

# Re-municipalising municipal services in Europe

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## 1. Re-municipalisation and the revival of the public sector

After many years when privatisation, contracting-out and outsourcing have been the dominant trends across the public services, there is now increasing evidence, particularly in the municipal sector – including water and energy – of trends in the opposite direction. This short briefing looks at the background, the latest evidence and highlights some of the key issues facing trade unions faced by re-municipalisation.

## 2. Background: The pressures to privatise

Since the 1980s direct public sector provision of services has been strangled by various forms of privatisation – either the direct sale of enterprises such as energy companies to private owners, or the outsourcing of a wide range of services, from water supply and waste management to cleaning and catering. This process has been driven by political, legal, and fiscal factors.

Since the 1980s politics and economic policy has been increasingly dominated by neo-liberalism, the idea that markets are always in principle the best solution to any problem, and activity by the public sector is an inefficient burden on the economy. Privatisation is an important instrument of neo-liberal policy, either by selling public sector operations or by outsourcing, as it expands the market and reduces the role of government at the same time. At European Union level legislation on the internal market has further undermined direct public services. The procurement directives, introduced in 1993, and subsequent rulings by the European Court of Justice have put more pressure on public authorities to put services out to tender while directives on the liberalisation of electricity, gas and other network services, have forced the breakup of integrated public sector energy companies, but allowed the growth of multinational groups.

Pressure on public finances has also encouraged the spread of public-private partnerships (PPPs) particularly as a way of keeping major capital spending off government balance sheets. The financial and economic crisis has been used to tighten these fiscal pressures further and demand heavy cuts in public spending, while those countries subject to EU/IMF/ECB programmes have privatisations as part of their targets.

## 3. Recent trends

Despite fiscal pressures, there are clear signs that municipalities are continuing to move towards remunicipalisation rather than privatisation, in a number of countries in Europe, including Germany, France and the UK.. A study in 2011 by Leipzig University of over 100 German municipalities concluded that “the trend is towards greater provision by the public sector”.<sup>1</sup> In France, the original homeland of private water companies, an increasing number of municipalities and regions are re-municipalising water services or public transport. Even in the UK, where the national government is still pushing through privatisations in healthcare and prisons, and demanding cuts in local government spending, municipalities are often bringing services back ‘in-house’ as a way of making savings: the Financial Times suggested that “local authorities have grown sceptical about the savings outsourcing can deliver, as well as fearing a backlash against private companies making large profits from the taxpayer.”<sup>2</sup>

**Table 1. Table: recent re-municipalisation in selected European countries**

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, effectiveness, employment, contract expiry
Housing	Contracts brought inhouse	UK, Germany	Cost, effectiveness

### 3.1. Germany

In Germany, there has been a major expansion of direct municipal provision of public services.

The trend is most striking in the energy sector. Since 2007, 44 new local public utilities (stadtwerke) have been set up and more than 100 concessions for energy distribution networks and service delivery have returned to public hands. This process is expected to continue and accelerate. Almost all existing concessions in the energy sector are up for renewal in the period up to 2016, about two thirds of all German communes are considering buying back both electricity generators and the distribution networks, including private shareholdings in some of the 850 Stadtwerke which already hold over half of the energy market. There are campaigns and referenda initiatives for municipalised energy in major cities like Hamburg, Stuttgart, Bielefeld, Bremen, Frankfurt and Berlin, which are gaining strong support from a German public which is very critical of energy privatisation, especially because of price rises.

In addition, some municipal and regional authorities (länder) have made huge purchases of electricity companies from the major groups. German energy companies have wanted to sell some of their operations – partly because German and EU regulators have insisted on it, partly because they want to reduce debts, and partly because of problems with profitability, especially after the German government decision to phase out nuclear power. The CDU government of Baden-Wuerttemberg bought back 45% of EnBW for €4.7 billion Euros from the French multinational EDF; E.on sold Thüga, a holding for shares in many stadwerke, for €2.9 billion Euros; six communes in North Rhine Westphalia bought the fifth biggest German energy generating company, Evonik-Steag, for €649 million. <sup>3</sup>

German municipalities have also been bringing other services back inhouse, such as waste management, housing management and public transport: “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.”<sup>4</sup> Pressure to make cuts still tends to lead to remunicipalisation: half of the municipalities with budget deficits plan some form of restructuring of municipal services, but while 41% of these are considering

moving towards inter-municipal cooperation, and 36% towards re-municipalisation, less than 3% are considering privatisation.<sup>5</sup>

### **3.2. France**

In France, there has been re-municipalisation of water services, led by the decision of Paris city council to replace the private companies with a municipal water service in 2010. The city saved about €35million in the first year, and was able to reduce the water tariff by 8%. A number of privatised lease contracts are expiring, and, inspired by the example of Paris, a further 40 French municipalities have also decided to re-municipalise water services, including major cities such as Bordeaux and Brest.<sup>6</sup>

Municipalities are also bringing public transport back into the public sector. The town of Saumur re-municipalised its public transport, which had been outsourced to Veolia, and a number of departements are planning to do the same. There are also a number of cases where waste management has been brought back in-house after years of private contracts.

### **3.3. UK**

In the UK, many local councils have brought services back inhouse which had previously been contracted out. A survey by APSE in 2011 found that 80 out of 140 councils had brought back services including refuse collection, recycling, street cleansing, housing management, cleaning, catering, grounds maintenance, IT, accountancy. In nearly all cases this happened at the expiry of the previous private contracts.<sup>7</sup>

There has also been an effective re-municipalisation of parts of public transport in London, where two major PPPs were terminated, using break clauses in the contracts, and replaced by direct municipal provision. This has been driven by economic failure and value for money calculations, with cross-party support. Transport for London, the public authority for the UK's capital city, has now terminated four PPP contracts in all.

### **3.4. Finland**

In Finland, there is a similar trend. A survey by the JHL union in 2011 found that 20% of municipalities and other public authorities are taking work away from contractors and bringing it back inhouse. The most common service being remunicipalised is cleaning, but other services include social services, catering, accounting, property services, messenger services, heating utilities, and ambulance services. The main reason is that savings can be made, and quality of services improved, by bringing work back inhouse. A public opinion poll showed that there is also strong public mistrust of outsourcing, with 76% opposing the outsourcing of any significant proportion of public services.<sup>8</sup>

### **3.5. Other**

There are other examples elsewhere. In Hungary, the city of Pecs has remunicipalised its water services, and the capital city of Budapest is now doing the same.<sup>9</sup> There are some cases of renationalisation, too, apart from the bank rescues: at the end of 2011 Lithuania completed the renationalisation of its energy system, reversing the privatisation introduced in the early 2000s, and Finland bought 53% of the national grid company, Finngrid.

## 4. Reasons for re-municipalisations

### 4.1. Expiry of contracts

Most remunicipalisations have taken place when an existing contract or concession with a private company expires. The many remunicipalisations of water in France and energy in Germany have been possible because a high proportion of long-term 25 or 30 year concessions have come to an end at about the same time. In services with relatively short-term contracts of 5 or 7 years, such as cleaning or refuse collection, these opportunities occur quite often. It is harder to terminate a contract prematurely, because companies may demand compensation, although there are examples e.g. the Hungarian water concessions and the public transport PPPs in London. It takes some time to prepare for a new inhouse service or other remunicipalisation, so it is important to identify in advance when contracts are expiring, and to make sure that an inhouse bid is prepared.

### 4.2. Private sector failure

Failures and problems with private sector performance are key reasons for remunicipalisations. Sometimes the failures may force remunicipalisation, as with the collapse of the transport PPPs in London, or provide a reason for early termination of contracts, as happened in some cases in the UK, in the case of water services in Hungary, and more generally in Germany: "German cities and towns are currently trying to correct the mistakes made in their privatization policies of the past."<sup>10</sup>

### 4.3. Efficiency and cost

The most important factor in all the remunicipalisations has been the reduction in costs and greater efficiency of an inhouse service – the opposite of what the private sector claims. Municipalities in the UK, Germany and Finland all say that efficiency and cost issues are the most important factors. The water remunicipalisations in Paris and elsewhere in France have been partly driven by an expectation of greater efficiency and reduced prices, demonstrated by the 8% price reduction in Paris. The potential cost savings need to be identified in advance of private contracts expiring so that municipalities can see the advantage of returning to an inhouse service.

### 4.4. Achievement of public service objectives

The most important factors in energy remunicipalisations in Germany were to do with greater degree of control and effective delivery of public service objectives: over half identified 'greater local control' or 'effective achievement of public interest' as the key factor in the decision. This is a clear political factor, connected with specific policy objectives. It is strongest in the case of energy policies: "The example of Munich shows how the transition process can be sped up if a city owns a utility company. 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."<sup>11</sup> The same factor is clearly relevant for the French wave of water remunicipalisations. .

### 4.5. Transaction costs of tendering and monitoring

Another advantage of insourcing is that it avoids the costs and problems of dealing with private companies. The process of tendering, and the need to monitor the performance of companies, can add 10% or more to the cost of contracts. Some of the French regions have explicitly quantified the savings from not having to tender or re-tender contracts as a reason for remunicipalisation of transport services. Instead of constant negotiations with private companies to persuade them to deliver the service,

municipalities can simply manage the work themselves to achieve their objectives. Several authorities in UK and Germany have said that this 'improved control' or 'simplified management' was a key reason for remunicipalisation.

#### **4.6. Cost of capital and profits**

Some services require a lot of investment, and public authorities can nearly always borrow money at lower interest rates than private companies. This has been an important factor in London – the remunicipalisation of the large transport PPPs in London was extended to other PPPs because of the savings from refinancing investments with public money, borrowed at a low interest rate

#### **4.7. Revenue from profits**

Remunicipalisation of a profitable energy or water utility means that the public authority gets extra income from future dividends. Budapest city council calculated the value of these future profits as part of the reason for remunicipalisation of the water service. s But it is risky to assume that profits can be relied upon as a substitute for taxation. In Baden-Wuerttemberg, a right-wing administration bought the regional energy company expecting to use the profits as a way of cutting taxes, but the subsequent decision of the German government to force closure of nuclear power stations hit the main source of profit.

### **5. Employment issues<sup>12</sup>**

Most unions of public service workers favour public ownership in preference to privatisation. However, unlike political parties or campaigning organisations, unions have to give greatest priority to the impact of re-municipalisation on members' employment, pay and conditions. Unions also have to ensure that workers' interests are protected whatever the outcome of the proposal.

Potential problems can be identified from recent experience. Unions can now develop policies and strategies to deal with re-municipalisation in the same way as they developed policies for dealing with privatisation processes, including strategies for intervening in political processes before decisions are made.

#### **5.1. Campaign and union role**

In some cases, unions have adopted 'neutral' positions in the political debate on re-municipalisation, for example in France, in the period leading up to the re-municipalisation of the water services of Grenoble, or when the city of Pecs in Hungary was planning to terminate the private water concession of Suez. In other cases, disputes over the form of re-municipalisation, or difficulties in negotiating the pay and conditions of re-municipalised workers, have led to some unions publicly opposing the re-municipalisation.

However, unions are often active members of campaigns for re-municipalisation, and can ensure that the impact on workers is taken into account by the campaign itself, so that the union can both support the campaign and be seen to be protecting members.

#### **5.2. Uncertainty and information**

Any change of employer creates uncertainty for the workers concerned. In this respect, re-municipalisation is similar to privatisation, with the obvious difference that the existing employer is the private company, and re-municipalisation is the uncertain future. The change raises questions about future employment and career prospects, the effect on pay and conditions, and in some cases the effect on collective bargaining and union representation. If these uncertainties are not recognised by early communication with workers,

they can be exploited by the private companies. In Lodeve, France, when the council decided to terminate the street-cleaning contract of Nicollin and re-municipalise the service from the end of 2009, the company's workers went on strike, with the support of the company, protesting that they would lose their jobs and their pay would be reduced. After a meeting with the mayor when their rights to transfer were explained, they returned to work, and the service was then remunicipalised.<sup>13</sup>

In Marseille, by contrast, the city council announced that it would terminate a waste management contract of Veolia, and invite tenders from other companies, with Veolia excluded. The unions responded with strike action, demanding guaranteed transfers for all workers, and proposing instead remunicipalisation. This was then adopted as policy by the city council, but there was not sufficient time for this process to be completed, and so the private contract was extended.<sup>14</sup>

### **5.3. Job security**

Public sector employees generally feel more secure than private sector workers, because private companies have incentives to cut jobs or pay in order to increase profits, they may decide to close down less profitable operations, and they may go bankrupt.<sup>15</sup> Re-municipalisation can also bring with it significantly greater security, because it can remove the need for future tendering if the public entity meets the EU criteria for 'inhouse' exemption from obligation to tender (but national laws and rules may limit this exemption). In France, for example, some municipalities specifically identified the cost of the tendering process itself as one of the savings to be made from re-municipalisation, so this additional security of employment is built into the objectives. But for those working in the private sector, the current wave of 'austerity' policies may make the public sector look less secure, so it cannot be assumed that current private employees see the public sector as a safer option.

### **5.4. Legal rights**

Workers may also be unaware of their legal rights on transfer, especially if they are not currently unionised. Within the EU, the Acquired Rights Directive applies, just as it does to the opposite process of privatisation. Existing workers have to be transferred, on their current pay and conditions and with their current seniority respected, and workers and unions have the right to consultations. The municipality has the prime legal obligation to consult, and in cases such as North Tyneside in the UK, the municipality held formal meetings with the workers prior to transfer to explain their options, but unions can also be involved in these meetings.

### **5.5. 2-tier workforce**

The rights of transferred workers are not the end of the process. As with privatisation, there is a risk of creating a 2-tier workforce, whereby transferred workers receive the pay and conditions they had under their private employers and others, including new recruits, are on municipal conditions.

The actual impact on workers' pay and conditions depends on the specifics of each case and the bargaining machinery in each country. In most cases involving low-paid workers, such as cleaners and refuse collectors, pay and conditions are usually significantly better in the public sector, so transferring to new pay and conditions will be preferable. In most of the UK cases, employers and unions and workers all wanted to negotiate so that the same pay and conditions applied to all staff, including future recruits. In other services, such as electricity and gas, pay levels in the private sector may sometimes be higher, so protecting and extending existing pay and conditions will be more important.

## 5.6. Trade union reps

There may be specific issues about the pay and conditions arrangements for trade union representatives. In the re-municipalisation of water in Paris, this was one of the more problematic issues in the negotiation of pay and conditions of workers.

## 5.7. Form of municipal or public entity

The form of the municipal entity also affects the employment conditions, depending on national laws. Workers directly employed by the municipality may have different employment status and rights from those employed by an enterprise owned by the municipality. This has been the subject of disputes and strikes in France over restructuring and re-municipalisation of public transport and water services, for example. The transfer may be more straightforward where the re-municipalisation involves the takeover of an existing entity, such as the purchase of an energy company, where existing pay and conditions may be maintained. In cases where new entities are created, such as the setting up of new municipal enterprises or stadwerke, the process does not involve transfers at all.

## 5.8. Impact on other workers

The creation of new entities may however have implications for other workers. In Germany, for example, the takeover of existing electricity and gas companies by regions and municipalities has been less problematic than proposals to create new municipal enterprises which may in effect be competing with established companies.

## 6. Reading

APSE 2011 UNISON insourcing update: The value of returning local authority services in-house in an era of budget constraints <http://www.unison.org.uk/acrobat/20122.pdf>

JHL 14 December 2011 Many municipalities plan to recall work that has been outsourced [www.jhl.fi/portal/en/news/archive/?bid=1640&y=2011](http://www.jhl.fi/portal/en/news/archive/?bid=1640&y=2011)

TNI/CEO 2012 Remunicipalisation: putting water back into public hands. TNI <http://www.corporateeurope.org/publications/remunicipalisation-putting-water-back-public-hands>

University of Leipzig 2011: Renaissance der Kommunalwirtschaft –Rekommunalisierung Öffentlicher Dienstleistungen . by T. Lenk, O. Rottman, R. Albrecht (27 July 2011) [http://www.gemeinderat-online.de/fileadmin/default/files/PDF\\_Dokumente/Studie\\_HVB.pdf](http://www.gemeinderat-online.de/fileadmin/default/files/PDF_Dokumente/Studie_HVB.pdf)

Reiter, Dieter 2011 Welcome address to 10<sup>th</sup> Munich Economic Summit 19–20 May 2011. <http://www.cesifo-group.de/DocDL/Forum-3-2011.pdf>

## 7. Annexe:

### 7.1. Germany

#### 7.1.1. Electricity

In Germany, there has been a major shift towards direct municipal provision of energy services, especially electricity, since the mid-2000s.

Between 2007 and mid-2012, over 60 new local public utilities (stadtwerke) have been set up and more than 190 concessions for energy distribution networks – the great majority being electricity distribution networks - have returned to public hands. This process is expected to continue and accelerate. Almost all existing concessions in the energy sector are up for renewal in the period up to 2016, and about two thirds of all German communes are considering buying back both electricity generators and the distribution networks, including private shareholdings in some of the 850 Stadtwerke.

**Table 2. New and re-municipalised stadtwerke in energy, Germany, 2007-2012**

	New stadtwerke	Re-municipalised stadtwerke	Re-municipalised distribution networks	Municipal or regional purchases of major assets
Number of cases	63	14	192	4
Value	-	>€700million	-	>€8200million

Source: press reports, VKU

There are campaigns and referenda initiatives for municipalised energy in major cities like Hamburg, Stuttgart, Bielefeld, Bremen, Frankfurt and Berlin, which are gaining strong support from a German public which is very critical of energy privatisation, especially because of price rises.

In addition, some municipal and regional authorities (länder) have made huge purchases of electricity companies from the major groups. German energy companies have wanted to sell some of their operations – partly because German and EU regulators have insisted on it, partly because they want to reduce debts, and partly because of problems with profitability, especially after the German government decision to phase out nuclear power. The CDU government of Baden-Wuerttemberg bought back 45% of EnBW for €4.7 billion Euros from the French multinational EDF; E.on sold Thüga, a holding for shares in many stadwerke, for €2.9 billion Euros; six communes in North Rhine Westphalia bought the fifth biggest German energy generating company, Evonik-Steag, for €649 million.<sup>16 17</sup>

German legislators and regulators have facilitated this re-municipalisation. The energy framework law was criticised in parliamentary hearings for creating barriers to re-municipalisation and public ownership of energy grids, especially around the lack of legal clarity for the return of property by the previous concessionaire, requirements to make available necessary information for new tenders, and the price of buy-backs of networks (Krischer 2011). A law in the state of North Rhine Westphalia in December 2010 facilitated re-municipalisation of previously privatised utilities, and also provides for the commercial expansion of communal Stadtwerke. One key motive was to break up the existing oligopoly in the energy market, which since liberalization in 1999 has been dominated by four corporations (E.ON, RWE, Vattenfall

and EnBW), as noted by the reports of the German monopoly commission which in 2009 gave the blunt analysis: “there is still no workable competition”.<sup>18</sup>

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As a result, the majority of all forms of energy distribution in Germany are now municipal, rather than private. As of 2011, stadtwerke (municipal companies) already hold over half of all the energy distribution networks – 57% of electricity distribution, 52% of gas, and 50% of district heating.<sup>20</sup> Thus, despite being the home of two of the largest private energy companies in Europe, the energy distribution sector in Germany itself is now predominantly public.

In generation, however, the level is much lower, with municipalities owning about 10% of total installed generating capacity. Over 80% of electricity generation in Germany remains in the hands of the 4 largest companies, although this is expected to fall as the companies phase out their nuclear power plants as required by new national policy following the Japanese earthquake.<sup>21</sup>

The re-municipalisation of the distribution networks does not in itself give municipalities direct control over the level of renewable energy used. Under the liberalised market required by EU law, distributors have to transmit whatever energy is being sold by supply companies to the final consumers. The new and re-municipalised stadtwerke, however, are able to operate as supply companies, either buying or generating the mix of electricity they want.

The stadtwerke in Germany have also formed strong network associations both to promote the role of municipal enterprise and to share common services.

There is a strong national association of stadtwerke, the VKU (Verband kommunaler Unternehmen - the Association of Local Utilities), with over 1400 members. It includes a core statement on the distinctive characteristics of stadtwerke, which emphasises the objectives of value for citizens and the community: “which do not primarily pursue private commercial objectives but are guided by public welfare obligations. In our democratic system, they operate under local self-administration to serve “citizen value”, i.e. to meet the needs of the local community. The type of capital they form and secure is a community-oriented asset. [Kommunale Unternehmen verfolgen primär keine privatwirtschaftlichen Zwecke, sondern sind dem Gemeinwohl verpflichtet. Sie dienen in unserem demokratischen System auf der Grundlage der kommunalen Selbstverwaltung dem Citizen Value, den Bedürfnissen der örtlichen Gemeinschaft. Sie bilden und sichern ein gemeinschaftlich orientiertes Vermögen.]” In May 2012 the VKU launched a public campaign to promote the superiority of municipal enterprises, complete with a slogan-painted train touring Germany.<sup>22</sup>

There is also a new collaboration to strengthen the role of municipalities in buying electricity and expanding their role as generators. Trianel is a joint venture of over 80 stadtwerke, formed in 1999 to facilitate energy

trading by German municipal companies in the liberalised electricity and gas markets. It has since extended its functions, building pumped-storage power stations, gas and coal-fired power stations, and wind energy farms, including an investment of €800million in the first municipal off-shore wind farm in the North Sea. In 2010 it had sales over €2.5 billion. It has also extended its membership internationally, so that it now includes municipal utilities in Switzerland, Austria, and Netherlands. It also promotes the role of municipal energy companies, and joined the VKU campaign in May 2012, with a statement that: "Municipal companies have developed a historically sustainable business model, with a high level of public support, in contrast to the private power companies"[ „Stadtwerke verfügen mit ihrem historisch auf Nachhaltigkeit ausgelegten Geschäftsmodell im Gegensatz zu den privaten Energiekonzernen über eine hohe Zustimmung bei den Bürgern.“].<sup>23</sup>

A key part of the background is the ambitious policy objectives of the ‘Energy transformation’ [energiewende]. The share of renewables in electricity is planned to rise from 12% in 2011 to 35% in 2020 and 80% by 2050. In addition, nuclear power will be completely phased out by 2022 – a target originally set by a previous social democrat-green government, but re-affirmed by the current government after the Fukushima disaster, and in the face of significant electoral gains by the Greens. On the demand side, electricity consumption is to be reduced by 25%, and primary energy consumption reduced by 50%, by 2050. The investment required for renewable energy, the transmission grid, and storage facilities is estimated at over €20billion per year. There is little economic incentive for the private companies to make these investments, and indeed the growing use of renewable electricity undermines the profitability of existing gas-fired power stations. As a result, municipalities and regions have to play a leading role, not only to meet the targets for renewable energy but also to secure sufficient capacity to protect against the effects of markets and the phasing-out of nuclear energy. As well as renewables, this will include investment in district heating, improvements in the capacity of distribution grids, and energy efficiency. (Auer 2012). The relevance of this was powerfully articulated by the new mayor of Munich in 2011, addressing an international conference of economists (see below)<sup>24</sup>

The commitment is greatest and strongest in Germany, but also applies across Europe. The achievement of this objective is increasingly recognised as requiring a key role for public sector investment. In October 2012 the EU energy commissioner, a German, even proposed that EU countries should nationalise their transmission grids, to enable networks to expand more rapidly and uniformly.<sup>25</sup>

The factors and actors driving this trend include contextual factors specific to the energy sector: the adoption, and survival, of environmental policies to develop renewable energy and phase out nuclear power; in addition, the re-municipalisation of the distribution networks has been possible because of the expiry of so many concessions in a short period of time. The positive drivers also clearly include the more general disillusion with privatisation apparent from other re-municipalisations (see next section). Both a University of Leipzig survey and a KPMG survey found that the strongest reason was to secure greater influence and control over the development of energy systems, with concerns about the efficiency and social impact of private energy provision, and the potential for revenue generation, being secondary factors. The competition authority [Monopolkommission] – which is critical of the trend itself – nevertheless agrees that the re-municipalisation in energy is driven by a mix of energy, environmental, financial and economic considerations, but principally to obtain more direct influence and control over the type of energy used and the affordability of energy, but also to secure revenues from distribution charges (Lenk et al 2011, KPMG 2012, Monopolkommission 2012).<sup>26</sup>

### 7.1.2. Other

German municipalities have also been bringing other services back inhouse, including waste disposal, sewage, water, public transport, hospitals, social care, social housing, swimming pools, theatres, fairs, markets, festivals, and security.<sup>27</sup>

Pressure to make cuts still tends to lead to remunicipalisation: half of the municipalities with budget deficits plan some form of restructuring of municipal services, but while 41% of these are considering moving towards inter-municipal cooperation, and 36% towards re-municipalisation, less than 3% are considering privatisation.<sup>28</sup>

### 7.1.3. Case study: Bergkamen

Bergkamen is a town of 51,000 inhabitants, near Dortmund in the Ruhr region of north-west Germany. The municipality was formed in 1966 by the merger of five smaller communities, with mining and chemicals as the main traditional industries. Unusually, all major services were contracted out to private companies from the start, including electricity, gas, district heating, water, waste collection and street cleaning. Between 1995 and 2006, all of these services were remunicipalised, as the municipality followed a conscious strategy to adopt a system of provision which was economically optimal for the town. An inter-municipal company, GWS, [Gemeinschaftsstadtwerke Kamen-Bönen-Bergkamen GmbH] was formed with two neighbouring authorities to take over the energy and water work; GSW was also assigned the leisure services of Bergkamen, and it has expanded further to offer telecoms and internet services. A separate municipal enterprise, EBB, was created to take over waste management and street cleaning, and the overall cost of the service was reduced by 30%.

The municipality argues that it has flexible control over the service, can easily respond to citizen demands, and more of the employment and procurement and profits remain in the local economy. In total, the city now receives nearly €3million per year from the surplus of these companies. The municipality argues that the issue is not one of 'private or public value', 'market or state', but: "The concrete interests of the citizens must be the centre of attention, and not ideologies. The municipality should decide by itself in a transparent and democratic way which services and in which organisational form it will provide".<sup>29</sup>

### 7.1.4. Munich councillor on remunicipalisation 2011

Welcome Address to 10<sup>th</sup> Munich Economic Summit 19–20 May 2011. by Dieter Reiter Councillor, Head of the Department of Labour and Economic Development, City of Munich <http://www.cesifo-group.de/DocDL/Forum-3-2011.pdf>

Your Excellencies, Mr. Chrobog, Professor Sinn, Ladies and Gentlemen, On behalf of the Lord Mayor of Munich, Mr. Christian Ude, I would like to extend a warm welcome to you, the participants of the 10th Munich Economic Summit, here at this business lunch.

First of all, let me congratulate the organizers on this tenth anniversary. With the Munich Economic Summit, you managed to create a forum which is famous for high-level discussions, much-noticed contributions of high-ranking business and political decision-makers and an expert audience. The City of Munich is proud to be the host city of this Summit.

Based on the experience of the financial crisis and all its implications, the role of the state in a globalized world has become a matter of considerable controversy.

The advocates of privatizing and liberalizing large parts of the market have lost the upper hand in this debate, the arguments for the necessity of a national competition and distribution policy have regained some ground.

The question we are faced with today is whether we want to continue down that road of deregulation and liberalization – which, ultimately, brought us very close to the collapse of our economic system – or whether we want to return to the model of a social market economy – a model which is not so much about short-term profits but rather about long-term business success and, at the same time, about social and environmental issues .

Let me tell you about our experience with this on the local level. In the years before the financial crisis, German cities have followed many different strategies regarding the privatization of public services and the experience gained from these approaches was just as varied. The ‘first the market, then the state’ strategy has worked quite well in some fields. But 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. That is especially true for sectors which are prone to producing monopoly or oligopoly structures such as energy supply, public transport or water supply, just to mention a few. 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 and only as a consequence of massive state subsidies and regulatory requirements .

The example of Munich shows how the transition process can be sped up if a city owns a utility company. 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. If we want to push back individual motorized transport and if we want to reduce CO2 emissions, we need high-performance local public transport systems and transport companies.

Munich’s drinking water is among the best in Europe. This high quality is a result of the sustainable investment policy of the City of Munich’s waterworks: for decades, they have been purchasing property in the water catchment area and they support more than 100 organic farmers around the source. Which private company would be willing to make such an effort if the quality values required by law can be met at a much lower cost?

The financial crisis also quite drastically revealed another key function of public enterprises: public enterprises can help to stabilize our economic and financial systems. During the financial crisis we saw how vulnerable our financial system really is. 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. The lesson to learn from this is very simple: the mix of private banks, mutual banks and public banks is a factor of stability. Those banks which pursue a less aggressive approach, which avoid high risks, think and act sustainably and primarily provide services for local citizens and businesses thus pose a competitive advantage to their home communities .

I am here to make the case for a strong state or for the state having an influence on certain important fields of our lives. The co-existence of private and public service-providers might not entirely rule out undesirable developments, but different corporate strategies and business models do reduce the risk of every provider being on the same wrong track. Please do not mistake that for advocacy of inefficient and bureaucratic state-owned enterprises. The public enterprises I am talking about do not primarily focus on maximizing their profit but they have to be run like businesses: they focus on the common good, but they are not charity organizations .

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 .

The example of Munich shows that sound budgetary policy is possible even without selling municipal enterprises or the municipal housing stock. Ironically, globalization leads to economic fluctuations getting stronger and more frequent. A strong state and, in line with the principle of subsidiarity, a regional and local level equipped with the means they need to take action to provide for their future are a necessary corrective to global insufficiencies .

Thank you for your attention!

## 7.2. France

### 7.2.1. Water in France

Water services in France are the responsibility of municipalities ('communes'), but increasingly these combine to form inter-municipal associations, a process which has been accelerated by the creation of conurbation authorities for the cities. The communes and the associations can decide whether to operate publicly through a direct public sector organisation ('régie'), or to delegate the service to a private company, in which case they must invite tenders. The French system originated with concessions in the 19<sup>th</sup> century, but as the companies were unable to bear the costs of providing household connections, municipalities took over responsibility for financing these investments and, in the majority of cases, operated the system directly under régies. Unlike other European and north American countries, where the old private companies faded away, in France the private water companies survived through negotiating less demanding lease ('affermage') contracts, although these covered only a minority of the population for many decades. In the 1980s, when household connections were virtually complete, there was a sudden revival of private contracts, which were introduced into a majority of the larger cities in less than a decade. By 2000, about 75% of the population was covered by the private companies . As a result, France has a higher proportion of privatised water services than any country in Europe except the UK. This market is highly concentrated, and is dominated by Suez and Veolia (and a smaller group, SAUR), which also dominate the global markets for privatised water services. These companies built close connections with the major political parties, in some cases leading to convictions for corruption, which facilitated the privatisation of these and other services, including waste management, construction, mobile telecoms and television, in which the water companies took dominant positions in the 1980s and 1990s (Lobina 2006, Pezon 2009, Pezon and Breuil 2010)..

Since 2000 the pattern has changed. At least 16 public authorities covering about 5 million people (9% of the total population) have decided to replace private contracts with a service provided by public sector organisations. The number of re-municipalisations increased towards the end of this period, as the contracts signed in the 1980s expired. Some of these authorities are inter-municipal associations, so well over a hundred communes are involved in these movements.

**Table 3. Re-municipalisation of water in France**

Population served from [www.services.eaufrance.fr](http://www.services.eaufrance.fr) ; decisions from [www.remunicipalisation.org](http://www.remunicipalisation.org) and other sources as specified in endnotes

Year of decision	Public auth	Population served	comments	Source
1997	Durance-	49165	Remunicipalised after private contract expired	<sup>30</sup>

	Luberon			
2001	Grenoble	158000	Re-municipalised after corruption scandal in 1990s and failed attempt at PPP.	31
2001	Chatelleraut	38000	Water and sanitation services taken over by departmental régie SIVEER as contracts expire in 2001 and 2007	32
2002	Varage	880	Re-municipalised when private contract expired, after political campaign	33
2004	Castres	43496	Remunicipalised after private contract was ruled illegal	34
2005	Cherbourg	91717	Fully municipalised in 2005 after audit shows better value	35
2008	Paris	2215197	After expiry of two 25 yr concessions with Suez and Veolia	36
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.	37
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	38
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.	39
2011	Montbéliard	162284	Decision for early termination of Veolia contract and return to régie	40
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).	41
2011	Rouen	500000	New régie of greater Rouen takes over from expired Veolia and Suez contracts, now covers 83% of population	42
2012	Brest	260000	Creates régie Eau du Ponant to take over as private contract expires	43
2012	St Malo	31766	Withdraws from regional delegation to Veolia and creates new Régie malouine de l'eau from April 2012	44

The first city to remunicipalise was Grenoble, where a leading local politician was convicted of corruption in the 1990s, for giving a water services contract to Lyonnaise des Eaux (now part of Suez) in exchange for political support: executives of Lyonnaise des Eaux were also convicted. The corrupt contract was initially replaced with a joint venture PPP between the company and the city council, but this was the subject of much public criticism, and was finally followed by re-municipalisation. A local green politician, Raymond Avrillier, took the leading role both in denouncing the corruption and pressing for a return to a fully municipal service. (Lobina and Hall, 2007).

The medium-sized cities of Cherbourg, Montbéliard and Brest also decided to remunicipalise after carrying out comparative studies. Smaller towns, such as Chatelleraut and l'Olivet, also remunicipalised. campaigns for re-municipalisations included members of the green and left parties, but also other environmentalists and local organisations.<sup>45</sup>

The next case was the largest re-municipalisation to date, that of Paris, which decided to re-establish a municipal water service in 2010, when the 25 years contracts of Suez and Veolia expired. Over the course of these contracts, the price of water in Paris had almost doubled in real terms, after allowing for inflation. The companies benefitted from confidential contract clauses which allowed automatic price rises every 3 months, allowed the companies to retain and enjoy interest on customer payments for months, as well as give construction and other contracts to their own subsidiaries, while the regulatory body was actually partially owned by the companies themselves. A series of studies confirmed the potential for greater efficiency under public ownership and management, but the economic savings from the re-municipalisation

were even greater than expected. The one-off transition costs of merging two separate companies and part of the city administration, as well as harmonising the employment conditions, amounted to nearly 15% of annual revenues, but even after this the city saved about €35million in the first year, and was then able to reduce the water tariff by 8%. The decision to re-municipalise was made as part of a manifesto commitment by the 'red-green' coalition which was elected in 2001 and 2007, but the leading role was played by Anne Le Strat, deputy mayor responsible for water, who was originally elected as a green (EE) councillor. (Pigeon et al 2012)

In other major cities the private water contracts were also the subject of criticism for their prices and other accounting practices, followed by public debate on the merits of remunicipalisation. In cities such as Rouen and Nantes, where there has been a mixture of public and private contracts, there is in effect a process of gradual remunicipalisation, as private contracts expire and their areas then taken over by the existing *régies*. In Bordeaux, consumer campaigns denounced the financial practices and high prices of the private concession, and the city finally decided to in favour of remunicipalisation, but not until 2020, and meanwhile extended the private contract after renegotiating a significant price cut.<sup>46</sup> Most of the other cities have eventually decided against remunicipalisation, despite the political debates. In Lyon the two private concessions, the largest of which was held by Veolia, were criticised for their prices, but in October 2012 the city decided to retender for a new private contract, probably of 8-10 years duration, a decision endorsed by the Socialist president of Grand Lyon, Gerard Collomb. In Lille, the service run by Eaux du Nord, which was originally a joint venture of Veolia and Suez, was also criticised for high prices, and was ordered by a court to repay €115million which it wrongly over-charged; in October 2012, a public debate continues, but the city is expected to decide to continue with a private contractor, with the dominant PS party supporting that option, while their coalition partners, the greens, advocate remunicipalisation.<sup>47</sup> In the Ile-de-France, the region around Paris, Veolia was also subject to much public criticism for its prices and profit margins, but in 2010 the inter-municipal water authority responsible for the service in Ile-de-France, SEDIF, decided to retender and continue with privatisation, which was again won by Veolia. The decision was politically controversial, and some groups of communes have decided to opt out of SEDIF and create their own direct water service.<sup>48</sup>

Political initiatives at regional level have also been used to facilitate re-municipalisation. The regional council of les Landes, in eastern France, adopted two such measures. Firstly, it created a regional *régie*, SYDEC, to provide a substantial alternative for small communes wishing to escape from private water management: this "changed the game, by offering to the communes human and technical resources comparable to the private companies, providing advice and management capacity". It has a gravitational effect of attracting re-municipalisations by more communes, for example Capbreton, which decided in 2012 to remunicipalise by having its service provided through SYDEC.. Secondly, les Landes also decided that regional assistance for water services would only be made available to support investments made by public authorities, but not for services run by private companies. This provides an obvious incentive to remunicipalise. This policy was challenged by the companies but was ruled legal by the constitutional council of France in 2011.<sup>49</sup>

Similar policies have now been adopted by the Île de France regional council (which is distinct from the inter-municipal water association SEDIF which voted to continue with privatisation)water. The regional council is controlled by a red-green alliance with a high proportion of green (EE) councillors; its vice-president for environment, Hélène Gassin, is an EE member; and, unlike SEDIF, it is strongly in favour of public operation of water services. In June 2012 it adopted as an explicit policy objective to "return to a completely public management of water through *régies* or SPLs". It has created a 'regional Public Space' for

water, bringing together municipal water authorities, consumer groups, and other associations, and the region itself will finance studies of the financial and environmental performance of water services in all communes. Moreover, regional assistance for water will only be made available to support investments made by public authorities – not for services run by private companies, such as the main SEDIF contract of Veolia.<sup>50</sup>

Throughout this period there have been conscious attempts by supporters of remunicipalisation to share awareness of developments and the issues involved. Following the Grenoble and Durance-Luberon episodes, the association FNCCR circulated information about re-municipalisation. Political networks of environmentalists and water campaigns also shared information. At the end of the period, a new association 'France eau publique' was formed in July 2012 by 13 water authorities, including those covering Paris, Annecy, Besancon, Grenoble, Strasbourg, and les Landes.<sup>51</sup>

These re-municipalisations represent a large net flow from private to public provision: they have not been offset by significant changes in the other direction. Searches of reports and media show only one recent decision to change in the opposite direction, that is the city of Montauban, with a population of 55000, which decided in 2011 to replace direct municipal provision with 9 year contracts to Veolia for water services, and SAUR, for sanitation services.<sup>52</sup>

This net flow can be seen by examining the recent policy decisions by the 12 largest water services in France, covering nearly a quarter of the population, as set out in the table below. One of these was already a municipal service, and continues to be municipal. 3 were mixed public and private, all of which have decided to increase the proportion carried out by the municipal service. 8 were wholly private, of which 3 have decided to re-municipalise the entire service – one of them with some loss to breakaway groups of municipalities choosing a public sector option - and 4 have decided to continue with a private service (the remaining one, Lille, is undecided as at September 2012 but is expected to remain private).

Thus of the 11 authorities which were wholly or partly private, 5 have moved to a service which is either wholly public, or with a higher proportion of public operation. None have moved in the other direction, from public to private. Public sector organisations used to operate the service for about 2 million out of 13 million population in these areas (17%), but in future will cover about 5 million (38%). It is however also clear that some of the authorities which had the opportunity to re-municipalise have decided against doing so. The cases of Paris, Bordeaux and Toulouse (the last two not to be implemented until 2020), which have decided to move to public provision, contrast with those of SEDIF, Lyon, Lille (probably), and Marseilles which have all decided to continue with private provision. While there is a clear trend towards re-municipalisation, there is not a total rejection of privatisation.

**Table 4. Largest water authorities in France: status and changes in water management**  
Population served from [www.services.eaufrance.fr](http://www.services.eaufrance.fr) ; other sources as specified in endnotes

City or water authority	Population served	Status 2009	Decision post-2009	Direction of change	Date of implementation	Source
SEDIF	4046096	PRIV	PRIV-	0	2012	<sup>53</sup>
Paris	2215197	PRIV	MUN	>MUN	2010	<sup>54</sup>
Lyon	1109524	PRIV	PRIV	0	2012	<sup>55</sup>

Lille	1077200	PRIV	undecided	0		<sup>56</sup>
Marseilles	951523	PRIV	PRIV	0	2011	<sup>57</sup>
SIDEN-SIAN	726339	MUN	n/a	0	n/a	<sup>58</sup>
Bordeaux	670691	PRIV	MUN	>MUN	2020	<sup>59</sup>
Nantes	595902	MUN/PRIV	MUN (part)	>MUN	2011	<sup>60</sup>
Gennevilliers	588962	PRIV	PRIV	0	2011	<sup>61</sup>
Toulouse	537000	MUN/PRIV	MUN	>MUN	2020	<sup>62</sup>
Vendee	531791	PRIV	PRIV	0	2011	<sup>63</sup>
Rouen	500000	MUN/PRIV	MUN (part)	>MUN	2011	<sup>64</sup>

There are three broad factors which can be identified as key drivers and enablers of this trend in the water sector in France: issues of over-charging; the opening of legal possibilities; and the growing role of ‘green’ politicians and activists.

Firstly, the legitimacy of the prices charged by private water companies, in particular, have been the subject of frequent media attention and discussion during this period, reinforced by reports from public auditors, public authorities, academics, and consumer associations. A report by the Cour des comptes in 1996 identified many problems with private water services in France, including lack of competition, corruption, and lack of transparency, but also price increases which it firmly concluded were linked to privatisation of water services.<sup>65</sup> Investigations were carried out by a number of authorities in the 2000s, and the companies were required to repay large sums of money to consumers and the authorities. In Bordeaux, for example, a Suez subsidiary had to repay €233million; in Lille the private water company still owes the city €155million.<sup>66</sup> The association of municipalities publishes each year price comparisons, which in 2009 showed that private water prices were on average 31% higher than in public water services.<sup>67</sup> An econometric study in 2006 found that, after taking account of all other contextual factors, private operation still led to prices which were 17% higher than public provision (Chong et al 2006). In 2007 the consumers’ association UFC calculated the profit margins on water services in major cities, identifying Sedif at 58.7%, Marseille and la presqu’île de Gennevilliers (Hauts-de-Seine) at 56.1% and 55%, followed by Lyon, Toulouse, Montpellier between 40% and 50%, and Bordeaux, Nice, and Paris (then still private) between 30 and 39%: the lowest margins were recorded by municipally run services (including Grenoble).<sup>68</sup>

Secondly, there has been a concentration of private contracts expiring in the years from 2010 onwards. The expiry of a contract facilitates re-municipalisation, because the public authority can choose to change to a direct public service without paying compensation, and in any case requires a decision whether to retender or re-municipalise, so creating widespread debates. The process has been accelerated by a legal ruling which said, in effect, that contracts signed before the 1995 Barnier law, which imposed a maximum length of 20 years for water and sanitation contracts, were not valid beyond 2015 except in special cases. A number of long-term concessions thus faced early expiration. This ruling arose from a legal case brought by a campaign in Olivet against the continued operation of a 99-year water contract signed in 1933. A number of authorities have used this unexpected opportunity to negotiate price reductions as a condition for extending the contract to its original term.<sup>69</sup> In addition, it has become easier to create inter-municipal

services since a new law was passed in 2010, with all-party support, which enables two or more communes or municipalities to create a 'local public company' (societe publique locale - SPL), 100% owned by public authorities, to carry out local public services, without the need to invite tenders from private companies. Municipalities and departments are already using this new form to replace privatised services with public provision, for public transport and other services as well as water.<sup>70</sup>

Thirdly, 'green' politicians and activists have played a disproportionately leading role in driving re-municipalisations. While it remains broadly true that there is a divide between right and left over public and private performance, politicians of the French Socialist Party (PS) have provided crucial support for continued private provision in a number of cases, such as Lyon, Marseille, Lille and SEDIF, although in other cities – such as Paris – they have supported remunicipalisation. The position of 'green'/EE councillors, on the other hand, has been consistently in favour of public operation, with a leading role both in Grenoble (through Raymond Avrillier) and Paris (through Anne Le Strat), and a position opposed to that of many of the PS in Ile de France and the other large cities.

### 7.2.2. Transport and the new SPLs

Municipalities are also bringing public transport back into the public sector. There are also a number of cases where waste management has been brought back in-house after years of private contracts.

In France, a new law, passed in 2010 with all-party support, enables two or more communes or municipalities to create a 'local public company' (societe publique locale - SPL), 100% owned by public authorities, to carry out local public services, without the need to invite tenders from private companies. Municipalities and departments are already using this new form to replace privatised services with public provision. The new French law includes two crucial features, which are designed meet the conditions of the European Court of Justice, which has ruled that work cannot be assigned to municipal companies without private sector tendering, unless they are entirely owned by, and working for, public authorities. Firstly, a SPL must be 100% owned by public authorities – it cannot ever be owned, even partly, by private companies. Secondly, the authorities which own it can assign it any work they wish, for as long as they wish, without any compulsory tendering from the private sector (although it cannot do work for any authorities which do not own any shares in the SPL). Previously, municipalities and departments in France could only own 'mixed' companies (societies d'économie mixte – SEM) where a private company also held at least 15% of the shares: the number of SEMs fell by over 25% between 1994 and 2007 because they could not be given work without tendering and because they had gained a reputation for fraud.<sup>71</sup>

In the first year following the new law, 22 SPLs were created, some of which replaced mixed public-private companies and private contractors, especially in public transport. The town of Saumur created a new SPL to re-municipalise its public transport services, which had been outsourced to Veolia through a mixed public-private company. As a result of eliminating Veolia's profit margin, it expected to achieve significant annual savings of between €400,000 and €800,000 Euros. In 2011 a number of *départements* also decided to replace expiring private contracts with municipal SPLs, including Ille-et-Villaine, Tarn, and Pyrenees-orientales. The vice-president of Ille-et-Villaine said that he expected a municipal service to be 15% cheaper, as well as more responsive to policy needs; he also pointed out that when the service was outsourced in 2005 there was only one bidder, so tendering does not necessarily result in competitive bids.<sup>72</sup>

### 7.2.3. Other services

Euralille, the company which manages the city centre in Lille, used to be run by a 'mixed' company, but in December 2011 was transformed into a SPL, and so is entirely public. All employees were transferred

automatically with no change to conditions, and the municipality can now continue to use the SPL to manage the city centre for as long as it wishes without being compelled to offer the work to tender to private companies.<sup>73</sup>

There has also been some re-municipalisation of refuse collection contracts in France. The town of Lodeve, near Montpellier, decided to terminate the street-cleaning contract of Nicollin and re-municipalise the service from the end of 2009. The company's workers went on strike, protesting that they would lose their jobs and their pay would be reduced; but returned to work after a meeting with the mayor.<sup>74</sup> The city council estimated that the re-municipalisation would save €202,000 Euros in 2010 and €153,000 Euros in 2012 ("cette reprise en régie devrait se traduire pour l'année 2010 (avec trois CAE) par une économie de 202 000 euros et pour 2012 (après titularisation des CAE) par une économie de 153 000 euros.")<sup>75</sup>

In 2008 the city of Paris also decided in favour of direct labour for refuse collection, by cancelling plans to contract out two of the districts of Paris (IXe et XVIe arrondissements).<sup>76</sup> The city of Marseilles nearly did the same thing. The service in the centre of the city has been operated by a Veolia affiliate, Bronzo. The city council decided that their contract would be terminated, and drew up tender documents to invite bids from other companies, with Veolia debarred from bidding. In reaction to this, Veolia employees went on strike, in protest at the company being excluded, and demanding to be transferred with full protection for their pay. After a week of the strike, the council first cancelled the call for tenders, and then proposed to simply re-municipalise the service – not only in this area, but in all other areas of the city operated by contractors.<sup>77</sup> In November 2009 the socialist president of Marseille council proposed re-municipalising refuse collection in all areas of the city, but in early 2010 the council voted narrowly to continue to contract-out the service, as there was not sufficient time to set up a regime before the current private contracts expire.<sup>78</sup>

### **7.3. UK**

In the UK, many local councils have brought services back inhouse which had previously been contracted out. A survey by APSE in 2011 found that 80 out of 140 councils had brought back services including refuse collection, recycling, street cleansing, housing management, cleaning, catering, grounds maintenance, IT, accountancy. In most cases this happened at the expiry of the previous private contracts.<sup>79</sup>

#### **7.3.1. Decent employment: Islington council**

In at least one case, the remunicipalisation was part of a commitment by a municipality to greater equality, including better pay and conditions for workers. The local council in Islington, north London, set up a 'Fairness Commission', involving academics, representatives from local government and health services, trade unionists, NGOs and businesses, to identify ways of increasing equality in the district. It held a number of well-attended public meetings and identified a series of policies that can make the council a better place, including a commitment to ensure that everybody working for the council is paid at least the London Living Wage. This wage level, higher than the national minimum wage, is fixed by the Greater London Authority each year: it has no legal basis, but exists as the result of many years of strong campaigns by local community groups and trade unions. When the private contract for cleaning the council's offices and other buildings expired in October 2010, after 10 years, the council decided to re-employ the cleaners directly. The cleaners' pay rose significantly to the London Living Wage level, with longer holidays, better sick pay entitlement, and a better pension scheme, and they also become permanent employees. The inhouse service actually costs the council less, because it no longer pays for the management fees and profits of the private contractor, and the council argues that it also gains from "a better motivated workforce, increased productivity and commitment." Other service contracts are being reviewed as they

become due for renewal, and will be subject to the council's commitment to increase wages to the London Living wage level.<sup>80</sup>

### 7.3.2. UK: remunicipalising public transport PPPs

There has also been an effective re-municipalisation of parts of public transport in London, where two major PPPs were terminated, using break clauses in the contracts, and replaced by direct municipal provision. This has been driven by economic failure and value for money calculations, with cross-party support. Transport for London, the public authority for the UK's capital city, has now terminated four PPP contracts in all.

In 2003 the renovation of the London underground rail system was handed to two large private consortia, Metronet and Tubelines, under PPP contracts. This was against the wishes of the elected London mayor and assembly, who wanted the work to be done by direct labour, financed by government bonds. Both of these PPPs have now been terminated and re-municipalised and are now being financed and run by TfL.

The first PPP to be terminated was Metronet, which collapsed in 2007. The UK parliament's Transport Committee summarized the lessons in a series of "it is difficult to lend any credence to the assertion that the Metronet PPP contracts were effective in transferring risk from the public to the private sector. In fact, the reverse is the case.... In terms of borrowing, the Metronet contract did nothing more than secure loans, 95% of which were in any case underwritten by the public purse, at an inflated cost—the worst of both possible worlds.... Metronet's inability to operate efficiently or economically proves that the private sector can fail to deliver on a spectacular scale.... we are inclined to the view that the model itself was flawed and probably inferior to traditional public-sector management. We can be more confident in this conclusion now that the potential for inefficiency and failure in the private sector has been so clearly demonstrated. In comparison, whatever the potential inefficiencies of the public sector, proper public scrutiny and the opportunity of meaningful control is likely to provide superior value for money. Crucially, it also offers protection from catastrophic failure. It is worth remembering that when private companies fail to deliver on large public projects they can walk away—the taxpayer is inevitably forced to pick up the pieces."<sup>81</sup>

The second major PPP for renovation of the system, Tubelines, worth £30 billion, was terminated in 2010. The contract included provision for reviews after 7 years, with arbitration in case of disputes: TfL challenged the cost estimates of the consortium for the next period, and won the arbitration award. As a result, Tubelines, which was already months behind in its work, went bankrupt, and TfL took over the financing and operation. The process revealed that lawyers had been paid over £400million for one reason or another during the lifetime of the PPP. It also revealed the hopeless inaccuracy of consultants' forecasts of private sector efficiency: "As the partnership was being put together, PricewaterhouseCoopers, a consultancy, predicted that the private sector could extract savings of up to 30%, a figure that informed the entire project. But the consultancy published no adequate evidential basis for that figure."<sup>82</sup>

In 2008 TfL also terminated a PPP contract for a light rail service in south London, Tramlink, which is an important new part of the system designed to attract people onto public transport and reduce use of cars. The contract was a 99 year concession, under which the company invested £80million while the government invested £125million. The contract was ended after the company refused to cooperate with a new ticketing system which would have generated more passengers but no more profit. It cost TfL £100m. to buy out the PPP, so the total investment by the public sector is already £25m. more than it need have been if the government had financed it directly from the start. The tram service is now run by TfL.<sup>83</sup>

Another PPP, for the system's electronic ticketing system of 'Oyster cards', was also terminated in 2010. The decision to terminate was taken following two major failures of the system affecting hundreds of thousands of passengers for hours. The PPP contract was for 17 years, but included 'break' clauses which allowed TfL to terminate the contract 5 years early, with effect from August 2010. Instead of the PPP, TfL itself has now taken on the £101m. debt which finances the work, but at much lower cost, because it pays lower interest rates than the private companies. The savings are so great that TfL took over the debt six months early, in February 2010, which saved an extra £4million. The work has not been brought back inhouse, but re-tendered under a normal 3-year operating contract, which itself costs £10million per year less than the PPP deal, as well as requiring higher standards of work. In total, the lower interest rates and lower payments for work together mean an annual saving of about 18% compared with the original PFI contract, which was costing just over £100million per year.<sup>84</sup>

### **7.3.3. UK: hospital cleaning brought in house in Scotland, Wales, N. Ireland**

In the 1980s, the Thatcher government in the UK introduced compulsory tendering of all cleaning and catering work in hospitals throughout the UK. This was bitterly fought at the time, with a series of lengthy strikes, public campaigns and court cases. Since 2008, three of the four countries in the UK have decided that there will be no more contracting-out of these services, and all cleaning in NHS hospitals will remain in-house. The decisions have been taken by the elected assemblies in Scotland, Wales and Northern Ireland. These elected bodies have devolved powers in their countries, similar to regional governments elsewhere in Europe.

In Scotland, the decision was taken in 2008, against the background of major problems in British hospitals with infections resistant to treatment. The Scottish ministry of health banned any further contracting-out of these services, so that when existing contracts expire all work returns and remains in-house. It also financed the employment of 600 extra cleaners to raise standards of cleanliness.<sup>85</sup> In Wales, the last private contract expired in 2008, and the Welsh assembly decided not to offer any more contracts to the private sector. All hospital cleaning in Wales is now carried out by directly employed staff. The Welsh government also set up a working party, including union representatives, as a result of which the government also increased resources for cleaning in hospitals.<sup>86</sup> In Northern Ireland, the last private cleaning contract expired in 2010, and the staff were re-employed directly by the hospital. During the course of the contracts, the union had successfully sued the health authority for failure to apply TUPE transfer rights, denial of pension rights, and failure to provide equal pay for the women.<sup>87</sup>

## **7.4. Other**

There are other examples elsewhere.

In Finland, a survey by the JHL union in 2011 found that 20% of municipalities and other public authorities are taking work away from contractors and bringing it back inhouse. The most common service being remunicipalised is cleaning, but other services include social services, catering, accounting, property services, messenger services, heating utilities, and ambulance services. The main reason is that savings can be made, and quality of services improved, by bringing work back inhouse. A public opinion poll showed that there is also strong public mistrust of outsourcing, with 76% opposing the outsourcing of any significant proportion of public services.<sup>88</sup>

In Hungary, the city of Pecs has remunicipalised its water services, and the capital city of Budapest is now doing the same.<sup>89</sup> There are some cases of renationalisation, too, apart from the bank rescues: at the end of 2011 Lithuania completed the renationalisation of its energy system, reversing the privatisation introduced in the early 2000s, and Finland bought 53% of the national grid company, Finngrid.



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