These reflect nearly the complete spectrum of alternative service delivery options for water supply.[48] For example, in the report to the Walkerton Inquiry, a matrix of service delivery options for water supply was published. This matrix is shown in adapted form in Table 1. Notably, the list does not include mixed corporations that have both public and private shareholders. These have been promoted for water supply in some countries, such as Colombia, and are of growing concern internationally, but are not prominent in Canada at this time.[49]

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TABLE 1
Service delivery models for municipal water supply

Operating agency	Organizational model options	Where?
Municipal operating agency	• Direct delivery (municipal department)	• Most municipalities (Toronto prior to reform)
	• Municipal business unit[1]	• Toronto
	• Public utilities commission/ municipal services board	• Peterborough (subsequently a corporate/commission hybrid)
	• Municipally owned corporation	• Kingston
Regional water provider	• Regional government	• York and Waterloo
	• Intermunicipal agreements (exogenous governance)	• Rare: Toronto-York, on supply
External operating agency (delegated management)	• Another municipal government	• Rare: Peterborough for Smith-Ennismore-Lakefield
	• Public external operating agency	• Peel
	• Private external operating agency	• Hamilton, 1995–2005

1 The municipal business unit is not identified in the original table published in Part II of the Walkerton Inquiry. As explained in Chapters 4 and 5, it is close to the municipal department model and is specific to Toronto.

Source: Adapted from O'Connor, *Report of the Walkerton Inquiry Part 2,* Table 10.1.

The case study sites were selected to represent the diversity of models chosen across Ontario. Where applicable, the corresponding case study site is listed in Table 1 next to the ASD option in the column "Where?" Some of these models are more complex than typical classifications suggest and are described more fully in the next section.

Research Methods and Rationale

The research for this study was done in two phases over a three-year period, from 2005 to 2008. The first focused on Ontario (2005–07), whereas the second expanded the project across Canada (2007–08). Each phase employed a mixed-method approach, beginning with an expert questionnaire, followed by municipal case studies and concluding with an expert workshop.[50] More details on each of these steps can be found in the notes. The mixed-method approach enables one to identify key themes, seek detailed examples, and cross-check results. In both phases, the survey results

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were used to assess broad trends and issues as perceived by different groups. In-depth case research, on the other hand, enables researchers to control for a greater number of potentially intervening variables,[51] and allows for in-depth analysis through open-ended key-informant interviews and archival research. The workshops were employed as an opportunity to scrutinize and to refine preliminary findings. Each workshop lasted for one day and convened thirty to forty participants. A preliminary research report was circulated beforehand, and a series of workshop activities were used to advance the analysis.[52]

In Phase 1, a variety of new ASD models for water supply in Ontario were examined with the purpose of ascertaining the drivers and goals of reform, the extent to which the objectives could be met by organizational change, and what other factors intervened to create a gap between the theory of ASD and its relative effectiveness in meeting expectations. Given the focus on organizational models for water supply beyond the public/private binary, the case studies were chosen such that a diversity of ASD models was reflected. They were also selected to control for as many potentially intervening variables as possible. The cases are therefore concentrated in a single province, and include only urban areas that face similar challenges under neoliberalization and that are equipped with similar resources to address them. Thus, no rural municipalities were included in this phase of the research.

The municipalities range in size from Toronto, Canada's largest city with a population of 2.6 million, to the large suburban areas of the Greater Golden Horseshoe, a region of over 8 million people and a focus of future economic growth.[53] These include the regional municipalities of Peel, York, and Waterloo, with approximately 1.3 million, 1 million, and 560,000 residents, respectively, as well as the city of Hamilton, with a population of just over 500,000. Both Peterborough and Kingston lie somewhat removed from Toronto, with smaller populations of around 117,000. The municipalities are mapped in Figure 2. In the case of the regional municipalities, the boundaries and names of the local municipalities that they comprise are also shown.

Hamilton is situated on the southwestern shore of Lake Ontario. Like Kingston, Toronto, and Peel, it draws its water supply from Lake Ontario. It was formerly an important site of manufacturing, but its economy has been affected by industrial decline over the past three decades. Hamilton was the first city to reorganize its water supply and is an example of both PSP and contracting back in. The water services of the former Regional Municipality

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of Hamilton-Wentworth (amalgamated in 2001) were run via direct delivery by a regional department, which was responsible for water supply to the region's local municipalities.[54] In January 1995, the Region of Hamilton-Wentworth entered into a ten-year contract with Philip Utilities Management Corporation (PUMC) for the operation and maintenance of its water and wastewater treatment plants, pumping stations, and reservoirs. In 2004, following several problems with the contract (Chapter 5), the city contracted back in, returning to direct delivery in 2005.

Kingston is situated at the northeastern end of Lake Ontario, at the entry to the St. Lawrence River. The Kingston Public Utilities Commission, responsible for water, electricity, and gas, was established in 1914.[55] In 1998, in compliance with provincial energy deregulation, the electricity utility was separated into a municipal corporation, Kingston Electricity Distribution Limited (KEDL), and the remaining services were brought under the management of Utilities Kingston. Utilities Kingston was incorporated in 2000.[56] It is a multi-utility corporation with management agreements to provide gas, water, wastewater, and fibre-optic services to the City of Kingston, its sole shareholder. Electricity services are managed through a separate entity, Kingston Hydro (formerly KEDL), which purchases support services from Utilities Kingston.

Peterborough is located approximately 125 kilometres northeast of Toronto and draws its water supply from the Otanabe River. It sits at the interface of the Greater Golden Horseshoe and the Kawartha Lakes District, benefiting from proximity to both an important development region and a major vacation area. The Peterborough Utilities Commission was established in 1914. It provided water and electricity services and managed the Riverview Park and Zoo on behalf of the city. Again, in response to energy deregulation, the municipality reorganized utility services in 2000. The City of Peterborough Holdings Inc. was established as a for-profit corporation owned by the City of Peterborough. It has two subsidiaries: Peterborough Utilities Inc., which is responsible for electricity generation and distribution; and Peterborough Utility Services Inc. (PUSI), which provides a range of support and engineering services to the group's other companies, is contracted to operate the water supply, and owns the Peterborough Call Center Inc. The Peterborough Call Center Inc. is responsible for customer support and billing. Water supply and the Riverview Park and Zoo are still the responsibility of the Peterborough Utilities Commission, a separate non-profit PUC, which contracts operation and management of the water supply to PUSI.

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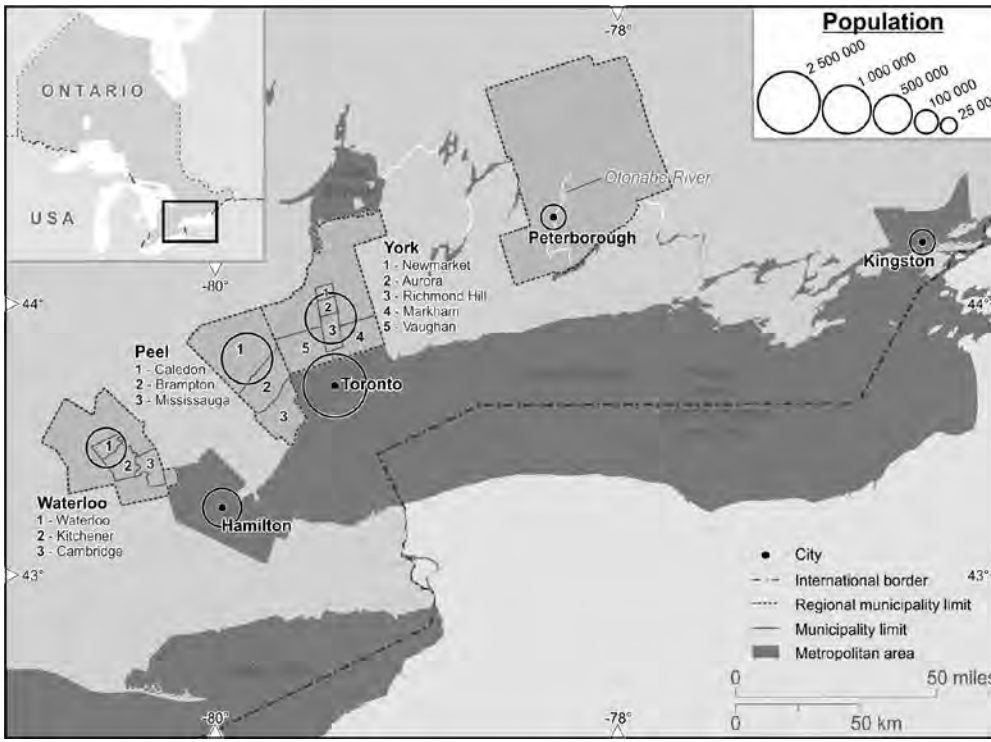

FIGURE 2 Map of case study sites in Ontario

Source: Prepared by Marc Girard.

Toronto is the largest city in Canada and, when the Greater Toronto Area (GTA) is included, the fifth-largest in North America. Until 1998, Toronto was organized under a regional governance structure known as Metropolitan or Metro Toronto. Metro Toronto supplied treated water to the local municipalities, which were responsible for distribution. Following the amalgamation of Toronto in 1998, water services, including treatment and distribution, were brought under a single municipal department called Toronto Water and Wastewater Services (TWWS).[57] In 2002, staff sought to move from direct delivery to a municipal service board (MSB). In response to public protest, they were forced to settle on a municipal business unit – rebranded Toronto Water – within the local government structure.

The Regional Municipality of Peel (hereafter Peel) comprises the municipalities Caledon, Brampton, and Mississauga and is adjacent to Toronto. In 2000, it entered into a ten-year operations and management contract with the Ontario Clean Water Agency (OCWA), a provincial Crown corporation.

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Both the Regional Municipalities of York and Waterloo use regional direct delivery to organize water supply, although their models differ slightly. These municipalities were included in the research principally for their engagement in water conservation, the focus of Phase 2 of the research. Both face water supply challenges. Waterloo is dependent on ground water, while York is experiencing important population growth. York, moreover, lacks direct access to Lake Ontario and thus purchases a significant portion of its treated water by intermunicipal agreement from the City of Toronto and the Regional Municipality of Peel. To meet long-term challenges, York hired a consultancy to consider a variety of PSP options but finally settled on direct delivery as the most cost-effective way to meet its long-term growth projections.[58]

Together the case studies encompass over 50 percent of Ontario's population and are representative of the six most common organizational models for water supply in the province; they also show some involvement in the remaining two options, which are considered rare (see Table 1).[59] The research began with a province-wide expert survey, which was followed by interviews and archival research in the case study sites. There were eighty-two responses to the survey and fifty-three interviews across the chosen municipalities.[60] Given certain data limitations in Peel and York, however, these cities do not figure prominently in the analyses that follow.[61] Phase 1 culminated in a workshop in April 2007, in which thirty-eight water supply professionals of various backgrounds participated.

It was important to concentrate the case studies in a single province in Phase 1 to control for differences in governance and institutions across jurisdictions. This is necessary as Canada's provinces are among the most autonomous subnational divisions in the world.[62] Municipalities, natural resources, and many environmental regulations all fall within the purview of the provinces. A recent overview of water-related legislation across Canada's thirteen subnational jurisdictions demonstrates the degree of legislative divergence among them.[63]

Ontario was an appropriate choice given the range of alternative service delivery options pursued by its municipalities. Focusing the data collection on the years following ASD debates in Ontario enables reflection upon a key period for water supply in that province – one that can provide some insight for ongoing debates over water and municipal governance in other jurisdictions. To understand the drivers of and conflicts surrounding ASD, research conducted while the circumstances of the debates were still fresh in the minds of those who participated in them (and who were affected by them) is

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desirable and relevant. In order to understand the limits of organizational reform in terms of the objectives for which it was sought and the range of other factors that influence the realization of these objectives, the interview and survey data were supplemented by longer-term statistical information, utility and government reports released over the years that followed, and a second phase of research.

In Phase 2, the research was expanded Canada-wide. Given that arm's-length business-like management through ASD is expected to improve utility performance in general and environmental performance in particular,[64] the case studies were selected to reflect municipal leadership in one aspect of environmental performance, water conservation. This was also done to control for the effects of selection on the dependent variable – service delivery model – in Phase 1. The case studies include regional leaders in water conservation from across Canada. They are shown in Figure 3 and discussed in greater detail in Chapter 6. Choosing municipalities from different regions of the country, as defined by Environment Canada, made it possible to analyze how different governance and institutional arrangements influence success in water conservation. Federalism in the Canadian context means that these arrangements differ across the provinces.[65]

Environment Canada organizes the provinces and territories into five regions. From east to west, these are: (1) Atlantic, which comprises the provinces of Newfoundland and Labrador, Nova Scotia, New Brunswick, and Prince Edward Island; (2) Quebec; (3) Ontario; (4) Prairie and Northern, which comprises Manitoba, Saskatchewan, Alberta, the Northwest Territories, and Nunavut; and (5) Pacific and Yukon, which comprises British Columbia and the Yukon. As Ontario was the focus of Phase 1, the eleven new case studies were selected from the leading municipalities in the four remaining regions. The conservation experiences in Toronto, Peel, Waterloo, and, to a lesser extent, York are used to understand the situation in Ontario.

Not all of the municipalities in question are *Canadian* leaders in water conservation. Rather, they are leaders in their own region, where water conservation may be more or less developed. This is particularly notable in the case of the municipalities from the Quebec region, where conservation is relatively nascent compared with the Prairie and Pacific regions, where it is most advanced.

In each of the regions, the leading municipalities were concentrated in a single province. This facilitates the analysis by enabling one to assess leadership in the context of particular institutional arrangements and governance

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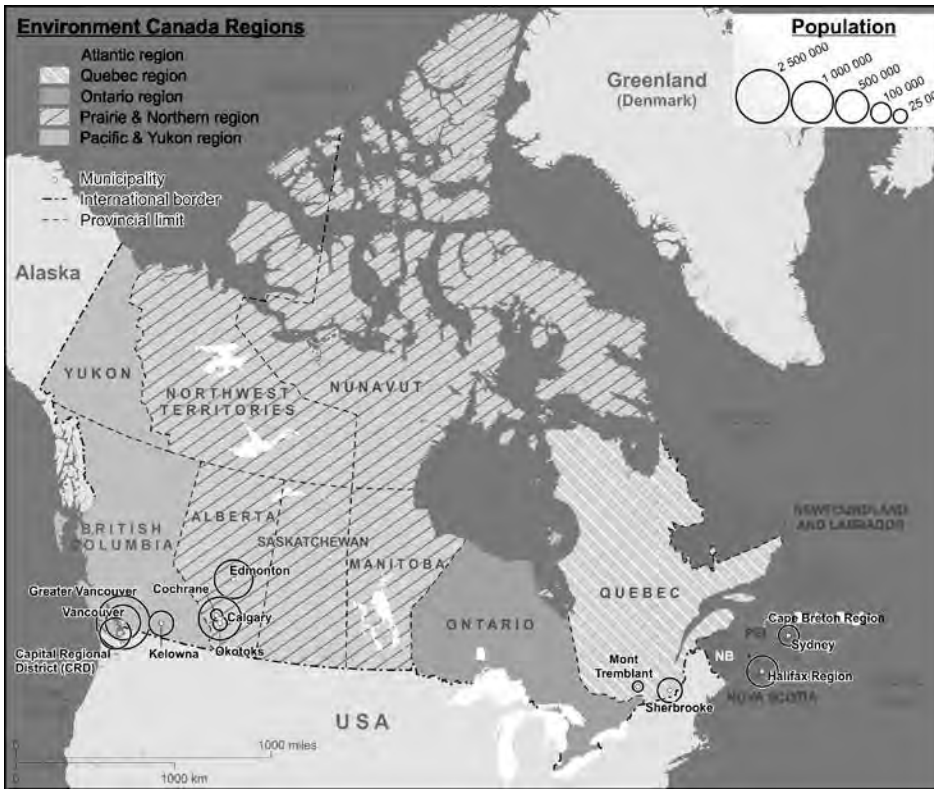

FIGURE 3 Map of Phase 2 case studies across Canada

Source: Prepared by Marc Girard.

traditions. As in Phase 1, the municipalities in each region span a range of sizes; they also face a variety of issues with respect to water conservation. In the Pacific and Yukon Region, the municipalities are all in British Columbia and include Vancouver, the Capital Regional District (CRD), and Kelowna. In the Prairie and Northern Region, the municipalities are all in Alberta and are the most advanced in conservation in Canada. They include the province's two major cities, Calgary and Edmonton (the provincial capital), and two small municipalities, Cochrane and Okotoks, a bedroom community of Calgary. In Quebec, the municipalities studied include Sherbrooke, the site of a variety of government institutions, and Mont Tremblant, a rural municipality adjacent to a popular ski resort. The conservation programs in both localities are minimal. Finally, in the Atlantic Region, the leading municipalities are located in the province of Nova Scotia. They include the Halifax

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Regional Municipality, the provincial capital, and the Cape Breton Regional Municipality, which encompasses the city of Sydney as well as the small municipalities and rural areas of Cape Breton Island.

Again the phase began with an expert survey. The survey was Canada-wide and elicited 119 responses. It was followed by eleven municipal case studies involving twenty-eight interviews. The research concluded with a workshop that gathered thirty participants.[66]

Outline of This Book

In Ontario, alternative service delivery was widely believed to be the appropriate response to the mounting pressures facing municipal governments. ASD, however, cannot in and of itself guarantee the desired outcomes of efficient, environmentally sound, and financially sustainable service delivery. Although particular ASD models may exhibit certain tendencies, this study finds that governance remains leaky. Context, not just organizational form, matters.

For this reason, rather than examining ASD models alone, this book focuses on the relationships between municipalities and utilities across service delivery models, and how they are influenced by changes in institutions and governance across scales. This is done to gain a richer understanding of the possibilities and limits of service delivery reform by recognizing that organizations do not exist in a vacuum – thereby abandoning the assumption that ASD constitutes a stand-alone solution to complex problems. That said, this book does not attempt to analyze the institutions associated with water governance. It is about organizational models for water supply and how they are affected by their shifting governance and institutional environment, but not about how that environment is produced or performs.

With this in mind, this book helps to examine what other questions need to be asked and what other information needs to be gathered, to understand and to plan for the range of possible outcomes associated with any organizational model in the context of a shifting governance and institutional environment. In this way, it seeks to shift the questions that we ask about service delivery in relation to neoliberalization, new public management, and the role of local government.

Chapter 2 answers the questions of why and how to study alternative service delivery. In the first part of the chapter, the limitations imposed by focusing water supply debates on privatization and PSP are discussed. It is argued that the ensuing public/private binary limits the scope of study and leads to other binaries, such as state versus market and organizations versus

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institutions, which inhibit a more nuanced understanding of ongoing trends in water supply. A focus on ASD necessarily helps to transcend these binaries by acknowledging a wider range of possibilities for service delivery. Still, the ideology behind ASD obfuscates many of the key issues and impacts related to service delivery reform.

Thus, in the second part of the chapter, ASD is contextualized within the new public management (NPM) movement and state rescaling to understand its limitations. The discussion draws attention to the complications encountered in attempting to separate politics and management through NPM and ASD. It is argued that the difficulties faced in achieving these goals reaffirm the complex nature of local government beyond the tropes of "politics" and "management." This is interesting because research on water supply reform has not addressed the diversity and potential for discord within local government. In geography, while much is made of the diversity of actors *at the local scale,* little attention is paid to the potentially heterogeneous and conflicting interests *within the local state.* Drawing on geographical debates, I offer a more complex approach to local government that is helpful in rethinking the goals and limitations of arm's-length service delivery.

Chapter 3 explores the particularities of governance and institutional change related to water supply in Ontario in order to provide the necessary background for the chapters that follow. Given that the context is Canadian, federalism is briefly addressed. This is necessary so that in a world of unitary and partially devolved states, non-Canadian readers can grasp the importance of the provinces in the analysis of local service delivery. However, since this book is about options for municipal service delivery and not about federalism, Chapter 3 does not deal with the extensive literature on the topic.[67]

Besides providing the background for the rest of the book, Chapter 3 demonstrates how the public/private debate in Ontario missed both the motivation and the character of local service delivery reform. In this way, the analysis in Chapter 3 challenges the notion that a shift to ASD is necessarily ideological, with privatization as the ultimate goal. It thereby demonstrates how a binary public/private framing can obfuscate the actual character of government responses to neoliberalism at both the provincial and the local scales, and grounds aspects of the theory developed in Chapter 2.

Chapter 4 addresses two sets of questions. First, what was ASD intended to achieve? Second, given these goals, how did it fare? To answer these questions, the chapter starts by presenting the common characteristics used to differentiate ASD models. These features often have little to do with the

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reasons for which organizational reform is sought and provide little guidance for predicting performance.[68] Instead, these features are typically understood to stand in as proxies for desired outcomes; for example, a corporate legal structure is taken as synonymous with independence from government, which is expected to result in efficiency.

Chapter 4 sets out to investigate these relationships by analyzing alternative service delivery relative to the outcomes that it was expected to achieve. It is found that even independence from government and technocratic management cannot be guaranteed and that these, in and of themselves, do not ensure the achievement of goals such as cost recovery and reinvestment in infrastructure. Decision making that contravenes such goals can influence any model and does not necessarily come from local government.

Any investigation of alternative service delivery would be incomplete if it did not address the challenges to reform. This is the subject of Chapter 5. Despite all of the debates, the provincial incentives, and the experimentation with new models, most water supplies are still organized through direct government delivery. Many studies have dealt with the limits to privatization and PSP.[69] However, the checks on ASD merit specific attention given that broad acceptance is often expected precisely because public control is retained. With this in mind, Chapter 5 examines two cases where ASD was either reversed or thwarted despite provincial efforts to promote the reform. The analysis shows that ASD is actually highly contested between different branches of municipal government, throwing into question the tendency to treat municipal governments as a single policy unit.

Given that the base presumption of alternative service delivery is that independence from government will improve utility performance, one aspect of performance – water conservation – is analyzed in Chapter 6. The chapter first explores the factors that influence water conservation in the Canadian context. Having identified key facilitators of and challenges to successful conservation programming, it goes on to consider their relationship to various alternative service delivery models. It finds that most arm's-length models limit key facilitators of conservation, such as shared governance and delegation.

In keeping with arguments advanced in earlier chapters, however, the analysis also demonstrates that any progress on water conservation is necessarily limited if it remains the sole responsibility of utilities, regardless of the service delivery model. Thus, issues in governance and institutions must also be addressed. These include insufficient accountability, poor

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shared governance, and insufficient local authority. This in turn challenges the expectation that improved environmental performance will result from neoliberal reforms as articulated by proponents of liberal or market environmentalism.[70]

Following from the above, this study helps to move beyond the focus on best practices that permeates the logics of NPM and ASD. In the literature on NPM and ASD, similar governance and organizational reforms are expected to yield broadly similar outcomes across a variety of contexts. However, the focus on governance and institutional barriers to conservation shows that, whereas water efficiency is usually considered to be the responsibility of utilities, local and senior governments also have key roles to play. Improving environmental performance is not simply about the application of best practices or political will; it is often about governance and institutional arrangements that create barriers to progress.

While the depoliticization sought through ASD is expected to result in the business-like management of service delivery, Chapter 4 demonstrates that the governance barriers that ASD is expected to provide are leaky rather than impervious to politics, and that ASD models can succumb to politics of their own making. Further, Chapter 5 demonstrates how complex relationships within municipal government can affect the acceptability, and thus the effective implementation, of ASD. Chapter 6 shows that for performance on water conservation, governance and institutions at all scales are key factors regardless of the ASD model. All of these findings compel one to refocus the issue. That is, if it is neither so easy nor so beneficial to sideline municipal government through ASD, the concern must move toward understanding the essential interdependence of municipalities and service delivery.

As long as important challenges in municipal governance go unaddressed, attempting to build governance fences around services like water supply leaves the real issues unattended. This is important given that ASD cannot insulate water supply from these challenges. We need to stop asking how to use ASD to erect barriers between service delivery and municipal government. We need to ask better questions, such as how to strengthen municipal governance for the benefit of all services, and what role, if any, ASD can play in this regard. This is the subject of Chapter 7, the concluding chapter of this book.

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