Régie des Eaux de Grenoble, France as a successful public water operator - Evidence from the WaterTime research project

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Summary

- Sources
- Operational modes in EU, 1996
- The French “model” from a historical perspective
- History of Grenoble water supply

- Private and semiprivate operations of Grenoble water supply
- Remunicipalisation of Grenoble water supply
- Institutional structure and performance of the new municipal operator
- Conclusions
Main sources

- **WaterTime** ([http://www.watertime.net](http://www.watertime.net)):
  3-year EU-funded research project, under 5th Framework Programme;
  contract No: EVK4-2002-0095; PSIRU coordinator
- **Object**: decision making on reform of urban water systems in Europe (29 case studies in 13 countries)
- **Analytical Framework**: Actors, Factors, Events; History (City in Time)
- The findings are the responsibility of the author and should not be construed as representing the views of the European Commission
- **Other sources**, including PSIRU Database and Reports: [www.psiru.org/publicationsindex.asp](http://www.psiru.org/publicationsindex.asp)
EU, distribution public vs. private/mixed (% population served), 1996; Source: Eureau
France today: Organisational “models” in water supply

- Municipal undertakings (‘régie’), various types: account for 22%-23% of operations (some 7,000 ‘régies’)
- Public-private PLCs/joint stock companies ("Société d’Economie Mixte", SEM), majority publicly-owned up to 80%-85%: account for 2%-3% of operations
- Private operations under delegated management (mostly under ‘affermage’ or ‘concession’), with 3 large private groups: account for 75% of operations (some 8,000 contracts)
## Operational modes and connections to the system in France, 1848 to present (Pézon, 2003)

<table>
<thead>
<tr>
<th>Period</th>
<th>Dominant type of operator</th>
<th>Connection at start of period</th>
<th>Connection at end of period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1848-1900</td>
<td>Concession</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>1900-1970</td>
<td>Régie (municipal)</td>
<td>2%</td>
<td>90%</td>
</tr>
<tr>
<td>1970-present</td>
<td>Affermage</td>
<td>90%</td>
<td>?</td>
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Universal coverage in history: OECD countries

- Predominant role of public finance and public operations in reaching universal coverage (early XX century to second half of XX century): France; UK; The Netherlands

- Limited private sector capacity meant that by XX century public operations had become the majority in Europe (Juuti & Katko, 2005)

- By 1897, 82% of US largest cities served by municipal operations. At the end of XX century this percentage was broadly the same and was not expected to change significantly (NRC, 2002)
History of water supply in Grenoble

• Resort to public finance and public water operations (‘régie directe’) from late XIX century to 1989
• 1965-1971: construction of groundwater wells by municipality (long term considerations)
• 1981-1989: FF 60m in total transferred from régie to municipal budget (hidden taxation and underinvestment)
• 1989: Award of “affermage” contract to private operator (fiscal considerations and corruption); decision despite good quality water at low cost and infrastructure almost entirely paid for by consumers and taxpayers
1989-95:

Costs and performance of the COGESE contract

- 25 years ‘affermage’ contract to Suez-Lyonnaise subsidiary COGESE in exchange for illegal donation to mayor’s election campaign (FF 19m bribe) and FF 262m “entry fee”
- COGESE’ charging practice:
  - ‘entry fees’ paid for by users
  - incorrect base for indexing prices
  - sub-contracting: exclusive rights and privileged access of Suez-Lyonnaise
  - fictitious accounting, condemned by CRC
- Total excess costs over 25 years to consumers and taxpayers = FF 1,000m (unjustified by service)
1996-99: Renegotiation and COGESE transformed into SEM

- **1995**: a) new municipal administration; b) convictions for corruption (both mayor and Suez executive); critical report by regional audit body

- **1996**: Contract transferred to a new PPP:
  - SEG formed, 51% city, 49% LdE, but LdE veto
  - SEG immediately subcontracts water and sanitation for 15 years to SGEA, 100% LdE
  - SGEA subcontracts most work to LdE including management of SGEA
  - 82/87 staff go to SGEA – SEG is ‘coquille vide’
  - SEG takes on 30m liabilities; council lets LdE take 80% of dividends
1998-2000: Remunicipalisation

- **1998-1999**: municipality regains control of SEG management and finances (buys SGEA and LdE veto power)
- **1998-1999**: Administrative court rulings:
  - 1989 COGESE contract was invalid
  - 1996 SEG contract was invalid
  - all tariffs from 1989 were invalid
- **1999**: municipality decides to reach amicable dispute settlement with LdE to avoid compensation
- Remunicipalisation decided March 2000
  - Municipal water operation created (*régie*)
  - staff transferred
  - *régie* takes over January 2001
The new municipal service:  
*Régie des Eaux de Grenoble* (REG)

<table>
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<tr>
<th>Points</th>
<th>Details</th>
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<tbody>
<tr>
<td><em>Régie à autonomie financière et personnalité morale</em></td>
<td>(100% municipally-owned; financial autonomy; distinct legal personality)</td>
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<tr>
<td>Choice allowing for staff transfer with same treatment and pay conditions</td>
<td></td>
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<tr>
<td>Greater management flexibility</td>
<td>(than other forms of ‘régie’); extra-communal operations facilitated</td>
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<td>Transparency: decision-making separate from accounting; ring-fencing of finances</td>
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<td>Public participation: civil society representatives in REG Board of Directors, plus regular consultation with consumers</td>
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REG: Economic advantages
(as compared to COGESE and SEG)

- Tax-exempt status
- Finance raised by REG at favourable conditions, same as enjoyed by municipality
- No “entry fees”, now illegal
- No administrative charges from mother company
- Separate accounting prevents fictitious accounting and inflated costs
- Subcontracting and benefits of competitive tendering passed on to consumers
- No dividends to shareholders
REG: Policy and some indicators

- **Pricing and investment for the future:**
  To regularly increase tariffs to allow for renewal of infrastructure in 20 to 30 years

- **Annual revenues:** € 10.02m
- **Annual costs:** € 9.45m
- **Annual investment:** € 3.56m (35% of revenues)

- **Increased employment:** Internalisation of activities subcontracted by LdE; French law on 35 hours; replacement of lead mains in public buildings; and promotion of responsible water consumption
REG performance compared to COGESE and SEG: Pricing (water and sewerage) and investment

- **Tariff increase under COGESE:** + 63%
- **Tariff increase under SEG:** + 7%
- **Tariff variations under REG** (water supply only): relatively stable
- **Investment under COGESE and SEG:** Lukewarm performance
- **Investment under REG:** Increased threefold (as compared to COGESE)
- **Efficiency savings by REG:** € 8m to € 18m per year (as compared to COGESE, depending on evaluation method)
Water supply tariffs, 1990-2004
(€ per cubic metre, in real terms at 2004 value, consumption volume of 120 cubic metres)
Yearly investments in water supply network and connections, 1990-2004 (€ 000’s)
Connections renewed per year, 1990-2004

(units)
Water supply pipelines renewed per year, 1990-2004 (linear metres)
Conclusions

• **Principal-agent relationship**: Problematic under private operations (control depends on resources of the parties); Problematic under public operations (state autonomy leads to skewed decisions – e.g. fiscal considerations)

• **Fiscal considerations**: Impediment to exploiting full potential of public water operations; Legitimate considerations but more transparency and participation required to adequately address sustainability objectives

• **Decision making and sustainability**: Dominance of commercial considerations vs. Potential of commercial discipline (discipline as means to an end, not viceversa)

• **Need for a new organisational culture**: Beyond the mere commercial dimension; More oriented towards sustainability through transparency, participation and accountability
Conclusions

• History of coverage in Europe suggests that not only public finance, but also public operations have a crucial role to play in achieving MDGs

• Contrary to common belief and theoretical assumptions, public water operations are capable of efficiency, subject to good governance principles

• Public water operations allow for a number of organisational modes, but principles count more than formal solutions (e.g. Italian law abolished ‘régies’, PLCs only in-house option option allowed)

• Workers have a key role to play in enhancing quality public services
French cities (> 100,000 inhabitants): Comparison of average water supply tariffs (€/cubic metre, consumption volume of 120 cubic metres)
Average annual bills in France, 1994-1999
(water supply and sanitation, FF):
Municipal vs. delegated management

Average annual bill (FF) for yearly consumption of 120m³,
water supply & sanitation

Source: DGCCRF