

Intelligence MEMOS



From: Benjamin Dachis
To: Toronto Mayor John Tory and Toronto City Council
Date: January 17, 2017
Re: **DON'T SEND WASTE COMPETITION TO THE DUMP**

There's a lot of trash talk happening at Toronto City Hall. The city currently has private contractors collecting household waste in the western half of the city. Toronto City Council [will soon decide](#) on whether to contract out collection work in one of the remaining parts of the east of the city where municipal employees currently do. It should remember that savings do not necessarily come from privatization – but through competition.

The [evidence shows](#) that when Ontario cities contract collection services to private providers, municipalities derive cost savings of 24 percent. Historically, contracting in collection services only appears to save money in Ontario when cities use private contractors. However, that is because there have been relatively few cases of what Toronto is looking to do of having unions bid on the work along with the private sector.

The key to better service and lower costs is not necessarily private operation, but an environment that encourages both public and private providers to innovate by improving service quality relative to costs. Under a system called managed competition, public employees bid alongside private contractors.

According to a [City of Toronto report](#), 75 percent of competitions in various North American cities between the private sector and in-house staff resulted in the in-house staff winning the work. The high victory rate of in-house workers in managed competition shows that they are often the best people for the job. Managed competition is the best way for in-house employees to show the proof. Contracts might even lead efficient groups of public employees to expand their operations beyond their own municipality and offer their services region-wide. That sounds better for employees than [fighting against](#) contracting.

Toronto should carefully quantify how much it might save by contracting out collection services instead of providing them with in-house workers. The calculation, however, is not a simple matter of comparing the gross cost per tonne or per household of waste services. Contracting out also could entail severance pay to workers transferred out of their jobs, as well as a change in pension costs.

A municipality and its workers also do not pay the same taxes that a corporation does. That potentially disadvantages private contractors in bidding. The solution to this is to have public departments, when bidding alongside private contractors, include in their bids the taxes that private contractors would have to pay. However, it looks like Toronto is taking the opposite approach. It will [require that](#) private contractors have 12 percent lower bid than the in-house workers for the private company to win. Most of the purported cost difference would be in administering the contract. However, the city would need to enforce that in-house staff are following the contract in the same way it would a private contractor. The City should re-examine this part of the plan.

A well-designed bid process that has unions bid alongside private contractors to provide waste services can be a win-win-win for the city, unions, and taxpayers.

Benjamin Dachis is the author of the C.D. Howe Institute study [Picking up Savings: The Benefits of Competition in Municipal Waste Services](#).