

Remunicipalisation of public services in Europe

By David Hall

d.j.hall@gre.ac.uk

**Public Services International Research Unit (PSIRU)
University of Greenwich, UK**

www.psiru.org

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Summary

- Re-municipalisation trends by sectors
 - Water
 - Electricity and gas
 - Public transport
 - Other services
 - Banking and finance
- Factors and rationales
- Unions and employment issues

Overview

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

Water - remunicipalisation

- France: city of Paris remunicipalised water 2010
 - Reduces prices by 8%
 - Also some other French cities/communes: Bordeaux, Brest, Varages, Montbeliard, Durance-Luberon, Castres, Cherbourg etc
 - Others do not eg Toulouse
 - Political issues: green and anti-corporate, also prices, efficiency
- Hungary: Pecs, Kaposvar, Budapest remunicipalise
- Unclear future possibilities:
 - Other central and eastern Europe
 - Tallinn tries to renegotiate/cut tariffs
 - Contracts in Czech rep, Hungary, Poland expire in next 10 years
 - UK England/ Wales renewal due 2014, but no campaign
- Successful defences eg Italian referendum
- Remunicipalisations also in North and South America
- But: Greece is forced to privatise water by EU/ IMF

Electricity

- Germany: municipalities buy energy companies
 - BW buys 45% of EnBW from EdF (€4.6bn.)
 - under CDU/FDP, Greens/SDP opposed
 - Hannover, Frankfurt et al buy Thuga from E.on (€2.9bn)
 - Essen, Bochum etc buy Steag from Evonik (€649m.)
 - NRW passes law to facilitate municipalisation of energy companies
 - Other municipalities buying as 2,000 grid concessions expire
 - Seen as way for greater policy control, plus profitable
- Other cases
 - Finland: state takes 53% control of Fingrid
 - Swedish parliament rejects privatisation of Vattenfall
 - Hungary: state buys back shares in MOL, discusses buying gas/ power from E.on
 - Latvia: illegal to privatise Latvenergo
 - Lithuania: re-integrated state energy company
 - But: Greece forced to sell shares in PPE
- Elsewhere:
 - Latin America: renationalisation of some electricity companies
 - Japan: state bails out Tep

Public transport

- UK: London remunicipalises £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
- 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!
- Also: Estonia renationalises rail, Germany delays DB sale, renationalisations elsewhere eg Australia, Guatemala
- But: privatisation of rail in Poland, Slovakia, etc

Other services

- Waste management
 - some re-municipalisation of contracts in many countries
 - But e.g. Italy municipal companies still own operations, but may contract out most labour-intensive services
- 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
- Housing
- Banking and finance
 - Nationalisation used to save many banks from collapse
 - Hungary, Bulgaria renationalise some pension liabilities to ensure payment of pensions

Factors and rationale

1. 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:
- “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.” The same factor is clearly relevant for the French wave of water remunicipalisations.

• Private sector failure

- The transport remunicipalisations in London are the most obvious case where private failure was the key reason, but a more general perceived failure of the private sector
- “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.... German cities and towns are currently trying to correct the mistakes made in their privatization policies of the past.” Reiter 2011
- This simple failure underlies the collapse of the London Transport PPPs.
- The sales by Eon , RWE etc in Germany are also driven by failure to make profitable business

Cost and efficiency

- **Efficiency and cost**

- This is a necessary factor- there are no cases where remunicipalisation is leading to higher costs. . 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. In the UK, the APSE survey found that efficiency and cost issues were the most important factors: nearly two-thirds expected to reduce costs and improve efficiency and flexibility as a result of bringing work back inhouse. In Finland and Germany also the expectation of savings is a key factor.

- **Cost of capital and profits**

- The remunicipalisation of the transport PPPs in London was partly forced by the collapse of the private projects, but was extended to other PPPs because of the savings from refinancing investments with public money, borrowed at a low interest rate, replacing expensive private capital requiring dividends and high interest loans.

- **Transaction costs of tendering and monitoring**

- Only a small proportion of German authorities identified transaction costs as a major issue, but many others identified 'improved control' as a reason for remunicipalisation, which is related to closing the contract gap. Some of the French remunicipalisation of transport services have explicitly quantified the savings from not having to tender or re-tender contracts

Other

- **Revenue from profits**

- Some of the energy remunicipalisations 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.

- **Expiry of contracts**

- In all countries and all sectors, the expiry of existing contracts is a key enabling condition - very few cases involve premature termination of contracts, except the Hungarian water concessions. For services on relatively short-term contracts, such as many cleaning or waste management contracts, these opportunities recur quite frequently. But in water, the remunicipalisations of water in France and energy in Germany have been enabled by the fact that a high proportion of long-term 25 or 30 year concessions have come to an end at about the same time - it is a rare opportunity, which needs to be seized.

- **Nationalism**

- E.g. Hungary (but also efficiency, control)

Employment issues: union role in campaign

- **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.

Employment issues: uncertainty

- **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.
 - 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

Employment issues: job security, rights

- **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.
- 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.

- **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.

Employment issues: 2-tier workforce

- **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.

Employment issues: other

- **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.

- **Form of municipal or public entity**

- 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 stadtwerke, the process does not involve transfers at all.

- **Impact on other workers**

- 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