Re-municipalisation

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October 2013

Based on report “Re-municipalising municipal services in Europe” for EPSU May 2012: see
http://www.psiru.org/sites/default/files/2012-11-Remun.docx

Summary

- Remunicipalisation in Europe
  - Water
  - Energy
  - Public transport
  - Other

- Factors
  - Public objectives, efficiency, cost of capital, transaction costs

- Some conclusions
  - Politics and EU laws
  - Trade union positions

Re-municipalisation across Europe

Sector	Process	Countries	Factors
Water	Municipalisation of services	France, Hungary	Private failure, cost, control, contract expiry
Electricity	New stadtwerke, purchase of private companies,	Germany	Private failure, cost, control, contract expiry
Public transport	Municipalisation of contracts and concessions	UK, France	Cost, private failure, public objectives, control
Waste management	Contracts brought inhouse, Inter-municipal incinerators	Germany, UK, France, etc	Cost, control, contract expiry
Cleaning	Contracts brought inhouse	UK, Finland	Cost, employment, contract expiry
Housing	Contracts brought inhouse	UK, Germany	Cost, effectiveness
	Source: EPSU conference May 2012 http://www.epsu.org/a/8357		

Water - re-municipalisation

- France: water returns to private sector for 5m people
  - Paris remunicipalises water 2010, Suez/Veolia lose business in home town
  - others: Grenoble, Brest, Cherbourg, etc (**but not** Lyon, Marseilles, Lille)
  - Factors: public anger at prices, left green politics
- Similar shifts elsewhere in Europe
  - Germany: Berlin remunicipalises water after refendum
  - Hungary: Pecs, Kaposvar, Budapest remunicipalise
  - Successful defences eg Italian referendum stops law, Netherlands makes water privatisation illegal, German referenda stop privatisations, Scotland and N Ireland stay public
- But: no public sector growth in Spain, Czech republic, England; troika demands water privatisation in Greece, Portugal
- Public sector takeovers also in USA:
  - “Between October 2007 and October 2011, the number of people served by privately owned systems fell by 16 percent, while the number of people served by publicly owned systems increased by 8 percent…. local governments purchase privately owned systems with relative frequency.”
- Public sector takes over failed privatisations in Latin America, Africa

Largest water authorities in France: changes in water management

City or water authority	Population served	Status 2009	Decision post-2009	Direction of change	Date of implementation
SEDIF	4046096	PRIV	PRIV-	0	2012
Paris	2215197	PRIV	MUN	>MUN	2010
Lyon	1109524	PRIV	PRIV	0	2012
Lille	1077200	PRIV	undecided	0	
Marseilles	951523	PRIV	PRIV	0	2011
SIDEN-SIAN	726339	MUN	n/a	0	n/a
Bordeaux	670691	PRIV	MUN	>MUN	2020
Nantes	595902	MUN/PRIV	MUN (part)	>MUN	2011
Gennevilliers	588962	PRIV	PRIV	0	2011
Toulouse	537000	MUN/PRIV	MUN	>MUN	2020
Vendee	531791	PRIV	PRIV	0	2011
Rouen	500000	MUN/PRIV	MUN (part)	>MUN	2011

Re-municipalisation: water in France

Year of decision	Public auth	Pop served	comments
1997	Durance-Luberon	49165	Remunicipalised after private contract expired
2001	Grenoble	158000	Re-municipalised after corruption scandal in 1990s and failed attempt at PPP.
2001	Chatellerault	38000	Water and sanitation services taken over by departmental régie SIVEER as contracts expire in 2001 and 2007
2002	Varage	880	Re-municipalised when private contract expired, after political campaign
2004	Castres	43496	Remunicipalised after private contract was ruled illegal
2005	Cherbourg	91717	Fully municipalised in 2005 after audit shows better value
2008	Paris	2215197	After expiry of two 25 yr concessions with Suez and Veolia
2010	'Est ensemble'	198918	Re-municipalises by opting-out of Ile-de-France SEDIF contract
2010	Toulouse	537000	Renegotiated price cut of 25% as condition for continuing contract past 2015 to 2020. Mairie says plans a return to régie in 2020, when will reunify all.
2011	Bordeaux	670691	City council (CUB) decides in July 2011 to return to régie when water contract expires end 2018. But sanitation contract extended to 2018, to enable single transfer to régie of both services
2011	Evry Centre Essonne	42590	Re-municipalises by opting-out of Ile-de-France SEDIF new Veolia contract, creating régie "Eaux des Lacs de l'Essonne". Also seeks to get bulk water from Paris, not Suez.
2011	Montbeliard	162284	Decision for early termination of Veolia contract and return to régie
2011	Nantes	595902	Takes over 1 of 24 communes from SAUR at end 2011. 9 now covered by régie (74% pop 118712), 15 by Veolia (26% pop): Veolia contracts expire 2013/2015/2016).
2011	Rouen	500000	New régie of greater Rouen takes over from expired Veolia and Suez contracts, now covers 83% of population
2012	Brest	260000	Creates régie Eau du Ponant to take over as private contract expires
2012	St Malo	31766	Withdraws from regional delegation to Veolia and creates new Régie malouine de l'eau from April 2012

Electricity re-municipalisation: in Germany

Remunicipalisation of energy in Germany	New stadtwerke	Re-municipalised stadtwerke	Re-municipalised distribution	Buying major companies
Number of cases	63	14	192	4
Value	-	>€700million	-	>€8200 million

- Municipalities take over electricity distribution as 2,000 concessions expire
  - 57% of electricity distribution in Germany now public
- New stadtwerke formed e.g. Stuttgart to develop energy policy
- Big public purchases from energy corporations:
  - BW buys 45% of EnBW from EdF (€4.6bn.): under CDU/FDP, Greens opposed
  - Hannover et al buy Thuga from E.on (€2.9bn); Essen etc buy Steag from Evonik (€649m.)
- Key is control of policy objectives (Energiewende > renewables, post-nuclear), public trust, efficiency and investment

Electricity – remunicipalisation - elsewhere

- Elsewhere in Europe
  - Finland takes state majority ownership of transmission grid
  - Swedish parliament rejects privatisation of Vattenfall
  - Hungary: state buys shares in MOL
  - Latvia: illegal to privatise Latvenergo
  - Lithuania: re-integrated state energy company
  - UK re-creates state as central power purchaser
- But: Greece and Portugal forced to part privatise
- Elsewhere:
  - Latin America: renationalisation of energy companies eg Argentina and YPF, Bolivia various, Dominican republic
  - Asia: Malaysia nationalises Powertek (indirectly), Japan renationalises Tep

Re-nationalisations of electricity companies (excluding Germany)

Country	Date	Companies	Previous owner
Dominican Republic	2003	Distribution companies EdeNorte and EdeSur.	Union Fenosa
Brazil	2007	Return to majority public ownership of distributor Light	AES
Venezuela	2007	distributor EdC, generation companies	AES, CMS
Belize	2009	2 electricity distribution companies, Belize Telemedia Ltd (BTL) and Belize Electricity Ltd (BEL)	
Argentina	2009-2013	distribution companies Edecat, Edelar,	Pampa Energia
Bolivia	2010 - 2013	2 electricity distribution companies, transmission company, and generating companies	Iberdrola, GDF-Suez, Rurelec, Red Electrica
Lithuania	2011	Renationalisation and integration of electricity companies privatised in 2000s	Various local
Finland	2011	Bought control of transmission company Fingrid	Local shareholders
Japan	2012	Nationalisation of nuclear company Tepco	Local shareholders
Malaysia	2012	Powertek (IPPs company, also international subsidiaries)	Local shareholders
Argentina	2013	Metrogas, gas distribution company	British Gas

Public transport

- Public transport in France
  - New form of inter-municipal company (SPL) created 2010 after ECJ Hamburg judgement, allows 100% public companies (new in France)
  - Already used to remunicipalise bus services in regions and municipalities, rationale is cheapness plus no more tendering, ever!

- UK: London re-municipalises £30bn. transport PPPs
  - Parliament: "Metronet's inability to operate efficiently or economically proves that the private sector can fail to deliver on a spectacular scale"
  - Public sector pays much lower interest for capital

- Also: Estonia renationalises rail, Germany delays DB sale, renationalisations elsewhere eg Australia, Guatemala

- But: privatisation of rail in Poland, Slovakia, etc

London’s £20billion transport PPPs: 97% terminated

PFI project	Start date	sector		Value (£m)	Status	End date	Annual savings after termination		
							Cost of capital	Oper-ations	Total
Metronet SSL	2000	LU	Renovation	6700	Terminated	2008			
Metronet BCV	2000	LU	Renovation	5400	Terminated	2008			
Tubelines	2000	LU	Renovation	5500	Terminated	2010			
Prestige	1998	LU	Ticketing	1300	Terminated	2010	8	10	
Croydon Tramlink	1996	Light rail	Light rail	205	Terminated	2008	4		
Powerlink PFI	1998	LU	Power system.	133	Terminated	2013	15		
Woolwich DLR	2005	Light rail	Extension	177	Terminated	2011	9		
City Airport DLR	2003	Light rail	Extension	147	Terminated	2011	8		
Connect	1999	LU	Communications	475	continues				
Lewisham DLR	1995	Light rail	Extension	142	Built				
Total value				20179					
Value terminated				19562					
% terminated				97%					

LU=London underground; DLR=Docklands Light Railway. Source: TfL evidence to parliamentary Treasury select committee 2011 http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/1146we05.htm; TfL news releases http://www.tfl.gov.uk/corporate/media/3119.aspx

Other services

- Waste management
  - some re-municipalisation of contracts in many countries
  - Trends unclear but e.g. drift to municipal over 10 years in Netherlands

- Cleaning, catering
  - UK hospital cleaning in Scotland, Wales, N. Ireland brought back inhouse;
  - some councils remunicipalise cleaning to provide decent work, and saves money
  - French council proposes remunicipalisation of schools catering for local organic produce, and saves money

UK Insourcing: APSE-Unison survey 2008 & 2011

Local authority	Service area	Core reasons cited for return in-house
ENVIRONMENTAL SERVICES		
Banbridge District	Recycling	– Council has decided to bring the service back in-house in March 2012 at the end of a contract – Council estimates this will deliver £3m savings over three years
North Tyneside	Recycling collection	– Rolling programme of returning services in-house from January to July 2009 – New service delivery model – Improved service quality – Greater flexibility
Lewes District	Kerbside recycling	– Council decided that kerbside recycling in Lewes town and surrounding villages should come under direct provision from March 2011 – To continually improve the service – To deliver cost savings
Northumberland	Refuse collection and street cleansing	– Services in Berwick returned in-house from contractor in Spring 2011 – Fleet renewal, lower carbon emissions and improved customer service – Lower maintenance costs
Rotherham	Grounds maintenance	– Brought back in-house in 2010 at natural end of contract – Enabled the service to be integrated with street cleansing as part of the authority's Streetpride services – Improved performance, flexibility and customer satisfaction
Thurrock	Waste and recycling	– Large range of waste services put out to tender in 2010 – Decision to take waste and recycling in-house expected to save £2m
Wyre Borough	Street cleansing	– Returned in-house in April 2012 – Significant savings are anticipated – Part of council plan to save £312,000 overall
Northern Metropolitan Borough	Grounds maintenance	– Considering returning grounds maintenance in-house at end of contract – Need for greater flexibility – Responding to changing policy needs

- 140 local authorities
- 57% brought back or considering
- main reason for 60%:
  - improve efficiency and reduce costs
- Main reason for 44%:
  - improving quality

www.apse.org.uk

UK insourcing – wide range of services, all political parties

Figure 1 – Insourced services (by service area)

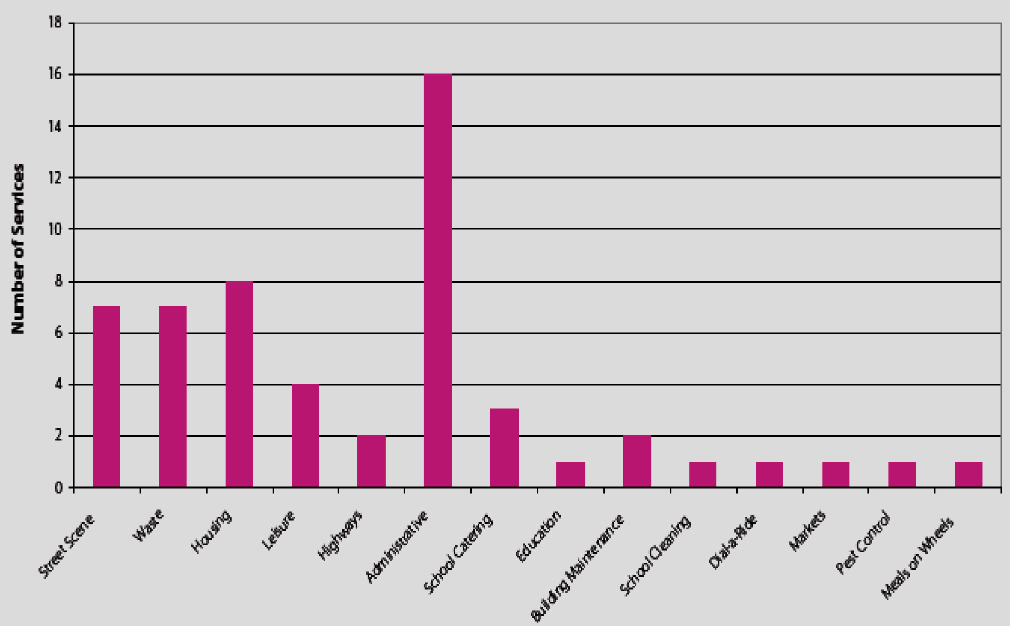
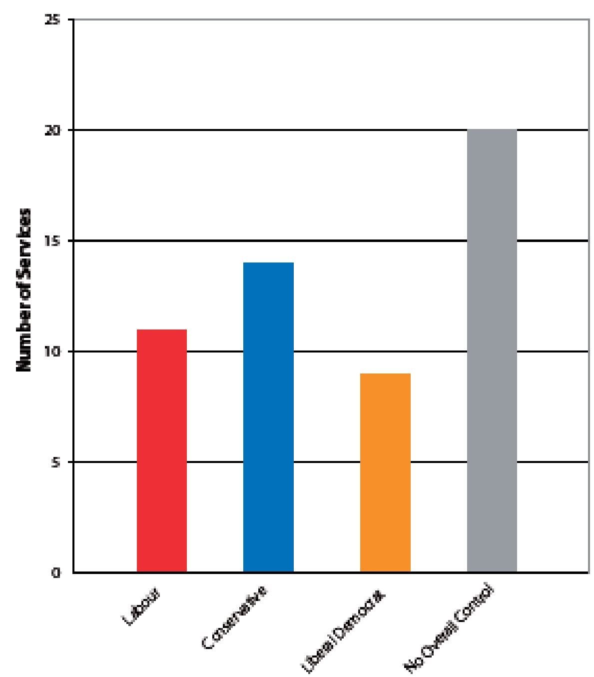


Figure 3 – Insourced services (by political control, May 2008)



Pensions and banks

- Pensions
  - "The Polish government last week decided to nationalize the privatized pension funds that it had established at the behest of the World Bank in 1999 when it forced workers to divert part of their pension contributions away from the public system into privately administered funds.
  - In essentially dismantling the privatized second pillar, Poland followed the example of five other CEE countries since 2009, and several in Latin America, which either nationalized or substantially scaled down the privatized pillars because they were inefficiently administered, costly and incapable of providing sufficient benefits to retirees. Governments were forced to provide state-financed minimum guaranteed pension payments to make up the difference. The failures of the privatized funds became particularly acute after the 2008 global financial crisis." (Peter Bakvis ITUC; also see http://www.icsw.org/doc/2013-04-Global_Cooperation-Eng.pdf)
- Banking and finance
  - Nationalisation used to save many banks from collapse

Factors

- Enabling conditions
  - Expiry of contracts/PPPs
  - Unpopularity of privatisation

- Achievement of public service objectives
- Greater efficiency
- Lower costs of capital
- Lower transaction costs

- Other: extra revenues, nationalism

Munich: home of BMW - and remunicipalisation

DieterReiter : Welcome address, Munich Economic Summit May 2011. http://www.cesifo-group.de/DocDL/Forum-3-2011.pdf

- In an alarming number of cases, the results of privatization were highly problematic and do not seem to indicate that privatization can be seen as a silver bullet….After years of privatizing formerly municipal services, the results are sobering.
- Energy supply was one of the key sectors affected by privatization of formerly public enterprises. Today, energy supply is characterized by oligopolies of private energy suppliers. There is practically no competition on price. The transition to renewable energies is made rather reluctantly… By 2025, our utility company aims to produce so much green energy, that the entire demand of the city can be met. That requires enormous investments around 9 billion euros by 2025 and can only be successful if the long-term goal is sustainable economic success rather than short-term profit maximization ….
- In the history of privatization of local public transport, more often than not, the services provided were reduced dramatically and the prices saw steep increases….
- The financial crisis also quite drastically revealed another key function of public enterprises: public enterprises can help to stabilize our economic and financial systems…. Our savings banks took over important parts of the credit market which could no longer be maintained by the beleaguered private banks. We would be far worse off today if the countless advocates of privatizing our savings banks had succeeded in the past and if, as a consequence, savings banks had also gambled away their customers money on international financial markets.
- German cities and towns are currently trying to correct the mistakes made in their privatization policies of the past. There are many examples of newly established or revived municipal utility companies, especially for energy and water supply, or of the repurchase of municipal transport services. Even private housing stock formerly owned by the city is sometimes bought back.

Green electric cars: “BMW, Siemens, and the Munich [municipal] power utility are cooperating in Munich: Siemens is supplying the charging infrastructure, the utility is feeding in green power, and the BMW Group is providing 40 MINI E vehicles.” http://www.siemens.com/sustainability/en/core-topics/product-responsibility/references/electric-cars-with-ecopower.htm

Factors: enabling conditions

- Expiry of existing contracts
  - few cases involve premature termination of contracts
  - long-term 25 or 30 year concessions/PPPs end rarely
  - Others e.g. cleaning, waste should recur more often
  - need shorter contracts, break clauses, political alertness
  - ?UK water, energy licenses, 25 years notice

- Unpopularity of private companies
  - Mistrust of privatisation general: over-charging, corrupt relations with politicians (as in Arab spring)
  - Even UK e.g. 70% want water nationalised, preference for public incinerators

Factors and rationale

- Achievement of public service objectives
  - most important factors in energy re-municipalisations in Germany were greater degree of control and effective delivery of public service objectives
  - Same for other German insourcing, UK insourcing, French water remunicipalisations.
  - Key objectives left-green: energy, water, transport
  - note also fair pay and employment as objective
- Efficiency
  - expectation of savings is a key factor e.g. UK munics reduce costs and improve efficiency/flexibility by bringing work back in-house
  - water re-municipalisations in France partly driven by an expectation of greater efficiency, demonstrated by the 8% price reduction in Paris.
  - Private sector failure can force municipalisation eg London PFIs, banks
  - Empirical evidence: no systematic efficiency difference public-private
- Note also planning: both Paris water and London transport found large gains from systematic and long-term plans, which private companies did not have

Cost of capital, transaction costs

- Cost of capital and profits
  - remunicipalisation of London transport PPPs was extended to other PPPs because of the savings from refinancing with public money
- Transaction costs: tendering, monitoring
  - In Germany some identify transaction costs as a key issue, but not as big as ‘improved control’
  - Implied by ‘improved ‘flexibility’ for UK authorities
  - some French remunicipalisation of transport quantified savings from not having to tender or re-tender contracts

Other: profits > revenues and nationalism

- **Revenue from profits**
  - Some of the energy re-municipalisations in Germany have been partly driven by a desire to get a new revenue stream from the profits of the companies.
  - This has subsequently proved problematic, for example in Baden-Wuerttemberg, where the decision to force closure of nuclear power stations has hit the main source of profit.
  - Budapest city council have also used the access to future profits in their calculation of the value of remunicipalisation of the water service.
- Nationalism
  - E.g.water remunicipalisations under Fidesz control, Hungary
  - but also used efficiency and control arguments

Some conclusions: politics, EU, austerity

- Politics: popular and non-corporate?
  - People trust public sector better, big referendum votes
  - cross-party option efficiency, but left-green objectives
  - No need to fear corporates? E.g. Paris end Suez/Veolia

- Liberalisation/procurement rules
  - inhouse choice is primary and legitimate
  - Tendering not required unless outsourced
  - Need to comply with ECJ: ensure 100% public

- Privatisation can be illegal
  - As e.g. water services in Netherlands, energy in Latvia

- Austerity mixed
  - Communes may insource to make savings
  - Troika requires privatisations (but anti-PPP in Portugal)

Trade unions and workers

- Unions usually support public operation, but
    - may be neutral/opposed when outcome is unclear, to protect relations with employer
    - Uncertainty over transfer terms, pay and conditions, careers
- Examples
    - Water in Grenoble (France), Pecs (Hungary)
        - Union neutral while private employer fights remunicipalisation
    - Waste management France
        - Strikes in support of private employer!
    - Energy Germany
        - Ver.di concern that new stadtwerke may undermine established company sales and hence employment
    - Paris water:
        - Disputes re pay/conditions of union reps
        - problems over retention of prof engineers

Empirical evidence on efficiency: public = private

- Empirical evidence does not support assumption that private sector will be more efficient
  - "While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed."(IMF, March 2004)
- Studies across countries and sectors find no consistent difference
  - UK privatisations in general: "little evidence that privatisation has caused a significant improvement in performance" (Martin and Parker 1997, Florio 2004)
  - Water and electricity: "no statistically significant difference in efficiency scores between public and private providers." (Estache et al, 2005, Warner and Bel 2009)
  - Telecoms: global study comparing private and public companies found that "efficiency growth following privatizations…is significantly smaller than growth in public sectors." (Knyazeva, Knyazeva and Stiglitz 2006)
  - Buses: no significant difference in efficiency between public and private bus operators, or mixed systems (Pina and Torres 2006)
  - Auditing: Australia: 'outsourced audits are more costly' (Chong et al 2009)
  - Prisons: "privately managed prisons provide no clear benefit" (Lundahl et al. 2009)
  - Airports: "Empirical evidence regarding the effects of **privatization** on the **efficiency** of **airports** is scarce and largely inconclusive (Bel and Fageda 2010)
  - Municipal services: "the studies show that contracting out provides minor cost savings…but there is a significant lack of assessment of the impact on quality". (Petersen et al 2011)