

Levels of Service Strategic Sharing Group: Part 2 – Deep Dive into Internal and External Drivers for Establishing Levels of Service

Meeting Date February 1, 2021 from 1:00 p.m. – 2:30 p.m. EST
Facilitator Jenessa Doherty, Canadian Water Network

Developing levels of service should not be a one-size-fits all approach. Good programs are municipally specific and respond to customer, corporate and asset concerns at the local level. In an effort to move away from setting arbitrary levels of service, water, wastewater and stormwater utilities will need to first explore **why** they are moving forward with setting levels of service, **what** is driving this decision, and **how** levels of service are defined for the customer, the organization, and the asset. The goal of this meeting is to take a deep dive into the local needs that are driving levels of service development to gain a better understanding of potential approaches to address challenges and gaps.

The third meeting of the Strategic Sharing Group – **Advancing Levels of Service in the Context of Uncertainty** – was held on February 1, 2021. The objective of this meeting was to build on key concepts discussed in previous meetings while gaining a better understanding of the local contexts/landscapes among participating municipalities and the unique drivers that are currently influencing levels of service development. This meeting also aimed to lay the foundation for developing successful customer levels of service (see [meeting agenda](#)).

The meeting kicked-off with a guest presentation by Halifax Water. Presenters Cathie O’Toole, General Manager and Jamie Hannam, Director of Engineering and Information Services, provided an overview of the evolution of the Corporate Balanced Scorecard, creating a culture of collaboration and engagement at the utility, connecting levels of service to the organization’s mission and vision, and lessons learned along the way.

Following the presentation, Strategic Sharing Group members had the opportunity to ask questions of Cathie, Jamie and fellow participants concerning their respective challenges, approaches and best practices.

The meeting wrapped up with a facilitated group discussion about utility drivers for setting levels of service and what strategies utilities have adopted to engage employees in creating a culture of levels of service.

Below is a list of the specific themes that emerged from the meeting.

Summary of Municipal/Utility Priorities & Drivers

Key Drivers for Advancing Levels of Service Targets

- **Financial sustainability** is a key driver for many municipalities/utilities. The need to prioritize both levels of service while simultaneously finding the right funding, building internal awareness and understanding, and generating the right external messaging to justify spending continues to be a challenge for some.
- **Aligning corporate and asset performance with customer expectations** is a key driver for many municipalities. Alongside this is the drive to build the company culture necessary to **find alignment between organizational goals and customer outcomes**. One municipality expressed challenges with determining whether or not their organizational drivers were resonating with employees.
- One municipality indicated that **having a levels of service plan helps to address longer-term planning for the utility**. The drive to advance levels of service can generate baselines to project future capital investment needs, especially for regions that service lower-tier municipalities with diverse needs and service level requirements.
- **Affordability** is a key driver for some of the smaller municipalities who may not have the budget or resources that larger municipalities have. **Some smaller municipalities are willing to accept a lower level of service in order to avoid financial implications to customers**.

Cross-Department Collaboration, Employee Engagement & Creating a Culture of Levels of Service

- Many municipalities/utilities are still working on how to effectively bring different teams together and how to communicate key knowledge and awareness across divisions.
- Many municipalities highlighted that **collaboration across departments is critical to effectively moving forward with levels of service development**. Insights gleaned from input across departments help build levels of service that resonate across asset classes and asset levels.
- Municipalities with integrated resource plans indicated that they are updated every 3-5 years on average.
- Most **municipalities have engaged employees and fostered collaboration through diverse initiatives** including the creation of interdepartmental teams, working group meetings, and internal courses/workshops. One utility highlighted success in engaging employees across the organization through an annual 'State of the Utility' address given by the General Manager, whereby the GM would personally visit staff across departments at different locations to present current targets, strategic objectives, current year's

performance and areas for improvement. Another participant described partnering with a local college to create asset management levels of service courses/modules with professional association credit for all staff to encourage and maintain employee engagement.

- Most participants agreed that creating a culture of levels of service was a key ingredient to improving utility efficiency and getting staff across all departments on the same page and speaking the same language. **Regular and consistent participation and engagement of staff at all levels is critical** to generating a culture of levels of service within the organization.

Creating a Line of Sight Between Organizational Purpose and Performance Measures

- Most participating municipalities and utilities agreed that it was **important to either create or maintain a line of sight between the corporate purpose/mission and performance measurements/goals** in order to effectively show stakeholders (e.g. employees, customers, senior management, council) that the mission is effectively being achieved.
- Several participants agreed that it was important that this line of sight was understood, accepted and pursued not just from the top down, but from the bottom up.

Acquiring Council and Board Buy-In to Levels of Service

- Most municipalities agreed that the key to getting council and board buy-in to levels of service lies in **generating both bottom up and top down awareness and understanding of the importance of levels of service**. One municipality indicated that they have begun to explicitly communicate important levels of service information through budget presentations in order to generate the awareness and buy-in needed among board and senior executive members.
- At the municipal level, one participant suggested that **tying levels of service initiatives to council priorities** and finding ways to draw direct connections to local community needs was an important element of generating buy-in.
- It was echoed by most participants that **generating awareness and understanding of levels of service was critical to getting approval for necessary investments** that support and prioritize levels of service improvements within and across asset classes.
- Most **municipalities/utilities are struggling to identify capital needs and subsequently justify the capital investment required to move forward with levels of service**. There is a gap among some decision-makers and the community in understanding the necessary upgrades/improvements to maintain or establish levels of service.

Detailed Summary of Introduction, Presentation & Participant Insights

Part 1: Introduction

- New strategic sharing group member: Steven Murphy, Project Manager, Infrastructure and Operations Department, City of Thunder Bay
- Reminder: All meeting materials can be found on the Members Area of the website
- CWN welcomes any feedback regarding how to engage with the group's members

Part 2: Guest Presentation: The value of cross-department collaboration and employee engagement in informing Halifax Water's Corporate Balanced Scorecard

Cathie O'Toole, General Manager, Jamie Hannam, Director, Engineering & Information Services, Halifax Water

- Recognizing that what gets measured gets achieved, Halifax Water created a **corporate balanced scorecard (CBS) that was intended to be a performance measurement tool** for the utility. Now in its 20th year, the CBS has evolved and is now looking to link corporate levels of service to customer, technical and operational levels of service.
- Halifax Regional Municipality had simultaneously tried to adopt a CBS, but were unsuccessful. The main challenge being that **councils can perceive performance measures such as LOS or CBS as potentially constraining** or conflicting with the implementation of their own initiatives or projects funded as part of the business plan.
- The Utility, however, was very successful at implementing their CBS largely because the implementation inspired **collaboration across departments** and included a financial reward for employees under the total compensation framework whereby good results led to a performance bonus for employees.
- The financial award component is only one element of what has made the CBS a success. **The mission, vision and organizational indicators (OIs) for the utility were developed through deep engagement from staff** that included staff language and perspectives. This direct participation occurs annually and was a key ingredient to staff buy-in in the early days of the CBS. Being able to see how their activities have an impact on each of the OIs has been a critical element to employee engagement and staff buy-in of the CBS. **Halifax water has taken a top-down approach to create the mission, a bottom up approach to identify OIs and empowered the staff to tie it all together.**
- Being tied to as many objective and independently measured metrics as possible, the CBS is an effective tool that **provides an organizational performance measurement that can be presented to external stakeholders.**
- Under the CBS, there are 8 critical success factors, each with a number of OIs that can change from year to year depending on objectives and budget. Currently, there are 30 OIs in total.

- Halifax Water views **good asset management as a critical component of total utility management**. They are currently trying to leverage staff participation and collaboration as they move forward with asset management planning by **establishing implementation teams to bring staff from across the utility to the same table** to discuss asset classes alongside utility executives.
- Although they are advanced in terms of establishing asset management plans, Halifax Water is still in the early stages of establishing levels of service and defining what they mean to the utility. They are currently trying to adopt an approach similar to the CBS as they develop levels of service targets – **connecting day-to-day activities with the organization's mission and vision**.
- Halifax Water's **main driver for establishing levels of service is improving efficiency at the utility**. However, connecting daily activities to the overarching corporate mission and purpose is absolutely critical for Halifax Water. The goal is to make sure the levels of service statement makes sense from a broader corporate perspective and that it is measurable through day-to-day activities. More importantly, Halifax Water is striving to maintain a direct line of sight so that the measurement of specific indicators can effectively show that the mission is being achieved. As a result, when considering levels of service, Halifax Water is asking key questions to maintain that direct line of sight (e.g., Who are we serving? How do we know if we have served them well? What can we realistically deliver? What can we afford?)
- Halifax Water is undergoing a high-level review of their levels of service process by identifying both organizational objectives (corporate levels of service and strategic direction statements) at the top and service objectives (customer and technical levels of service and operational indicators) at the bottom. The ultimate goal of this review is to **build out a sequential Levels of Service Framework that defines levels of service, standards, and targets**.
- The Utility has begun the process by identifying a few simple, high-level definitions of what service needs to look like for water quality, system performance, service value, and customer service.
- The future goal for Halifax Water is to **improve capital project prioritization and link levels of service to long-range financial planning**. To do this, Halifax Water is working on a **template that can be used to prioritize projects**. Currently, they are effective at prioritizing within service areas and within asset classes but are working on improving cross-service area and cross-asset class prioritization.
- Levels of service is just one of the factors within this template; however, Halifax Water currently has an integrated resource plan (IRP) – a 30-year capital plan to meet the requirements of asset renewal, growth and environmental compliance. Ideally, they would like to incorporate levels of service into this IRP. As such, Halifax Water is

evaluating different funding strategies to assess the most effective way to incorporate the impact that these different strategies will have on levels of service now and into the future.

In the discussion that followed our guest experts' presentation, a number of key themes emerged with respect to collaborative partners, perception of the compensation framework, long-range financial planning scenarios, tracking performance over time, and key challenges in moving forward with the corporate balanced scorecard, organizational indicators and levels of service.

- One municipality was interested in the **optics of tying performance measurement to employee bonuses**, whether there were objections from the ratepayer, and how this was overcome. Halifax Water indicated that this structure has not been controversial. This is mainly because the **program is designed to be self-funded** (e.g. if the financial threshold/ratio is not met, there is no award). Bonuses are also paid out along a spectrum depending on the success of aggregated organizational indicators. Some years the reward is 95% and other years it might be 50%. This helps position the rewards as sustainable. Self-funding also allows employees to see a direct correlation between performance and the award. In its 20-year existence, there have been only 3 years where there was no award.
- When asked **which representatives were consulted on the asset management plan (AMP)**, Halifax Water indicated that the water distribution asset class and asset management implementation teams are both regularly engaged on the AMP alongside the senior manager of capital project delivery, operations engineer, and others. In general, there are about 4 representatives from outside of the asset management group, but with expertise in the asset classes that are relevant.
- EPCOR has a similar performance measure approach that employees participate in. There is also a subset of those measures that go to the regulator and can result in rate penalties that impact the allowable rate increase in the following year if targets are not met. More recently, EPCOR has had to pay attention to funds from operations (FFO). As a result, the Utility has had to develop new tools to assess the cost-benefit analysis of both operating and capital costs as well as revenue requirements from rate payers, which all shifts utility capital.
- One utility was interested in understanding **how financial scenarios in the IRP were managed considering growth rates can change and how often IRPs are updated**. Halifax Water indicated that their initial iteration of the IRP in 2012 attempted to project new operating costs associated with certain types of projects; however, they did not have a good indication of how new capital programs would impact internal costs and the resource planning associated with that level of capital spend (e.g., number of employees needed to implement program). There are opportunities in future to refine the budget to

project the operating costs of new capital. Halifax Water recently completed an update of the IRP at the 5-year mark in 2019. The IRP is currently similar to a 30-year capital reinvestment plan as they are still trying to understand how to take a fully integrated approach. The biggest gap has been to truly understand their capital needs. The IRP has 3 key driving factors: asset renewal, regulatory compliance, and growth. Their goal is to make sure that they are addressing each of these factors both independently and in an integrated way. Halifax Water is making good progress now but still trying to transition from a 30-year capital plan to a truly integrated resource plan.

- One follow-up question that emerged was related to **whether or not integrated support plans for IRPs have been developed to track past performance and to help during handover**. Halifax Water indicated that this is an aspirational goal. This is an area Halifax Water would like to improve on. As part of their annual regulatory compliance requirements, they do have to report to the board on their level of capital spend as it relates to their IRP. They do report on how they are doing on their IRP implementation and also on financial performance (surpluses, spend, etc.); however, these two reporting measures typically differ and are not exactly aligned each year.
- With respect to **who has been engaged in developing the IRP, including stakeholders outside the utility and across sectors**, the answer differs depending on whether it is the CBS or levels of service development as part of the IRP. For the CBS, the two unions groups plus non-union employees have been the main stakeholders since the inception of the CBS. In addition, the Halifax Water Board and their regulator (Nova Scotia Utility Review Board), and their environmental regulator (to a lesser extent). For the IRP, there has been quite a bit of engagement from a variety of outside agencies to seek input including with the municipality (to ensure alignment with their planning projections); with developers; and with provincial and federal regulators.

Part 3: Group Discussion – Deep Dive into Utility Drivers for Setting Levels of Service

In response to the question **“What is driving your organization to advance levels of service? Think beyond regulatory requirements and more specifically about local and community drivers e.g. financial sustainability, flooding, population growth/ urban densification, equity and affordability, resilience etc.)”**, the following themes/concepts were discussed.

| Municipality/ Utility | Response |
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| City of Calgary | City of Calgary has three key drivers: <ol style="list-style-type: none"> 1. Financial sustainability (external driver) with a focus on efficiency and good utility practice, constraint on rate, and to arrest growth on rate over time. In addition, they are experiencing challenges in making |

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| | <p>direct correlations between different investments and specific customer levels of service.</p> <ol style="list-style-type: none"> 2. Customer focus (external driver) with the priority of taking a deep dive into what customers expect and linking customer outcomes with organizational goals. This ties directly into the company culture piece, which has simultaneously been City of Calgary's greatest barrier and greatest opportunity. Currently, they are unsure about whether or not drivers are resonating with employees, so right now City of Calgary is trying to establish how to engage employees and at what level to build a culture of levels of service and better link performance to outcomes. Halifax Water's CBS is a big opportunity for Calgary and could resonate more with employees to help tie performance measures to outcomes. 3. Organizational realignment (internal driver) with the main purpose of accelerating progress on levels of service and creating a line of sight. The company culture piece is simultaneously City of Calgary's greatest barrier and greatest opportunity |
| <p>Metro Vancouver</p> | <ul style="list-style-type: none"> • Metro Vancouver's wastewater department has a scorecard as well. They are trying to link scorecard metrics and performance against capital projects to get board approval for future project investment. Similar to Calgary, they are also struggling to communicate and justify spending money on projects that could burden rate payers. Three out of five treatments plants are being replaced or upgraded as a result of growth/regulatory reasons. The wastewater department's main driver right now is to link the levels of service philosophy and principles to the capital plan and performance in an effort to generate awareness among board and senior executive members. To do this, they have started to communicate this information more explicitly through their budget presentations. • The drinking water side of Metro Vancouver has not yet created their own scorecard. Their main driver is financial constraints and financial sustainability. They do have levels of service markers/guides that compare year to year performance, but this is currently an internal process. 50% of the capital plan is growth/upgrade related, so there is a lot of concern about how they are going to generate messaging around current/future capital projects so that customers understand the need for the projects. |
| <p>EPCOR</p> | <ul style="list-style-type: none"> • EPCOR has a balanced scorecard and several individual performance measures. These performance measures feed into their strategic plans and short-term incentive program that includes employee |

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| | <p>payouts. There is a subset of these performance measures that are submitted to the City of Edmonton for each 5 year PBR period and a third-party auditor reviews annually. Rate increases are based on inflation factors within the PBR period, but the utility is also penalized for poor performance if the performance standard is not met.</p> <ul style="list-style-type: none"> • EPCOR's IRP plans do not only focus on capital analysis. Instead, they also focus on customer and regulatory operational dimensions. This allows the IRP to be updated every 3-5 years with the most current understanding of the interactions of capital and operations investments and regulatory drivers. Capital analysis is also assessed as part of the 10-year long-term financial plan updated every year. |
| <p>City of Kitchener</p> | <ul style="list-style-type: none"> • City of Kitchener recently went through a re-organization where they combined their sanitary and stormwater utilities. This resulted in taking on a larger portfolio without the resources required to execute it. Currently, they are trying to update their resource plan to effectively manage levels of service drivers to include regulation, growth (Kitchener is one of fastest growing cities in Canada), and aging infrastructure. Having a levels of service plan helps them address longer-term planning for their utility, especially in the context of climate change resilience (higher precipitation events, more frequent storms). These will be City of Kitchener's drivers for next 5-10 years. |
| <p>York Region</p> | <ul style="list-style-type: none"> • Historically, the driver to advance levels of service was to generate baselines as a tool in projecting future capital investment needs. • Now, there is a drive to better understand levels of service for each of the 9 lower-tier municipalities that York Region services. Currently, many service levels, although meeting regulatory compliance, are not standardized across the Region. The drive is to understand, assess, and document performance at each of the municipalities and to try to ascertain who is receiving what kind of service, what differences exist, and why. • Another driver has been drawing the connection between critical equipment and customer experience. York Region has been developing levels of service hierarchies to draw a line of sight from critical equipment to what the customer receives to what the organization can commit to. • More recently, York Region has been engaging employees through asset category working group meetings to determine asset-specific levels of service. The goal of this process is to inform a 16-step current and proposed levels of service worksheet. |

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| Ontario Clean Water Agency | <ul style="list-style-type: none"> For the smaller municipalities they serve, affordability is a key driver. Distinguishing between what the community wants versus what they can actually afford is critical. In general, smaller municipalities are willing to settle for a slightly lower level of service in order to avoid the financial implications to customers. In general, there are large shifts in priorities from one council to the next. Defining levels of service is helpful in that it creates a baseline that can help combat against the changing priorities that can come from changing mayor and council. |
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In response to the question “**What strategies has your organization used to engage employees and create a culture of levels of service?**”, the following themes/concepts were discussed.

| Municipality/ Utility | Response |
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| City of Vancouver | <ul style="list-style-type: none"> Roughly 5 years ago the water division started to engage employees by assisting field staff in identifying metrics that could be used to measure and assess performance. These assessments were then connected to higher-level service metrics. In an effort to avoid tracking unnecessary metrics, the water division is now trying to scale back to determine exactly what they need to measure to track performance accurately. In addition, they are working closely with superintendents and making sure decision-makers are involved in setting levels of service. For the sewer and drainage planning team, they are starting to ask questions about the required planning and performance standards that allow them to meet a particular level of service for each technical asset. Additionally, they are still working on communicating more effectively across divisions on levels of service, including how to incorporate key knowledge and awareness back to the broader levels of service discussion. Some of their challenges are exacerbated by the fact that the municipality is siloed. This is something they are working on. |
| Halifax Water | <ul style="list-style-type: none"> One of the things that Halifax Water has done well is maintain employee engagement in the development of CBS and levels of service. This was accomplished in large part through efforts by the previous General Manager who did a State of the Utility address every year. This was a mandatory session for all employees. General Manager would go out and personally present current targets, strategic objectives, previous year’s performance and areas for |

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| | improvement etc. to all staff at various locations. This initiative is still active, but is now done virtually in light of COVID-19. |
| City of Thunder Bay | <ul style="list-style-type: none"> • Currently focused on ensuring performance measures and levels of service are easily implementable by and understandable for all employees. |
| Ontario Clean Water Agency | <ul style="list-style-type: none"> • A key initiative to engage with employees was through the offering of mandatory asset management and levels of service courses/modules developed in partnership with Fleming College. It enabled staff to get on the same page and speak the same language when it comes to levels of service. Some operations staff were given credits by their professional governing body, which was an added incentive. |

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Attendees

| Name | Title | Municipality/Utility |
|----------------------------|---|-----------------------------|
| Shannon Abbott | Water Utility Manager | City of Calgary |
| Meaghan McClurg | Program Lead (Service Levels) | City of Calgary |
| Bu Lam | Director, Sanitary & Stormwater Utilities | City of Kitchener |
| Leah Walter | Manager, Maintenance and Operations for the Sanitary and Stormwater Utilities | City of Kitchener |
| Lindsay Menard | Process Engineer | City of Thunder Bay |
| Steven Murphy | Project Manager, Infrastructure & Operations Department | City of Thunder Bay |
| Michelle Revesz | Integrated Sewer and Drainage Planning Manager | City of Vancouver |
| Brandon Hildebrandt | Asset Manager | City of Vancouver |
| Susan Ancel | Director One Water Planning | EPCOR |
| Jamie Hannam | Director, Engineering & Information Services | Halifax Water |
| Cathie O'Toole | General Manager | Halifax Water |
| Chris Woo | Senior Project Engineer, Project Management Office, Project Delivery | Metro Vancouver |
| Mike Searle | Program Manager, Project Management Office, Project Delivery | Metro Vancouver |
| Karen Leung | Senior Project Engineer, Project Management Office, Project Delivery | Metro Vancouver |
| Lisa Babel | Director, Project Planning and Delivery | OCWA |
| Michael Latimer | Research and Initiatives Advisor, Corporate Asset Management | York Region |