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Proposed Corporate Utility could be Costly to Winnipeggers

Today, the Mayor and Executive Policy Committee will consider a motion to establish an arm's length Municipal Corporate Utility (MCU) to take over operations of Winnipeg's Water and Waste Department. According to the recommendations of City officials and the MCU Business Plan, the Utility will operate more efficiently than the current department, produce the upgrades to the City's wastewater treatment system mandated by the Province in a timely manner, and do it at a lower cost than the City could do under its current ownership structure. The MCU proposal is tied to the sale of services to other municipalities and the pursuit of a Public Private Partnership (P3) with a private sector Strategic Partner to deliver "upgrades and expansions and the operations of all three sewage treatment facilities" currently owned and operated directly by the city (MCU Business Plan, p.35).

Several concerns have been raised by community groups regarding the nature of the new MCU-P3 model. Since the new Utility would be run by an appointed board of directors who are only weakly accountable to City Council, there is concern that there will be a reduction of public oversight and accountability over essential public services and access to information[1]. It is also not clear why a separate corporate entity is necessary to overcome the challenges faced by the current Water and Waste Department. Finally, there is concern that the proclaimed cost benefits of the model are over-stated and some broader implications have not been considered.

The Business Plan references three main sources from which the projected net savings are expected to arise. The first is the anticipated reduction in operating costs due to "synergies" associated with the Utility model (p. 5), the second is savings from the Strategic Partnership (P3), and the third is the profit from selling services to other municipalities in the greater Winnipeg region.

When broken down, it is the P3 arrangement that is anticipated to realize the bulk of these savings. Of the projected net savings over the next six years, the Strategic Partnership accounts for $9.3 million or 46% of the savings. The "synergies" are expected to save $6.4 million or 32% of the cost savings, and the sales of services to other municipalities $2.6 million or 13%. These net savings are a key part of the City's argument justifying the new Utility. Given that these projections carry a substantial portion of the weight of the argument in favour of the MCU, one would expect that these projections would be extensively and objectively assessed. Unfortunately for Winnipeggers this does not appear to be the case.

1 For more details on this point and others in this document see the CCPA-MB's submission to the EPC regarding the MCU available at: www.policyalternatives.ca/reports/2009/07/reportsstudies2263/?pa=A2286B2A

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The Business Plan cites eight sources as its basis for the projected cost savings of the Strategic Partnership (P3) model. Out of the eight references, four are from reports or websites published by P3 advocacy organizations, and one is from the website of a water company responsible for P3s. Two of the remaining references are from a PowerPoint presentation by a civil servant of the City of Seattle that was posted online. Only one of the publications provides detailed references to its information sources. None were studies that looked at a broad and objective sample of water P3s, and none were published in peer-reviewed journals.

The Business Plan provides nine specific P3 projects as a basis for its cost savings projections. This is a small and selective sample, and ignores well-known P3 water projects that have been more costly than their public sector comparators such as the Hamilton Wentworth water treatment P3. It also ignores the cases where municipalities did public sector comparators and decided on the non-P3 option because it was more cost effective. Even within the small sample selected in the Business Plan there are problems with the reported figures and omitted information. For example, the Moncton water treatment P3 was based on a faulty comparator where the public plant had older technology and 33% more processing capacity.

Cost savings due to "synergies" are equally vague and poorly substantiated. The Business Plan simply asserts that "as a result of purchasing processes more customized to the Utility's needs and more ability to negotiate contracts and to work with others to obtain purchasing synergies or greater volumes, it is expected the Utility will achieve a 1.0% savings in the first year and 1.5% savings in subsequent years on its operating costs" (p.62). Regarding the sales of services to other municipalities, that option is now available under the current department structure, and should not be seen as an advantage or new revenue source only available to the MCU model, despite being accounted for as such in the Business Plan.

While the projected savings seem precarious and based on selective information that favours the P3 option, the additional costs to the City are expenses that must be incurred to proceed with the proposed model. These include the costs of short term set-up, the negotiation of asset management agreements and service level agreements between the City and the Utility, using the Public Utility Board to set rates, and the development of employee transition agreements. Additionally, there are the substantial costs of negotiating and enforcing the P3 arrangements, which are incredibly complex legal agreements. The City also expects the partner to assume some risk transfer, for which they will need to be compensated. P3s based on private borrowing also face higher borrowing costs than governments, and because the Partner is a for-profit corporation, a private return must be accounted for as well. These are all real costs that must be made up for through "efficiencies" created in the MCU-P3 model, which as noted above have not been well established.

Given the fact that direct public ownership has served Winnipeg well for over 70 years and that the benefits of the MCU-P3 model have not been well established, the CCPA-MB believes the City should commission an independent public sector comparator by an appropriate third party to objectively compare the costs of pursuing the MCU-P3 model with the cost of undertaking upgrades under the current public ownership structure.

The city should follow the precautionary principle and delay the formation of the Utility until such a comparator can be undertaken.

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