

Public Services Provision in European Countries  
from Public/Municipal to Private Sector – and back to municipal?

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*Abstract.*

The article discusses the development of the organisational forms (between public sector and private sector) and of the underlying operational logics (between a „political“ and „economic“ logic). The UK, France, Italy and Germany and the service sectors of water and energy provision are selected for a cross-country and cross-policy comparison. Pursuing a developmental (“over time”) approach crucial landmarks it is assumed that the rise of the welfare state (until the 1970s), the “neo-liberal” policy drive at privatization and market liberalization (since the early 1980s) since the late 1990s have shaped the respective organisational and operational logics of public service delivery, including a possible comeback of the public/municipal sector (“remunicipalization”).

The guiding question of the subsequent analysis and discussion is whether (or not), to which degree and why the development has shown cross-country and cross-policy convergence.

Key words

development of public service delivery,  
cross-country comparison (UK, France, Italy Germany),  
cross-policy comparison (water/energy provision),  
remunicipalization,  
convergence

## Table of contents

### Contents

0. Introduction .....	4
0.1. Definitional and conceptual frame .....	4
0.2. Comparative approach .....	5
0.3. Analytical framework.....	5
0.5. Guiding questions .....	6
1. Historical “starting conditions” of public service provision .....	6
2. <i>Public service provision under the advancing and climaxing the welfare state</i> .....	7
2.1. Energy .....	7
UK.....	7
France.....	7
Italy .....	7
Germany .....	8
2.2. Water .....	9
UK.....	9
France.....	9
Italy .....	9
Germany .....	9
3. The “neo-liberal” policy shift: From public sector-based to private sector-based service provision .....	10
3.1. Energy .....	10
UK.....	11
France.....	11
Italy .....	11
Germany .....	12
3.2. Water .....	12
UK.....	13
France.....	13
Italy .....	13
Germany .....	14
4. Return to public/municipal sector- based provision? .....	14
4.1. Energy .....	14
UK/England.....	15
France.....	15
Italy .....	16
Germany .....	16
4.2. Water .....	18
UK.....	18
France.....	18
Italy .....	18
Germany .....	19
5. Comparative summary: Cross-country and cross-policy convergence?.....	19
6.1. Public service provision between public and private sector provision .....	21
5.2. Towards a remunicipalization of public service provision? .....	22
5.3. Towards a “mixed” (political/economic) operational logic of service delivery? .....	23
References .....	24
Ude, Christian 2006, Stadtwerke – Eckpfeiler kommunaler Selbstverwaltung, in: derstädtetag, no.3, S. 21-25 .....	26
Wollmann, Hellmut 2007a, L’engagement des collectivités locales (les communes) dans la fourniture d’ énergie (l’électricité), une perspective internationale: in:Annuaire 2007 des Collectivités Locales, Paris: CNRS, pp. 111-119.....	27

## 0. Introduction<sup>1</sup>

### 0.1. Definitional and conceptual frame

This article deals with “public services” which typically comprise water supply, sanitation, waste management, public transport and energy provision. In Anglo-Saxon terminology they are usually called “public utilities” while they are labelled *services publics industriels* in French, *servizi pubblici* or *servizi di pubblica utilità* in Italian and *Daseinsvorsorge* (translatable as “provision of subsistence”) in German. In European Union (EU) parlance, the term *services of general economic interest* has come to be used (see Wollmann/ Marcou 2010b).

The provision of public services is conceptualized as guided essentially by two sets of organisational and operational principles.

Their *organisational form or logic* ranges between *public/municipal sector* and *private sector* ownership.

- If carried out in public/municipal ownership the public function may be conducted either directly (“*in house*”, *en régie*) by the public/municipal “core” administration concerned or indirectly by way of *formal* (or organisational) privatization (or *corporatisation*) (see Grossi et al. 2010, Kuhlmann/Fedele 2010: 40). The latter variant denotes the creation of an organisational unit which, while remaining in public/municipal ownership but being placed outside the “core” administration, typically act in organisational and financial (quasi-) autonomy.
- *Material* (or *asset*) privatization means that the ownership is transferred (as a rule by way of sale) from the public to the private sector, be it completely or only partially, in the latter *variant* forming “*mixed*” (or *hybrid*) companies or other forms of *public private partnership* (PPP) arrangements.
- *Functional* privatization stands for the transfer (“delegation”, “outsourcing”) of the conduct of a public function, typically on a limited in time contractual basis, to an outside (mostly private sector, but also non-profit sector) actor/provider.

Against this background *remunicipalization* captures the reverse process of returning the conduct of public functions to the municipal sector in which again different variants can be distinguished (see Libbe et al. 2011b, Röber 2009, Kuhlmann/Wollmann 2011: 157 ff.).

- For one, it may denote the (complete or partial) *return from private to municipal ownership* (“*in house*” or “*corporatized*”).
- Second, it may mean that the delegation/outsourcing of the public function to an outside provider is terminated (typically when the underlying contract expires) and the function is resumed by the municipality (be it the *in house* or in the *corporatized* variant).
- Third, it may be also the regaining of tasks by the municipalities which they lost to “the state” through “nationalization”.

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<sup>1</sup> The following article is indebted to the collective work of a group of scholars from France, Italy, U.K., Norway and Germany. The group was convened and coordinated by Gérard Marcou and the author and met at workshops held at Villa Vigoni, Italy. For the ensuing publication see Wollmann/Marcou ed. 2010a with pertinent articles as quoted in this paper.

Regarding the *operational principle or logic* which shapes the modality and contents (such as price and quality) of public service delivery a crucial distinction be made between a *political* and an *economic* logic or rationale.

- The *political* logic (ideal-)typically addresses a wide range of (possibly conflicting) political, social, ecological etc. as well as economic objectives among which one/some may be given priority over the other(s), not least maybe at the detriment of “purely” economic one. Such *political* logic and rationale is (ideal) typically employed in the political realm by politically elected and accountable decision-makers in national parliaments and local councils whose frame of reference for compromise-seeking decision-making are, first of all, the pluralist interests and varied concerns within their *territorially* defined jurisdiction.
- By contrast, the *economic* logic and rationale is (ideal-) typically directed primarily at achieving economic efficiency in terms of optimising economic benefits and of minimising costs possibly at the price of disregarding and “externalising” social, ecological etc. costs. The economic logic typically guides private business actors whose crucial reference is “the (capitalist) market” and its essentially *functionalist*, (territorial) boundaries-transcending and hence, as it were, “*de-territorialised*”.

This paper pursues a *historical* stance in discussing the development of the organisational forms of public service delivery from its beginnings in the 19<sup>th</sup> Century to its most recent phase.

## **0.2. Comparative approach**

In aiming at a cross-country comparison, four countries are singled out, namely, UK/England, Germany, France and Italy. The country selection is based on the methodological reasoning usually found in comparative literature asserting that those countries represent distinctively differing types of local government systems (i.e.: UK/England: *Anglo*, France/Italy: *Franco* and Germany *Germanic/North European*, see Hesse/Sharpe 1991). Based on this “dissimilarity” (see Przeworski/Teune 1970), the four countries lend themselves to comparative analysis. By contrast, energy and water provision are selected for a cross-policy/sector analysis because of their “similarity” of either being network-based as transmission grids or as interconnected pipes.

## **0.3. Analytical framework**

While the development of the organisational and the operational form of service delivery are, methodologically speaking, treated as dependent variables, the explanatory frame of reference will be significantly drawn from the “neo-institutionalist debate” (see Peters 1995 for an overview).

In its *historical* variant (see Thoenig 2003) institutionalism highlights the influence which institutional, political, cultural traditions and legacies exert as *path-dependencies* (see Pierson 2000) on the further course of the institutional development. The institutional, political, cultural and other determinants defining any stage of development may be understood as the *starting conditions* influencing the subsequent stage (see Pollitt/Bouckaert 2010).

The *actor-centred* variant (see Scharpf 1997) emphasises the impact which political will and decision-making by political, economic and powerful actors may have on the future institutional trajectory. Under some circumstances, this may amount to the departure from an existing path-dependency. This is exemplified by the “neo-liberal” policy ascendancy and ideological shift in the U.K. under Margaret Thatcher after 1979.

Thirdly, *discursive* institutionalism (see V. Schmidt 2008) accentuates the political, ideological, and other discourses whose underlying beliefs and concepts set the stage for the shaping and legitimising of decision-making in the national as well as international policy arenas. An example is the neo-liberal discourse advocating privatisation and market liberalisation which has dominated the international and national debates since the 1980s.

### **0.5. Guiding questions**

In focusing on the development of the organisational and the operational logics behind public service delivery, exemplified by two service sectors in four European countries, the discussion will be guided by the question as to whether, to what extent and why the development has shown cross-country and cross-policy/sector convergence or divergence.

#### 1. Historical “starting conditions” of public service provision<sup>2</sup>

In the course of the 19<sup>th</sup> Century, during a period of rampant industrialisation and urbanisation in which Britain was a frontrunner followed on the continent by Germany, the prevalent political and economic belief was the “Manchester liberal” pattern. It proceeded on the assumption that central government should abstain from intervening in the socio-economic development and leave it to the local authorities (as well as local charities) to provide elementary social services and public utilities. A type of multi-functional (multi-utility) municipal organisation emerged which – referred to as *Stadtwerke* or city works in Germany - has shown a *path-dependent* persistence until today. As time progressed, an early version of a “local welfare state” took shape which, being strongly local government-based, was derided by contemporary conservatives and “Manchester” liberals as “municipal socialism” (see Wollmann 2011). This local government-based development has been premised on a “political” logic to the effect that the relevant decisions on the rendering of services would be made by local political authorities guided by the intention to serve the specific interests of the local community and of its local stakeholders and largely restricted to the respective local territory. Hence, the concept of *territoriality* (*Örtlichkeit in German*) has become a crucial frame of reference of the “political” logic of service delivery.

France has embarked upon a remarkably different trajectory since the end of the 19<sup>th</sup> Century. There, the municipalities, due probably to their predominantly very small sizes, largely chose to turn the provision of such public utilities as water and energy over to outside (private) companies in what, termed *gestion déléguée*, was an early form of *outsourcing* (see Lorrain 1995, Marcou 2001). Such *outsourcing* has become the launching pad for the rise of private sector energy and water companies that have emerged as national champions to dominate local, regional, national and later the international markets.

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<sup>2</sup> For an historical overview see also Libbe et al. 2011b: 3 ff. Röber 2009

## 2. Public service provision under the advancing and climaxing the welfare state

Unfolding since the early 20th century, further progressing after the second world war and climaxing during the 1960s and early 1970s, the advancing and advanced welfare state has essentially been guided by the social-democratic belief and discourse asserting that the nation state should be the key actor in the definition and promotion of welfare state and its policies and that the relevant public functions, including public services, should best be carried out by the public sector and its professional personnel, be they agents of the state or municipal authorities.

### 2.1. Energy

#### **UK**

After 1945 Britain, under a leftist Labour Government, became the epitome of a public-sector-centred welfare state characterised, inter alia, by the nationalisation of public services such as energy, water and health care. Thus, these functions for which the local authorities had been historically responsible were transferred to public organisations under the control of central government. Hence, following the nationalisation of the country's energy sector in 1947, the time-honoured responsibility of local governments as energy providers was brought to an end (see McEldowney 2007).

#### **France**

In *France* in what was seen as a crucial move to modernise the country (see Beckmann 2008: 127) the post-war Gaullist government nationalised the energy sector in April 1946. It accomplished this by incorporating the existing private energy companies into two state-owned (monopolist) energy corporations, *Electricité de France* (EdF) and *Gaz de France* (GdF). Although the municipalities retained the ownership of the local grids, only 5 percent of them chose to operate the grids themselves (*en régie*), while most of the others contracted them out by way of long term *concession* contracts to EdF and GdF. The latter, becoming quasi-monopolist holders of these grid concessions, came to dominate the local markets.

#### **Italy**

Only a minority of some 230 small municipal energy corporations (*entreprises locales de distribution d'électricité*, ELD) were exempted from nationalisation and allowed to continue their local operations which applied particularly to hydro-powered generation of electricity. They have been restricted, however, to cater territorially only to local consumers. In all, a total of 170 municipal enterprises serve some 2.500 out of 35.000 commune and provide about 7 percent of the country's total energy supply (see Allemand 2007: 31)<sup>3</sup>.

In *Italy* energy provision was well into the 1960s operated by a multitude of some 1270 regional and local – private as well as municipal – energy companies. In 1962 the energy sector was nationalised by turning most of the existing small companies over to the state-owned company (ENEL - *Ente nazionale per l'energia elettrica*) which gained an almost complete monopolist position.

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<sup>3</sup> for an instructive example see the city of Metz (120.000 inhabitants) and its municipal energy company (founded in 1901), see [http://fr.wikipedia.org/wiki/Usine\\_d'%C3%A9lectricit%C3%A9\\_de\\_Metz](http://fr.wikipedia.org/wiki/Usine_d'%C3%A9lectricit%C3%A9_de_Metz)

Only a small number of municipal corporations (*munipalizzate*) have been exempted from nationalisation and have continued with the small-scale generation and distribution of electricity (see Prontera/Citroni 2007).

### **Germany**

In stark contrast to the U.K., France and also Italy, West *Germany*, during the post-1945 period, a nationalisation of the energy sector was politically a far cry. This is because the country's post-war reconstruction was dominated by a conservative-bourgeois coalition government which, rather than being bent on "socialist" nationalisation policies, was set on privatisation, for instance of the State-owned Volkswagen plant.

Against this background, the post-war energy sector showed an "asymmetrical duality" of energy providers. On the one hand, the energy sector was dominated by a number of major energy companies. They operated as private law stock companies and were mostly owned by a spectrum of private investors and, to a minor degree in the case of RWE, also owned by municipalities. On the other hand, municipalities held a certain (minor) share of the energy market and were engaged in local energy provision, particularly in the traditional organisational form of the multi-utility city works (*Stadtwerke*). Since they also operated a large segment of the local grids, they traditionally had a strong hand in the distribution of electricity to local consumers. Moreover, to some degree they have also engaged in power generation.

While, being restricted, under the territoriality (*Örtlichkeit*) principle, to cater to the respective local areas, the *Stadtwerke* have often tended to establish "protected" local markets to the point of forming "local monopolies" (see Ude 2006).

In the pursuit of their activities in the local energy sector the municipalities and their municipal companies can be interpreted as being largely led by a *political* logic insofar as in their decision-making on the kind, quality and price of energy provision they are guided first of all by specific needs and interests of the local community, including the political goal to use profits made in energy provision to cross-subsidize deficit-ridden local services, such as public transport. In the same vein, specific local energy saving and environmental protection concerns may be addressed in such *political* reasoning. As a result, the "purely" *economic* logic and rationale may be neglected or put last.

Apart from being directly involved in local energy provision, municipalities also have a strong stake in the local energy sector thanks to a legal provision according to which a company, no matter whether it is an outside company or a municipal company, needs to have a permission ("Konzession") from the municipal authority in order to establish and use transmission grids located within the local territory. The fee for the *Konzession* constitutes an important financial revenue for the municipalities. Since the *Konzession* is granted by the municipalities only for a limited period of time (as a rule 20 to 30 years), it gives the municipalities the opportunity to renegotiate the contract after its expiration and, thus, to get new (better) financial terms or to repurchase the grid for operation.



## 2.2. Water

### UK

Until the 1950s there existed in the UK over a thousand water undertakings with administrative boundaries largely identical with local government jurisdictions. By the early 1970s their number had been reduced to 198 through a gradual consolidation process that aimed to achieve economies of scale. Out of the 198 water undertakings, 64 were run by individual local government authorities, 101 by joint boards comprising several local government authorities, and 33 were privately-owned water companies. Some of those companies date back to the Victorian era. As a result, the water sector became highly fragmented.

Through the Water Act of 1973, the government established 10 (public) Regional Water Authorities which were essentially controlled by central government.

### France

In France's water sector the practice of the municipalities to "outsource" (*gestion déléguée*) to private water companies *path-dependently* dates back to the 19<sup>th</sup> century. As, in the course of the 1970s, they were obliged by national legislation to finance water services solely through user charges, they saw cause to increasingly "outsource" water services (see Bordonneau et al. 2010: 134). Hence, the role and market share of the private providers continued to expand. As a result, France's water sector has come to be dominated by the "Big Three" water companies (Veolia, Suez and SAUR) that serve some 70 percent of the households<sup>4</sup> and have become "national champions" poised and capable to expand into foreign water markets. A smaller segment of France's water services continued to be provided by some municipalities, including major cities, such as Paris (2.1 mio inhabitants) and Grenoble (160.000 inhabitants), either "in house" (*en régie*) or through a municipal company.

### Italy

Italy's water sector was traditionally operated by small municipally-owned water companies whose great number reflected the high degree of territorial fragmentation of the country's municipalities.

### Germany

Germany's water sector was also traditionally characterized by small municipal water companies in the organisational form of multi-utility city works (*Stadtwerke*).

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<sup>4</sup> In 2010

- *Veolia Environnement* (known officially as *Compagnie Générale des Eaux* in France) provided drinking water to 24.6 million people and wastewater services to 16.7 million people in partnership with more than 8,000 municipalities including Lyon.
- *Suez* (known as *Compagnie Lyonnaise des Eaux* in France) provided 12 million people with water services in 5,000 municipalities and 9 million with wastewater services in 2,600 municipalities.
- *SAUR* provided water and sanitation services to 5.5 million people in more than 6,700 municipalities and municipal associations, mainly in rural and peri-urban areas.

### **3. The “neo-liberal” policy shift: From public sector-based to private sector-based service provision**

Since the 1980s, the public sector-centred organisational logic and the *political* operational logic have encountered mounting criticism.

For one, the prevalent public sector-centred (“in house”) organisational logic of public services delivery has been attacked for being organisationally rigid and operationally wasteful. Crucial remedy was seen in dismantling the (quasi-monopolist) public sector-centred structure of service provision by way of “privatization” the three variants of which (formal, functional and material/asset) have been laid out in the introductory section (see also Grossi et al. 2010).

Another thrust of criticism has been directed at the prevalence, in public service delivery, of a *political* logic which has neglected or put last the application of an *economic* logic (the characteristics of which have been put forward in the introductory paragraph as well).

The neo-liberal and managerialist policy discourse got its initial thrust in the U.K. after 1979 under Margaret Thatcher’s conservative regime. It spread first to other Anglophone countries and then to Continental European countries. The mounting international discourse proved to be a decisive vehicle and channel to promote the neo-liberal and managerialist tenets and beliefs. The emergence and “triumphant march” of the neo-liberal movement are striking examples of the relevance of what has been conceptually highlighted in *actor-centred* and *discursive institutionalism*.

Beginning from the late 1980s, the European Union contributed increasingly to shape the national political debates in its Member States in pursuing its commitment to attain a “single” European market (for goods, services and capital) by 1992. Since public services which in EU terminology have come to be labelled “services of general economic interest” have been rendered typically within *territorially* defined “protected” national and local markets in an all but monopolist manner, they were bound to become a prime target of EU’s market liberalisation drive with a market-typical *functionalist* and boundary-transcending, as it were, “de-territorialised” intent. In order to promote market liberalization in specific policy sectors, the EU has issued so-called *directives* to oblige member states to translate (“transpose”) them into binding national legislation.

#### **3.1. Energy**

The EU has started, since the early 1990s, to intervene in the electricity sector by a sequence of two directives. After its Directive 92/92 of December 19, 1996 largely failed to deregulate the electricity market, the EU followed up with the so-called Acceleration Directive (2003/54 of June 26th 2003) which introduced two particular instruments. For one, in distinguishing between generation, transmission and distribution/supply as three key functions of energy provision, the EU Directive was to have the effect of organisationally “unbundling” these three functions. The basic idea was that, in order to ensure price competition in the interest of the consumer, non-discriminatory access to the transmission grid/network should be guaranteed first of all to providers. Second, the directive obliged each member state to put in place a national regulatory agency to function as a watchdog.

### **UK**

It should be noted that the UK preceded the EU's intervention in the European energy market when the Conservative government under Margret Thatcher, through the Electricity Act of 1989, radically recast the country's electricity sector. Having previously existed as a nationalised entity since 1949, the electricity sector has now become privatised in the UK. At the same time, the British government actually served as a model for the later EU directives by introducing the concept of debundling, by creating a National Grid Company to operate the transmission grids and by establishing a governmental regulatory agency to serve in a "watchdog" function. The provision of electricity in the UK was at first handled by 14 regional private sector companies. Later on their number was reduced to five as a result of mergers. International energy companies, such as France's EdF and Germany's RWE and E.on entered the British energy market by becoming (minority) shareholders of the British private companies (see Drews 2008: 51).

At the local level and on an all but marginal scale, local government-related companies continued to operate heat and power combining facilities mostly in connection with district heating. They were restricted to cater only to local consumption needs but could sell and feed electricity into the national grid.

### **France**

During the 1990s France's national government at first showed little inclination to implement the EU's market liberalisation drive which would have affected the market-dominating quasi-monopolist position of State-owned EdF. In fact, the French government, within its all but protectionist industrial policy, promoted EdF as a "national champion" to expand into international markets (see Beckmann 2008: 246). Furthermore, nuclear power generated electricity makes up to 75 percent of France's entire electricity production which resulted in comparatively low energy prices. Consequently, there has been little incentive in France to evoke a public discussion on the need of having more price competition.

Finally in 2004, in responding to the EU Acceleration Directive of 2003, France moved to *formally* privatise EdF by transforming it into a private law stock company to be listed on the stock market. However, private (institutional or individual) ownership has been legally limited to 30 percent of shares of EdF. Consequently, as of 2010 up to 84.8 percent of shares of EdF are still held by the French state.. Accompanying the 2004 legislation which with the unbundling imperative, EdF has meanwhile set up an organisationally independent grid company (see Marcou 2007, 21 f.).

In the shadow of the quasi-monopolist position of the still largely state-owned EdF the marginal role the some 230 municipal energy companies that were exempted from nationalisation in 1946 has not been noticeably boosted in the wake of market liberalisation; they continue to provide just 5 percent of the country's entire energy supply.

### **Italy**

In reaction to the EU Directive 96/92 the Italian government has moved particularly in two steps towards liberalising the country's energy market. First, the quasi-monopolist State-owned energy company ENEL that had been established in 1962 by nationalising most of the existing small private and municipal energy companies

was *formally* privatised in 1999 by transforming it into a private law stock market-listed company. Subsequently ENEL was obliged to sell significant shares of its stocks to private (institutional and individual) investors, including Italian as well as foreign competitors (such as France's EdF and Germany's RWE and E.on). As a result, state ownership in ENEL has been reduced to some 30 percent which means a fairly high degree of asset privatisation.

At the same time in 1999, the EU's debundling imperative was put into practice by legally obliging ENEL to set up independent grid companies and to sell some of them to municipal companies (*municipalizzate*) of major cities. Furthermore in 1997 an independent "watchdog" regulatory agency (*autorità per l'energia elettrica ed il gas*) became created.

Running parallel with the restructuring of ENEL, the municipal companies (*municipalizzate*) that had been exempted from nationalisation in 1962 continued to play an important role particularly in the generation of renewable energy (see Prontera/Citroni 2007).

In a political reaction to Tchernobyl nuclear catastrophe of April 26, 1986, the construction of nuclear power plants in Italy was overwhelmingly rejected by a country-wide referendum held on November 8, 1987<sup>5</sup>.

### **Germany**

Responding to the EU directive 96/92/EC, the Federal Energy Act of 1998 was adopted which aimed at liberalising Germany's energy market. In the first phase, however, the legislation had the somewhat paradoxical effect of triggering a "downright wave of mergers" (Deckwirth 2008: 82). This resulted in the emergence of E.on, RWE, EnBW and (Sweden's State-owned) Vattenfall as the "Big Four" dominant players on Germany's energy market. At the same time, faced with the competitive strength of the Big Four and under mounting budgetary squeeze, many municipalities saw themselves compelled to sell local grids and stocks of their *Stadtwerke* to the Big Four.

In this context the City State of Hamburg (1.7 million inhabitants), in 2002, sold its energy company completely to Vattenfall (one of the Big Four)<sup>6</sup>. In March 2003 the City of Stuttgart (600.000 inhabitants) followed suit in selling its energy company wholesale to EnBW (the smallest of the Big Four)<sup>7</sup>.

This sequence of municipal companies being asset privatized was then seen foreboding "demise of the *Stadtwerke*" ("*Stadtwerkesterben*") (see Wollmann 2002, Wollmann, Baldersheim et al. 2010).

### **3.2. Water**

Different from the energy sector the EU did not have the competence to intervene in the water sector by way of sector-specific deregulation. However, it has attempted to influence water provision and sanitation facilities in member states through directives that aim at ensuring meant to ensure the healthiness and purity of water intended for human consumption. This applies particularly to the Urban Waste Water Treatment

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<sup>5</sup> The ban on nuclear power stations was confirmed by the national referendum held on June 13, 2011

<sup>6</sup> [http://de.wikipedia.org/wiki/Hamburgische\\_Electricit%C3%A4ts-Werke](http://de.wikipedia.org/wiki/Hamburgische_Electricit%C3%A4ts-Werke)

<sup>7</sup> <http://www.stuttgart.de/stadtwerke>

Directive (91/271/EEC) of 21 May 1991 and the Drinking Water Directive (98/83/EC) of 3 November 1998 concerning potable water quality.

### **UK**

In the further pursuit of its neo-liberal policy drive the Conservative government, in 1989, undertook the (*material/ asset*) *privatization* of the country's water sector by selling the (ten) public regional water authorities to private sector water companies. At the same time a regulatory agency (OFWAT) was created following the model of the infrastructure regulatory agency set up in other sectors such as telecommunications and energy. As a result some 25 private sector water enterprises emerged which formed regional monopolies. Subsequently most of them have been taken over by private-equity funds, half of them foreign (see Bakker 2003: 369 ff, Hall/Lobina 2007: 23 ff.) which turned out highly profitable for them (Drews 2008: 53).

In Scotland and Northern Ireland, water supply has not been (asset) privatised and is still operated in public ownership. In England and Wales, under the privatised regime, the water tariffs for private households are double compared to those in Scotland's public regime (see Hall/Lobina 2001: 22).

### **France**

In France where, during the 1970s, water provision by the private sector water companies, particularly by the "Big Three" (Veolia and Suez et SAUR)<sup>8</sup> continuously expanded and came to serve more than 70 percent of France's households (see Bondonneau et al. 2010: 134), privatisation by way of outsourcing (*gestion déléguée*) has been further intensified in the course of the 1980s. An additional push came in the wake of the municipal elections of 1983 when right wing council majorities and neo-liberal minded mayors were voted into power who, in municipalities still operating water services on their own, decided to privatise them. Examples are the city of Grenoble and Paris where newly elected right-wing council majorities privatised water services in 1987 (respectively in 1989) (see Hall/Lobina 2001b).

While municipalities formally have the right, once the concession contracts expire, to renegotiate them, experience shows that the three large private water companies find themselves in a powerful negotiation position which leads to what has been critically labelled a "regulatory capture" of the municipalities (see Varin 2010). Thus, about 90 percent of contracts tend to be renewed with the same concessionaires. On the top of it, many municipalities, including large ones, do not have the capacity to monitor and control the concession contracts, particularly regarding increases of water tariffs (see Cour de Comptes 2003).

### **Italy**

Well into the 1990s, water supply was handled by 9.000 small municipally owned operators (Armeni 2008). Because of the small size and the lack of adequate capital investment, water provision has been costly with wide-spread leakage in the pipe systems aggravating the waste of water.

In 1994 the Law Galli was adopted which aimed at significantly reorganising the country's water services. It was essentially meant to reduce the existing organisational fragmentation. A new institutional inter-municipal structure called

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<sup>8</sup> See above footnote 3

*Ambiti territoriali ottimali*, ATO,<sup>9</sup> was introduced under the authority of the regions. The ATO are run by decision-making boards which are appointed by the “member” municipalities. They were entrusted with the task to outsource the organisational management of the ATO-based water services to single providers by putting them out to tender and contracting them out to the best bidder. Thus, a distinctively competitive element was introduced. At the same time, the municipalities were obliged by law to turn their municipal companies (*municipalizzate*) into private law (limited or stock) companies. This aimed at getting private sector companies, including foreign ones, involved in the water services.

While, on the one hand, the new ATO scheme provides the legal and operational framework for the existing municipal water companies to remain involved in the water provision, on the other hand, it opens Italy’s water sector to private sector water companies, particularly foreign ones, such as France’s Veolia. However, water enterprises in big cities, such as in Milano and Napoli, have remained in complete municipal ownership.

The *Ronchi Decree*<sup>10</sup> adopted in 2009 under the right wing Berlusconi government was designed to break the legal ground for the further privatization of the country’s water services particularly by the provision that the share in water companies held by the municipalities themselves must not exceed 30 while 70 percent were designed to be acquired by private investors. The legislation which would have effected a far-reaching privatisation of Italy’s water services was set to enter into force by 2014. However, its implementation has been halted, due to the outcome of a national referendum held on June 8, 2011 (see below).

### **Germany**

In Germany, the water services have been traditionally operated by the municipalities themselves (*in house*) or by their city works (*Stadtwerke*) numbering about 7.000 (see Citroni 2007, VKU 2010: 13). However, private sector water companies have entered the water market since the 1980s and 1990s by acquiring minority share positions in the *Stadtwerke*. This applies to almost half of the country’s 109 largest cities (see Deckwirth 2008: 85).

Among these private water companies, France’s Veolia and Suez and Germany’s RWE and E.on feature most prominently. Thus, in 1999, Veolia and RWE acquired a total of 49.9 percent of the shares of Berlin’s Water Works, the largest water company in Germany<sup>11</sup>.

In 2002 the City of Stuttgart sold its water works completely EnBW (see Libbe et al. 2011b: 9).

## **4. Return to public/municipal sector- based provision?**

In conclusion the further development shall be discussed in again focusing on service provision in the energy and the water sectors.

### **4.1. Energy**

Recently the comeback of local government in the energy sector has been influenced, by the growing importance which in EU as well as national government policies is given renewable energy and energy saving.

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<sup>9</sup> Translated: Optimal Territorial Areas

<sup>10</sup> named after Andrea Ronchi who was minister in the recent right wing Berlusconi government

<sup>11</sup> [http://de.wikipedia.org/wiki/Berliner\\_Wasserbetriebe](http://de.wikipedia.org/wiki/Berliner_Wasserbetriebe)

At their summit held in March 2007 the European heads of State agreed on an Energy Policy for Europe which called for a 20 percent increase in energy efficiency, a 20 percent reduction of greenhouse gas (GHG) emissions and a 20 percent share of renewables in overall EU energy consumption by 2020 (see Praetorius/ Bolay 2009). In the aftermath of the nuclear disaster in Fukushima, Japan on March 11, 2011, the expansion of renewable energy sources has been assigned ever more urgency. The most conspicuous case is Germany where, in a dramatic policy shift, the federal government decided to terminate nuclear power generation by 2022<sup>12</sup>.

### **UK/England**

In the U.K., since the (asset) privatization of the energy sector in 1989, the country's energy market has been dominated by private energy companies.

After the local authorities lost their traditional responsibility for energy provision when, in 1946, the energy sector was nationalised they have played only a marginal role in the energy field through the operation of district heating services (see McEldowny 2007). However in a recent policy turn, the liberal-conservative coalition government has explicitly encouraged the local authorities to resume a responsibility in the energy sector particularly by engaging in the generation and utilisation of energy saving and renewable energy generation technologies<sup>13</sup>. The national goal has been set to supply 15 percent of the country's energy consumption from renewable energy by 2020. Enabling legislation followed suit. In the meantime a considerable number of local authorities have initiated local projects, particularly pertaining to power and heat coupling (in conjunction with district heating) and in solar energy. Sheffield, Leeds and Bradford are leading the UK in renewable energy installations<sup>14</sup>.

According to recent studies, the local level initiatives have however been slackening. "The climate change work has narrowed, is very weak or absent in 65 percent of local authorities" (Scott 2011).

### **France**

In France, the electricity market continues to be dominated by EdF which is still in 80 percent State ownership, generates 75 percent of the country's energy production from its 24 nuclear power stations and is encouraged by government policy to be a "national player" on the national as well as international energy markets.

Some 230 municipal energy companies which were exempted in 1946 from nationalisation continue to provide energy services to not more than 5 percent of the households. Their generation of electricity is, to a considerable degree, based on renewable (particularly hydro) sources. So far, notwithstanding their potential in

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<sup>12</sup> Until now nuclear power makes up 25 percent of the country's energy production.

<sup>13</sup> On August 28, 2010, Chris Huhne, Secretary of State for Energy and Climate Change wrote in a letter to all local authorities that "for too long, Whitehall's dogmatic reliance on 'big' energy has stood in the way of the vast potential role of local authorities in the UK's green energy revolution"  
<http://www.decc.gov.uk/publications/basket.aspx?FilePath=News%2f376-unlocking-local-power-huhne-letter.pdf&filetype=4#basket>

<sup>14</sup> <http://www.energyefficiencynews.com/i/4462/>, For an updated list ("league table") of the UK's local authorities most active in renewable energy generation see  
<http://www.aeat.com/cms/assets/MediaRelease/2011-press-releases/Microgeneration-Index-Press-Release-11th-March-2011.pdf>

renewable energy, the role of the municipal companies has apparently remained limited also because they continue to be legally restrained to cater to their respective local market (see Allemand 2007: 40)<sup>15</sup>.

### **Italy**

While ENEL (which is in 30 percent State ownership) and other institutional and individual (largely private sector) currently to play a major role in Italy's energy market, the municipal energy companies (*municipalizzate*) which, in 1962, were exempted from the nationalisation continue to hold a fairly strong position in the energy sector (see Prontera/Citroni 2007). This applies particularly to big cities. In 2008 the municipal companies of Milano (1.2 million inhabitants) and Brescia (190.000 inhabitants) merged to form a consortium-type stock company called A2A which is listed on the stock market and generates 3.9 percent of the country's electricity, while a multitude of other small municipal companies generates another 10 percent (see AEEG 2011: 51).

As Italy has politically and legally committed herself to do without nuclear power (such ban was decided by country-wide referendum as early as 1987 and has been confirmed by the recent referendum held on June 13, 2011), the municipal energy companies whose power generation traditionally has a strong alternative and renewable (hydro) energy component (see AEEG 2001: 52) are poised for an expanding role in the country's energy sector.

### **Germany**

Whereas, well unto the late 1990s, the Big Four private sector energy companies made significant advances on Germany's energy market the *Stadtwerke* have since remarkably regained ground for a number of reasons (see Wollmann/Baldersheim et al. 2010, Libbe et al. 2011b: 6 ff.).

For one, when in 2005 the EC Acceleration Directive 2003/54 was transposed by amending the Federal Energy Act, most of Germany's *Stadtwerke* have been exempted from the unbundling rule. This exemption (applying to energy companies with less than 100.000 consumer households) was written into the Directive following demands from the German federal government as the latter "lobbied" in EU decision-making in favour of the municipalities which claimed that the unlimited application of the unbundling rule would jeopardise operational and economic survival of their *Stadtwerke*.

Furthermore, they have learned how to cope with the new competitive environment by improving their entrepreneurial skills and their operational base (for instance by setting up inter-municipal cooperation, by involving private investors etc.).

Moreover the municipalities have (re-)discovered the potential of their *Stadtwerke* to yield much needed local revenues and to satisfy specific (social etc.) needs and interests of the local community, for instance by "cross-subsidizing" deficit-ridden local public transport services.

Then, since the *Stadtwerke* have traditionally focused on energy-saving technologies (such as heat and power coupling, HPC), they have become crucial local actors in

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<sup>15</sup> This may however change as a result of the upcoming presidential and parliamentary elections scheduled for April 22 and May 6, 2012 if the Socialist *François Hollande* is elected President (with a left wing majority in Parliament) who advocates a (however moderate) reduction of the country's hitherto 75 percent dependence on nuclear power generation and a stronger emphasis on renewable energy. In such a case, the municipal companies are likely to be headed for a significant expansion.



the eyes of the federal government all the more as the latter, in a dramatic policy turnaround in reaction to the nuclear disaster in Fukushima, decided, in June 2011, to terminate the country's nuclear power generation by 2022.

At the same time, the European Commission, in recognising competitive potential that the local energy companies have in the local and regional energy markets, it proceeded to strengthen their competitive "muscle" by exerting pressure on the Big Four to sell local grids and give up earlier acquired shares in municipal companies (*Stadtwerke*).

This development coincided with the expiration of an increasing number of concession contracts on local grids<sup>16</sup>. Hence, many municipalities have turned repurchase local grids and shares of the *Stadtwerke*. The dynamics of this development is evidenced also by a growing number of newly founded *Stadtwerke*<sup>17</sup>. A conspicuous recent example is "Thüga", a subsidiary of E.on (one of the Big Four energy giants) which was purchased in summer 2009 by a consortium of some 100 *Stadtwerke* for the amount of 3 billion Euro<sup>18</sup>; it now holds about 6 percent of the country's electricity market. Furthermore, in the City of Stuttgart (600.000 inhabitants) where in October 2003 the municipal energy corporation was completely sold to EnBW in the meantime the city council, in responding to a local referendum, decided on May 25, 2011 to repurchase the assets and to found a new *Stadtwerk* in 2014 which is to integrate water and energy provision<sup>19</sup>. Similarly in the City State of Hamburg (1.7 million inhabitants) which, in 2002, sold its energy company completely to Vattenfall a local initiative has sprung up demanding remunicipalisation along with establishing a functionally integrated new *Stadtwerk*. A referendum on this issue has been scheduled for September 2013. In the meantime Hamburg's government has reached an agreement with Vattenfall to repurchase 25.1 percent of the stocks<sup>20</sup>

Another intriguing and much publicized example is the city of Bergkamen (50.000 inhabitants) which, under the leadership of a highly committed mayor, has become a pilot in remunicipalising public services in a broad multi-utility mix (energy, waste management, public transport) (see Schäfer 2008, for other examples see Kuhlmann/Wollmann 2011: 166).

As of 2010, 700 *Stadtwerke* out of a total of 1.372 municipal companies<sup>21</sup> are engaged in the energy sector, with one third of them in power generation. Of the locally generated electricity, 84 percent stems from heating and power coupling (HPC) and 16 percent from other, particularly renewable, energy sources. The locally generated electricity amounts to 10.4 percent of Germany's entire power generation (see VKU 2009).

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<sup>16</sup> between 2000 and 2001 some 3.000 out of a total of 20.000 concession contracts, see Libbe et al. 2011b: 6

<sup>17</sup> see Libbe et al. 2011b: 8 for an (incomplete) list of some 30 newly founded *Stadtwerke*.

<sup>18</sup> See for instance Euroforum, October 28, 1998, "Stadtwerke and municipalities reconquer the energy market", <http://www.blogspan.net/presse/stadtwerke-und-kommunen-erobern-energieversorgung-zuruck/mitteilung/122972/>

<sup>19</sup> <http://www.stuttgart.de/stadtwerke>

<sup>20</sup> see [http://de.wikipedia.org/wiki/Hamburgische\\_Electricit%C3%A4ts-Werke](http://de.wikipedia.org/wiki/Hamburgische_Electricit%C3%A4ts-Werke)

<sup>21</sup> with 241.535 employees which is about one tenth of the entire local government personnel - see VKU 2010: 9

## **4.2. Water**

In the field of water services (re-)municipalisation has been marked by a mounting politicisation of the issue as evidenced by a growing number of pertinent local as well as national referendums and by the emergence and actions of social and political movements, including *Attac*<sup>22</sup> which put the opposition to the privatization of water and energy provision on its international, if not global agenda.

### **UK**

Although the water services that have been privatised in England and Wales have come to be severely criticized (not least for high tariffs and high operating profits)<sup>23</sup>, a politically relevant discussion about turning the water services back to public or local government ownership and operation has not emerged.

### **France**

While, well into the early 1990s in France, the privatisation of water services has witnessed further progress (with over 70 percent of the households served by private providers, first of all by Veolia, Suez and SAUR), since the late 1990s a process of remunicipalising water services has gained momentum for a number of reasons. First, in some conspicuous cases (such as in Grenoble), privatisation was compromised by corruption committed by mayors and other leading local position-holders (for the case of Grenoble see Hall/Lobina 2001b)<sup>24</sup>. Second, steep price hikes drew the economic advantages of privatisation into question. This brought municipalities to reappraise and reconsider their own financial and operational involvement. When left-wing council majorities and mayors regained power, they sought to undo the privatisation effected by their right-wing predecessors and to make use of the expiration of concession contracts in order to remunicipalise water services.

The decisions made in Grenoble and in Paris (in 1989 and in 2000 respectively) are cases in point (see Let Strat 2010 for these and other examples). As a result, the percentage of water services rendered by the municipalities themselves rose from some 18 percent of the country's population in 1970 to 28 percent in 2008 (see table in Bordonneau et al. 2010: 134).

It should be kept in mind, however, that the pace of remunicipalisation has remained hampered by the high compensation payments liable to be made to private investors and by the lack of skilled local government personnel (see Bordonneau et al. 2010: 136).

### **Italy**

The large-scale privatisation of Italy's water sector which was targeted under the right-wing Berlusconi government by the Ronchi Decree of 2009 was conspicuously stopped by the national referendum held on June 11, 2011 in which the Ronchi Decree was rejected by a 96 percent majority. The political mobilisation against water privatisation was largely carried by the (left leaning) *Forum Italiano dei Movimenti per*

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<sup>22</sup> <http://www.attac.org/node/3727>

<sup>23</sup> The tariffs increased by 46 percent in real terms between 1990-2000, while the operating profits rose by 142 percent in eight years, according to Hall/Lobina 2001.

<sup>24</sup> In the case of Grenoble the mayor was convicted of corruption and sentenced to prison. The concession contract concerned was cancelled, see Hall/Labina 2001

*l'Acqua*<sup>25</sup> which was founded in 2006 and was composed of some 150 municipalities and political organisations<sup>26</sup>. As of now, water services continue to be provided (under the OTA scheme) predominantly by municipal companies, but in part also by private companies, including foreign ones (such as France's Veolia). It seems quite likely that the anti-privatization verdict of the national referendum of June 2011 is going to induce, if not oblige private water companies to withdraw from the Italian water market and to restore water provision as an entire public/municipal task..

### **Germany**

Well into the early 2000s, Germany's water sector had seen advances of private water companies, including major players such as Veolia, Suez, RWE and E.on. as they acquired minority share positions in *Stadtwerke* or bought them wholesale (as in the case of Stuttgart).

Recently however a counter-trend is apparently under way, since in view of the imminent expiration of the concession contracts municipalities seek to make use of the opportunity to renegotiate the contracts or to even regain the sole operation of the local water services. This development is also driven by a growing political sentiment among local citizens that important public services, not least water services, should be retained or returned to public/municipal control. Thus, in the City of Stuttgart where, in 2003, water provision was completely sold to EnBW, the city council, in responding to a pertinent local referendum, decided in June 2010 to repurchase the water work, once, in 2013, the concession contract expires<sup>27</sup>. Similarly in the City State of Berlin where, in 1999, France's Veolia and Germany's RWE acquired, in total, a 49.9 percent shareholder position in Berlin's Water Works, policy-makers find themselves politically urged to repurchase the assets. By a local referendum adopted on February 13, 2011 the Berlin government has been obliged to lay open the hitherto secrete kept privatisation contract which is seen by the advocates of remunicipalization as an important step towards finally prevailing<sup>28</sup>. The controversy is still pending.

## 5. Comparative summary: Cross-country and cross-policy convergence?

In conclusion the initially formulated guiding question will be taken up as to whether, to which extent and why the organisational logic (*public/municipal* or *private*) of public service delivery as well as its logic (*political* or *economic*) has shown convergence (or has remained divergent) in the countries and service sectors considered in the preceding analysis.

### *5.1. Public service provision between public and private sector provision*

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<sup>25</sup> translated: Italian Forum of Water Movement

<sup>26</sup> <http://www.fame2012.org/index.php?id=52>

<sup>27</sup> [http://www.wasser-in-buergerhand.de/nachrichten/2010/stgt\\_fuer\\_rekommunalisierung\\_wasser.htm](http://www.wasser-in-buergerhand.de/nachrichten/2010/stgt_fuer_rekommunalisierung_wasser.htm)

<sup>28</sup> <http://www.tagesspiegel.de/wirtschaft/rekommunalisierung-berlin-kann-wasserbetriebe-nicht-verstaatlichen/1659132.html>

Public Services Provision in European Countries  
from Public/Municipal to Private Sector – and back to municipal?

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**Table: Nutshell scheme of the developmental stages of the organisational forms of public service provision**

country	service	historical starting condition	advanced Welfare State until 1970s	neo-liberal privatization + market liberalisation since 1980s	Rate of recent remunicipalization ?
UK	water	local government	State after 100% nationalisation (1973)	private sector companies after 100% material/asset privatisation (1989)	---
	energy	local government	State after 100% nationalization (1947)	private sector companies after 100% material asset privatisation (1989)	+
France	water	localgov (en régie) or thru formal privatization (municipal companies) + functional privatisation to private companies;	localgov (en régie) or thru formal privatization (municipal companies) + (largely) thru functional privatisation to private companies	Localgov (en regie) or formal privatization + (largely) thru functional privatization to private companies (dominance of the Big Three (Veolia, Suez, SAUR)	+
	energy	Localgov/ thru formal privatization (municipal companies) + private comp	almost completely State after nationalization (1946) thru State-owned EdF + municipalities thru formal privatization (munic companies)	formal privatisation (2004) of EdF = stock company, subsequent minor (20%) asset privatization of EdF	+
				+ local gov thru formal privatization (municipal companies)	+
Italy	water	Localgov thru formal privatization ( <i>municipalizzate</i> )	local government thru formal privatization ( <i>municipalizzate</i> )	local gov thru formal privatization ( <i>municipalizzate</i> ) + following introduction of ATO's (1994); expansion of private companies	+
	energy	Localgov formal privatization through <i>municipalizzate</i> + private companies	100% State owned company (ENEL) after nationalization (1962) + localgov formal privatization through	formal privatisation (1999) of ENEL = stock company, subsequent major (80%) material/ asset privatization	+

Public Services Provision in European Countries  
from Public/Municipal to Private Sector – and back to municipal?

			<i>municipalizzate</i>	+ localgov thru formal privatization ( <i>municipalizzate</i> )	
Germany	water	Local government “in house” or thru formal privatization ( <i>Stadtwerke</i> )	Local government “in house” or thru formal privatization ( <i>Stadtwerke</i> )	local gov “in house” or formal privatization ( <i>Stadtwerke</i> ) + expansion of private companies	+
	energy	private companies + local gov thru formal privatization ( <i>Stadtwerke</i> )	largely private companies + local gov thru formal privatization ( <i>Stadtwerke</i> )	largely private companies, dominance of the Big Four (RWE, E.on, EnBW, Vattenfall) + local gov thru formal privatization ( <i>Stadtwerke</i> )	+++

### 6.1. Public service provision between public and private sector provision

In summarizing the detailed accounts given in the preceding chapters and in referring to the nutshell informing in the table the following might be said in great brevity.

Significant convergence has occurred in the “macro” trends in that from the historical starting conditions until the 1960s the delivery of public services was public sector-based (be it local government or State), while since the 1980s has shifted to private sector-based provision. However, cross-country and cross-sector variance can be observed in; as it were, “meso” or “micro” dimensions.

The delivery of public services has been marked since their origin in the 19<sup>th</sup> century until the advanced welfare state unto the 1970s by the primacy of the public (originally municipal later State) sector. Since the 1980s, set off by the neo-liberal policy shift in Britain under the Thatcher government and propelled by EU market liberalization policy, the private sector has gained dominance in the delivery of services, be it through “outsourcing” them to private providers (“function privatization”) or by way of fully fledged (“material”, “asset”) privatization.

The development of energy provision has been marked by two ruptures, to wit, first, from local government to State ownership (by way of nationalization in the U.K., France and Italy) and thence through formal privatization to material/asset privatization (in France and Italy – with significant differences in the degree to which private investors have taken the place of public ownership (U.K. 100 percent, Italy 60 percent, France: 20 percent). The timing and degree of the respective ruptures have been conditioned by political decision makers. The pace of market liberalization and deregulation of the national markets has been set by the EU and has been specified and modified by national governments. The pertinent decisions by national governments and the EU can be conceptually captured by *actors-centred*

*institutionalism*, while the pertinent discussions on the national and local levels can be seen through the conceptual lens of *discursive institutionalism*.

By contrast, the development of water provision has been characterised by the long term responsibility of the local government level (with the exception of the UK where water services were nationalized in 1946) whose organisational continuity can be seen to conceptually exemplify *path-dependency*. While in Germany and Italy the local level responsibility is traditionally realized by (formally privatized) municipal corporations (*municipalizzate*, *Stadtwerke*), the French municipalities have, since the 19<sup>th</sup> century, opted to, by way of functional privatization, “outsource” (*gestion déléguée*) water services to outside (private) operators which has favoured the emergence of three nationally (and internationally) dominating private water companies (Veolia, Suez, SAUR).

## 5.2. Towards a remunicipalization of public service provision?

Since recent years a trend towards “remunicipalization” has set in in the provision of energy and water as local authorities have begun to repurchase transmission grids and facilities which they previously sold or “outsourced” and have turned to resume operating them themselves be it “in house” or through municipal companies. Such “remunicipalization” has in the meantime gained momentum particularly in Germany’s energy sector. Beyond the two service sectors discussed in this paper it can be observed also in other kinds of public services, such as waste management (see Dreyfus et al. 2010, Verbücheln 2009, Libbe/ Hanke. 2011).

Which factors have been driving this development?

For one the expectation evoked by neo-liberal promises that (material or functional) privatization will lead to better quality of services at lower prices has not materialized. On the contrary private service providers have often made use of the next possible opportunity to raise prices and tariffs while at the same time deteriorating the working conditions of their employees. This conceptual and political disillusionment on the local level ties in with a shift in the national and international discourse and sentiment in which, in the wake of the world wide finance crisis that was triggered by the bankruptcy of Lehman Brothers on September 15, 2008, the relation between “the State” and the Private Sector has been critically reappraised and the crucial role of the State to redress “market failures” (to the point of conspicuous “bail-out” rescue measures) has been “rediscovered” and has brought “the state back in”.

Second, the local authorities and their municipal companies have learned how to cope with the new competitive challenges from the “liberated market” by acquiring entrepreneurial skills.

Third, local governments have “rediscovered” their action scope they gain when operating the services themselves in influencing the quality and price of the services and to besides realize (social, ecological etc.) goals relevant in the perspective and interest of the local community. Insofar as profits can be made in such municipal operation (for instance in energy provision), they can be used to “cross subsidize” other deficient services (such as public transport).

Fourth, this development has been accompanied and supported by a profound perception change and value change, locally as well as nationally, in the population as is evidenced by a growing number of local (as well as regional and country wide) referendums in which the privatization of public services and facilities is rejected or

their remunicipalization is demanded. This shift in the political culture and public sentiment has repeatedly become patent, be it in Italy's national referendum of June 8, 2011 or in the local referendums (for German examples see Kuhlmann/Wollmann 2011: 168 ff.).

Furthermore, the local government level, including its service sector, has recently been politically and functionally reevaluated and upgraded by the European Union as well as by national governments. Whereas initially the EU's market liberalization policy was directed at the promotion of (EU wide, as it were, de-territorialized) market competition also regarding the delivery of *services of general economic interest*, it has, in the context of the Treaty of Lisbon of December 2009, significantly mitigated this territorially and sector-wise undifferentiated strategy. In the protocol, to the Treaty, on "services of general interest" the EU explicitly recognizes "the essential role and the wide discretion of national, regional and local authorities (sic! H.W.) in providing, commissioning and organizing services of general economic interest as closely as possible to the needs of the users" as well as "the diversity between various services of general economic interest and the differences in the needs and preferences of users that may result from different geographical, social or cultural situations".

Finally, the EU and national governments have recently come to increasingly acknowledge the crucial role which the local government level (and also its municipal companies) can play in the implementation of policies which are given high priority both by the EU and by national government. This applies, inter alia, noticeably to environmental protection and energy saving. It is worth recalling at this point that the local government level has been mentioned and recognized in the Treaty of Lisbon for the very first time ever in an official legal EU document<sup>29</sup>.

### **5.3. Towards a "mixed" (political/economic) operational logic of service delivery?**

Finally, it should be pointed out that the provision of public services by the local authorities and their municipal companies has the potential to combine the *political* and the *economic* operational logic. In the past local authorities, when providing public services be it "in house" or through their municipal companies, typically pursued a *political* logic which first of all eyes and heeds specific needs and demands coming from the respective local *territory* and its citizens and may, as a consequence, ignore or put last to "purely" economic concerns. Confronting the new socio-economic environment and the "functionalist", territorial boundaries cross-cutting imperative and logic of market competition the local authorities and their municipal companies have, as is evidenced by local experience, acquired entrepreneurial skills and have learnt how to cope with this challenge. Thus, they can be seen to be called upon and also capable of combining the (territoriality-related) *political* and the (functionality-related) *economic* logic in what may be seen as the emergence of a new "mixed" or "hybrid" operational logic of public service provision.

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<sup>29</sup> Art- 3a section 2 of the Treaty of Lisbon: "The Union shall respect the equality of Member States before the Treaties as well as their national identities, inherent in their fundamental structures, political and constitutional, inclusive of regional and **local self-government**" (bold letters added, H.W.)

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