



Bruce Area Solid Waste Recycling Member Municipalities

**Municipal Services Corporation
Business Case**

Final – Public Business Case

July 6, 2026



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01

Background Context and Case for Change



Current State Overview

BASWR currently operates under a joint undertaking model that has historically supported collaborative service delivery across member municipalities. While this model has enabled effective day-to-day operations, it was not designed to meet the increasing governance, financial, and reporting requirements associated with today's operating environment.

Current model characteristics

- **Legacy 1999 joint undertaking structure:** BASWR's current governance structure is a legacy joint undertaking from a 1999 agreement that involves member municipal participation and Board oversight.
- **Lean operating model:** Stakeholders described BASWR's operations as reliable and efficient but also noted that performance has been delivered through a lean operating model with reliance on long-tenured personnel and institutional knowledge.
- **Informal reporting and communication channels:** Stakeholders indicated that reporting to member municipalities and Councils has been inconsistent. This limits Council-level visibility into BASWR's financial position, operational performance, risk profile, and strategic direction.
- **Evolving role under the recycling transition:** Recycling transition and related system / contracting changes have altered BASWR's role, including movement toward a collection / hauling-by-contract model, requiring reassessment of BASWR's mandate, operating model, and risk profile.

Key strengths

- **Operational reliability:** Stakeholders generally viewed day-to-day service delivery as strong and reliable, recognizing BASWR's ability to continue delivering services through a lean operating model.
- **Municipal collaboration:** The current structure has enabled participating municipalities to collaborate on shared service delivery and maintain local involvement in BASWR's governance and operating direction.
- **Cost-conscious operating culture:** Stakeholders characterized BASWR as operationally effective and cost-conscious, while also noting that increased contract, regulatory, and reporting demands are adding workload pressure and administrative complexity.

Key structural limitations

- **Governance is not sufficiently formalized:** Stakeholders described the current governance structure as outdated and not fit-for-purpose, with unclear roles, authorities, and decision rights relative to current accountability expectations.
- **Council oversight is inconsistent:** Stakeholders indicated that reporting to Councils has been limited, inconsistent, and often indirect, reducing visibility into budgeting, operational decisions, and risk posture.
- **Capacity and continuity risks are increasing:** The reliance on a lean team and long-tenured individuals creates exposure to key-person dependency, succession risk, and knowledge continuity risk.
- **Financial and contractual risk requires clearer oversight:** Stakeholders identified the need for clearer financial, legal, and liability separation, particularly for borrowing, capital investments, contractual obligations, reserve strategy, and dividend / retained earnings decisions.

While the current model has supported service delivery to date, it lacks the formal governance, financial structure, and accountability mechanisms required to support BASWR's future operating environment. Due to this, the BASWR member Municipalities engaged KPMG to prepare a business case for the transition of BASWR to a MSC.

What is a Municipal Services Corporation (MSC)?

Statutory Authority

MSCs in Ontario are established under the *Municipal Act, 2001*, which provides the legal framework for their creation and operation. Specifically, Section 203 of the Municipal Act empowers municipalities to form corporations dedicated to delivering municipal services. This authority allows for more efficient and effective service delivery through a separate legal entity that can operate with greater flexibility than the municipality itself.

Mandate

An MSC is a corporation that provides a system or service that a municipality itself could provide. The shares of an MSC must be wholly owned by a municipality or jointly owned by a municipality and one or more public sector entities. The shareholders are entitled to all voting shares allocated to the corporation's members. Notably, MSCs are not required to be entirely owned by a single municipality; they can facilitate shared service initiatives between multiple municipalities. However, MSCs can only operate within the geographic boundaries of a municipality with the explicit permission of that municipality.

Corporation Governance

As a corporation, the BASWR MSC would be expected to operate under corporate governance principles, including clear roles for shareholders, the Board of Directors, and management. Directors would have statutory and common law duties, including a fiduciary duty to act in the best interests of the corporation. This will be particularly important for municipal representatives, who will need to distinguish between their role as municipal elected officials and their role as directors of the MSC. For BASWR, the governance framework should clarify:

- the role of the member municipalities as shareholders;
- the authority delegated to the MSC Board;
- the role of management in day-to-day operations;
- the matters reserved for approval; and
- how reporting and accountability back to member municipalities will occur.

Articles of Incorporation

Registering the corporation requires completing a name search (to avoid duplication) and drafting articles of incorporation (which include share structure), as well as listing at least one initial director, office address, and contact person, pursuant to the Ontario Business Corporations Act or the Not-for-Profit Corporations Act, 2010.

For BASWR, the incorporation documents should be flexible enough to support current waste and recycling services, potential future service expansion, and the possible admission or exit of municipal participants, while ensuring major changes remain subject to approval.

O. Reg. 599/06

Ontario Regulation 599/06 establishes specific requirements that will need to be addressed as part of BASWR's transition to an MSC. These include requirements related to the business case, public consultation, asset transfer policies, and certain governance and accountability obligations. For BASWR, the Regulation should be interpreted through the lens of a multi-municipality, municipally owned waste / recycling services corporation. This means the governing documents should clearly address:

- how multiple municipal shareholders exercise control;
- which decisions require approval from all or some shareholders;
- how assets, liabilities, contracts, and obligations are transferred or assigned;
- how policies required under the Municipal Act apply to the MSC; and
- how privacy, procurement, hiring, land disposition, and related policies will be managed.

Case for change

The case for change is driven by structural and external pressures that are increasing some complexities related to BASWR operations along with new risk and accountability expectations. Transitioning to an MSC provides an opportunity to modernize the governance and operating model to better align with these evolving requirements.



Governance modernization and role clarity

BASWR's legacy joint undertaking model has supported collaboration among member municipalities, but it does not provide the formal role clarity, delegated authority, reporting structure, and oversight required for a profitable corporation. An MSC structure would clarify the distinction between municipal shareholders, the Board of Directors, and management, while preserving municipal control over major decisions.



Shift to contract-based accountability

Some operational complexity has been reduced as BASWR is no longer as exposed to sorting, storing, transporting, and selling recyclable materials in commodity markets. However, the organization's risk profile has shifted toward contract oversight, performance expectations, revenue dependency, and corporate accountability.



Financial governance and sustainability

The current contract model provides greater revenue predictability than prior commodity-market exposure, but it also requires clear processes for budgeting, capital planning, reserves, retained earnings, dividends, contract renewal, and reinvestment.



Accountability and transparency expectations

Member municipalities require consistent visibility into BASWR's financial position, service performance, risks, and future direction. An MSC structure would support standardized reporting, clearer escalation points, and the flexibility to consider future service expansion where beneficial to the shareholders.



Legal structure to support business operations

An MSC provides a clear and enabling legal structure for BASWR to enter into contracts, hold assets, employ staff, manage reserves, and make business decisions within defined municipal-approved limits.

The need for change is driven by governance, financial, and operational realities, not by current service performance—establishing an MSC is about ensuring BASWR can operate effectively and sustainably in a more complex future environment.

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Proposed Governance Model



Current State and Future State

The proposed MSC model is intended to modernize BASWR's governance structure while preserving municipal ownership, local representation, and the operational strengths that have supported service delivery to date.

01

Current State – 1999 Joint Undertaking

BASWR currently operates under a legacy 1999 joint undertaking model that has supported reliable, cost-conscious service delivery and municipal collaboration. However, the model was not designed for BASWR's current environment, which now requires clearer governance, more consistent Council reporting, stronger financial and contractual oversight, and more clearly defined decision rights.

02

Future State - MSC

Under the proposed model, BASWR would become a municipally owned MSC, with the seven member municipalities acting as shareholders. A nine-member hybrid Board would govern the corporation through Board oversight, and BASWR management staff would lead day-to-day operations. Major matters affecting mandate, ownership, financial exposure, service obligations, or municipal entry / exit would remain subject to approval by each member municipal council as shareholder.

In the proposed MSC, the BASWR member municipalities would directly hold the equity ownership interest in the corporation as shareholders. The BASWR MSC would deliver waste and recycling-related services through defined service agreements and report to its municipal shareholders through a formal accountability framework. The MSC is intended to:

- Define a formal corporate structure for BASWR's waste and recycling-related services.
- Strengthen governance, financial oversight, contract management, and risk management.
- Establish clearer legal, financial, and accountability boundaries between BASWR and its member municipalities.
- Support long-term sustainability, reinvestment planning, future service expansion, and municipal value creation.

MSC Terms of Reference Key Components

The infographic below highlights the key elements of the proposed MSC's terms of reference.

Mandate and purpose

This section of the Terms of Reference should outline the MSC and Board's overarching role in providing strategic oversight, ensuring regulatory compliance, safe operations, and acting in the best interests of the corporation and its shareholders (member municipalities).

Roles and responsibilities

This section would define the duties of the Board collectively and of individual directors, including approving budgets and strategic plans, overseeing risk management, etc.

Composition and appointments

This section would specify the number of Directors, eligibility criteria, appointment process, term lengths, and expectations for skills, diversity, and independence.

Meetings and quorum

This section would detail the frequency of meetings, quorum requirements, notice procedures, and use of committees or closed sessions, ensuring transparency and efficiency.

Code of Conduct / Conflict of interest

This section would outline the ethical standards, confidentiality, and processes for declaring and managing real or perceived conflicts of interest in accordance with bylaws and Provincial legislation.

Reporting and accountability

This section clarifies the Board's reporting obligations to the shareholders, including, if required, annual business plans, audited financial statements, and performance evaluations.

Legal Considerations and Governing Documents

The infographic below outlines the key legal instruments and governance documents required to establish and operate an MSC, including the legal authority under the Municipal Act, 2001, and mechanisms for municipal oversight, and the framework for service delivery.



Legal Authority

The MSC would be established under Ontario's Municipal Act, 2001 and O. Reg. 599/06, which allow municipalities to create corporations for municipal purposes. These requirements include preparation of a business case, public consultation, adoption of required policies, and Council approval through by-law before the corporation is formed.



Shareholder Agreement/Declaration

This agreement would establish the governance framework and set out the expectations of the shareholders. Some key elements may include:

- Roles and powers of the shareholders and Board
- Reserved matters for shareholders (e.g., asset sales, borrowing limits)
- Reporting requirements and performance measures
- Board appointment and removal processes
- Strategic alignment with municipal objectives
- Setting targets for return on capital, if any.



Asset Transfer Agreement

As outlined in Ontario Regulation 599/06, prior to creating an MSC, the member municipalities must:

1. Determine any assets that would be transferred to the MSC.
2. Determine current ownership of those assets.
3. Adopt policies related to the transfer of assets to the MSC.

The policies may include:

- Description and valuation of assets and liabilities transferred
- Financial adjustments or debt assumptions (if required)
- Transitional provisions
- Insurance provisions



Master Services Agreement

This agreement would define the service relationship between the BASWR MSC and each participating municipality, including which waste and recycling-related services the MSC will provide, to whom, and under what terms. It would clarify service standards, reporting, pricing or cost-recovery, contract length, renewal and termination rights, and how services can be added or changed over time.



Administrative Services Agreement(s)

This agreement would define how the BASWR MSC obtains the corporate and back-office support needed to operate as a formal corporation. These supports may be provided through member municipalities, third-party providers, or internal MSC capacity, and may include finance, HR, payroll, procurement, IT, legal, insurance, records management, Board administration, audit coordination, and performance reporting.

Reporting and Accountability

The BASWR MSC should have a clear reporting and accountability framework that keeps member municipalities informed without drawing Councils into day-to-day operations. Reporting would provide consistent visibility into financial performance, service delivery, risk, capital needs, and major decisions, while remaining practical for a lean organization. Detailed requirements can be formalized through the MSC's governing documents during incorporation. The infographic below provides additional context on the proposed reporting and accountability mechanisms that would support oversight while preserving the BASWR MSC's operational independence.

Annual General Meeting

Purpose: Submitted to the Board for approval and to municipal shareholders for information or approval where shareholder-reserved matters are triggered, before the start of the fiscal year.

Timing: Held within 6 months of fiscal year-end.

Key elements include:

- The MSC's strategic plan
- Annual budget (for information);
- Five-year financial forecast; and,
- 10-year capital plan;
- Performance metrics

Audited Financial Statements

Frequency: Annually, reviewed by the MSC's Finance Committee and approved by the Board prior to presentation to Shareholders.

Key contents:

- Balance sheet, income statement, cash flow statement.
- Notes on financial risks, liabilities, capital assets.
- Auditor's opinion.

Purpose: Enables the shareholders to verify financial integrity and compliance with Public Sector Accounting Standards (PSAS) or IFRS (as applicable).

Annual Business Plan and Budgets

Timing: Submitted to Shareholders as information only before the fiscal year begins.

Includes:

- Strategic priorities for the year.
- Operating and capital expenditure plans.
- Performance targets and key performance indicators (KPIs).

Transparency Measures

Public release of:

- Annual reports.
- Audited financials.
- Key decisions and performance summaries (e.g., board highlights).
- Any material change in operations, liabilities, or financial outlook

Regular communication and information sharing between the Executive Director and Board, and Member Municipalities is expected.

Source: Lerner LLP

Member Municipality Council Responsibilities

The table below illustrates how responsibilities would shift from the current joint undertaking model to the future MSC model. Under the MSC model, member municipality Councils would retain important ownership and oversight responsibilities as shareholders, while the Board and management would assume clear responsibility for corporate governance and day-to-day operations. This shift is intended to preserve municipal accountability while reducing ambiguity in decision-making and strengthening BASWR's ability to operate as a business-oriented service delivery entity.

Council Responsibility	Current State	Future State
Ownership/ participation in BASWR/ MSC	✓	✓
Appointment of Board representatives	✓	✓
Approval of BASWR's mandate/ business scope	✓	✓
Approval of capital budget/ major capital commitments	✓	
Approval of operating budget	✓	
Borrowing and debt commitments (as prescribed by Shareholders' Agreement)	✓	✓
Approval of ownership structure and economic rights (e.g., Dividend payout percentages)		✓
Asset ownership and transfer decisions	✓	✓
Day-to-day operations		
Municipal exit/ new participant decisions	✓	✓

03

Financial Analysis



Financial Analysis of the MSC

The financial analysis of the BASWR MSC is based on assumptions and forecast data and reflects current expectations for contract revenue, municipal and miscellaneous revenues, operating costs, MSC-related governance and audit costs, and capital and reserve requirements.

The model indicates that the proposed BASWR MSC is forecast to generate positive operating income. While the MSC demonstrates positive financial performance over the current forecast period, the analysis highlights several important considerations:

1. The ongoing reliance on the Waste Management/CMO contract as the primary revenue source
2. The need to continue aligning operating costs with changes in municipal waste service delivery;
3. The importance of maintaining capital and reserve funding to support fleet, equipment, and operational continuity; and
4. The need for disciplined Board oversight over future surplus, dividend, reserve, and reinvestment decisions.

Overall, the projections indicate that the proposed MSC can operate on a financially sustainable basis during the current forecast period, while also creating potential capacity for reserve funding, reinvestment, and/or future dividend consideration.

Long-term sustainability will depend on effective cost management, contract renewal or replacement revenue, and continued alignment between service scope, capital needs, and the MSC's operating structure.

04

Implementation Plan



Implementation Plan

Following the acceptance and endorsement of the business case by member Councils, the member municipalities should look to complete the following activities to incorporate BASWR as an MSC.

Key Activities	Implementation timeline: 6 – 12 months																																			
1. Incorporate the MSC as a legal entity. In doing so, the member municipalities should: a. Obtain support from legal counsel with experience in the establishment of MSCs under the Regulation. b. Ensure that the articles of incorporation of the MSC are structured to meet the definition of a Government Business Enterprise for financial reporting purposes. c. Ensure that the articles of incorporation are structured to meet the requirements for tax exempt status under Section 148.1(c) of the Income Tax Act. 2. Develop appropriate governance and operating policies for the MSC, including terms of reference for the Board of Directors of the MSCs, corporate by-laws, agreement and directions, asset purchase agreement, asset transfer policy, and operating framework. These policies ensure accountability, protect public interest, and provide operational guidance for the MSC’s leadership. Once established, these policies should be presented to, and approved by, the shareholders as well as the MSC Board. 3. Recruit and appoint the MSC board as outlined in the proposed governance structure section of the report. 4. Adopt an asset transfer policy as required under Ontario Regulation 599/06 that would establish the framework for the transfer of assets from any of the shareholders to the MSC. This includes ensuring legal compliance, setting valuation methods, and addressing risk, ownership, and liability implications. Once completed, conduct the asset transfer. 5. Establish a Master Services Agreement, if required, between the MSC, and any of the shareholders to define the roles and responsibilities of each party with respect to the services being provided by and to the MSC. 6. Establish an Administrative Services Agreement between the shareholders and the MSC for the corporate management. 7. Initiate ongoing communication with staff to keep them informed about progress and implementation timelines for the MSC. Provide clarity on structural changes, roles, and expectations to foster collaboration and address concerns.	<table><tr><th>Activity</th><th>0 – 3 months</th><th>3 – 6 months</th><th>6 – 9 months</th><th>9 – 12 months</th></tr><tr><td>Incorporation of the MSC</td><td></td><td></td><td>➡</td><td></td></tr><tr><td>Development of Appropriate Governance and Operating Policies</td><td></td><td></td><td>➡</td><td></td></tr><tr><td>Recruit and appoint Board members</td><td></td><td></td><td></td><td>➡</td></tr><tr><td>Adoption of an Asset Transfer Policy</td><td></td><td></td><td></td><td>➡</td></tr><tr><td>Establish a Master Services Agreement</td><td></td><td></td><td></td><td>➡</td></tr><tr><td>Establish an Administrative Services Agreement</td><td></td><td></td><td></td><td>➡</td></tr></table>	Activity	0 – 3 months	3 – 6 months	6 – 9 months	9 – 12 months	Incorporation of the MSC			➡		Development of Appropriate Governance and Operating Policies			➡		Recruit and appoint Board members				➡	Adoption of an Asset Transfer Policy				➡	Establish a Master Services Agreement				➡	Establish an Administrative Services Agreement				➡
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Each activity within the implementation plan requires work. To successfully establish the MSC, member municipalities will need to ensure that their strategy for implementation is well-thought out, timely, and sufficient internal capacity exists to complete this work.



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No reliance should be placed by Client on additional oral remarks provided during the presentation, unless these are confirmed in writing by KPMG.

KPMG has indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.



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