



## **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. e 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 stadtwerte, 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)

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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. Notes

<sup>1</sup> 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)

<sup>2</sup> FT 23 January 2012 Savings from outsourcing doubted by state <http://www.ft.com/cms/s/0/b01353c2-27d0-11e1-9433-00144feabdc0.html#axzz1sul6TMVk>

<sup>3</sup> EPSU November 2011 Germany: Trend toward re-municipalisation of energy sector <http://www.epsu.org/a/8107>

<sup>4</sup> 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>

<sup>5</sup> 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)

<sup>6</sup> TNI/CEO 2012 Remunicipalisation: putting water back into public hands. TNI <http://www.corporateeurope.org/publications/remunicipalisation-putting-water-back-public-hands>

<sup>7</sup> 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>

<sup>8</sup> 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); Vast majority of Finns oppose privatisation of "a significant proportion" of public services 14.04.2011 <http://www.jhl.fi/portal/en/news/archive/?bid=1043&y=2011>

<sup>9</sup> Les Echos Lundi 2 Avril 2012 Nouveau revers pour Suez en Hongrie

<sup>10</sup> 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>

<sup>11</sup> 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>

<sup>12</sup> Consolidated in [Directive 2001/23](#)

<sup>13</sup> MIDI LIBRE 24 octobre 2009 Les employés de Nicollin ont levé le camp

<sup>14</sup> Waste Management in Europe: framework, trends and issues by David Hall 2010 [www.psiru.org](http://www.psiru.org)

<sup>15</sup> Clark Andrew E., Postel-Vinay Fabien. 2009. "Job Security and Job Protection." Oxford Economic Papers 61(2):207–39.61(2):207–39.