

## RE-MUNICIPALISATION OF SERVICES IN EUROPE – DOES THE NEW PARADIGM OF MUNICIPAL SERVICES PROVISION APPEAR?

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### **Abstract:**

The objective of article is to identify the causes of re-municipalisation of services in European countries, in the years 2000-2014, and to formulate recommendation for Polish local governments in the field of organization in municipal services. The hypothesis, undergoing verification in this article, states that the causes of re-municipalisation of services are mainly related to the negative effects of municipal services privatization and are associated with the specificity of each municipal sector. The realisation of the main objective of the article and the research hypothesis will be carried out on the basis of: literature and reports studies, analysis of press releases. The main research method is a case study and comparative analysis. The choice of research cases depends on the following criteria: geographical scope, re-municipalisation causes and actors who initiate this process. Remunicipalisation, in European countries, is determined by various factors: socio-economic, financial, politico-ideological and technical. The case study revealed that this causes (except technical) are correlated with specific character of the municipal sector. The water supply and sanitation sector is dominated by socio-economic causes. In the energy sector, the services were re-municipalised by European local governments on the grounds of politico-ideological reasons, whereas in waste management due to financial causes. Technical reasons determined re-municipalisation only if they were awkward for resident.

*Keywords: re-municipalisation, municipal services, municipal economy, public sector*

## 1. INTRODUCTION

From the last quarter of XXI century, public services sector in Europe (including municipal services) was dominated – and still is – by the processes of liberalization and privatization. In economic policy, the leading role to the financial crisis of 2008-2009 years role was played by the neo-liberal trend postulating a return of free-market principles and a marginal government intervention in the economy. Privatisation, liberalisation, contracting and outsourcing of municipal services was supposed to lead to reduction of prices and improvement of the provided services' quality. However in many local governments, the expected benefits concerning the introduction of these changes have not been achieved and the further development of these processes revealed their shortcomings: a rise of infrastructure failures, a decrease in the quality of services, a prices increase and limited services availability. Disappointment in privatisation and liberalisation has initiated the opposite trend – re-municipalisation.<sup>1</sup> An intensification of re-municipalisation processes coincided with changes that took place after the financial crisis of 2008-2009 years. The doctrine of neoliberalism turned out fallible, and in the face of the global financial and economic crisis more and more societies expected government's intervention in more and more spheres of citizens' life, including the area of municipal services. This has strengthened the position of local governments, whose task is to ensure the appropriate quality and availability of municipal services - not to maximise profit.

The analysis of re-municipalisation cases in European countries should provide valuable guidelines for Polish local governments in the development of methods of municipal services' organization and it should protect against faults of precipitate privatization and liberalisation of municipal services. The aim of this article is to identify the causes of services re-municipalisation in selected European countries in the years 2000-2014 and attempt to formulate recommendations for the Polish local governments in the field of municipal services' organization. The following research hypothesis is going to be verified in this article: causes of services re-municipalisation are mainly related to the negative effects of municipal services privatization and are associated with the specificity of each municipal sector.

## 2. THE PHENOMENON OF SERVICES RE-MUNICIPALISATION AND THE STATE OF THE RESEARCH

Since the beginning of the twenty-first century, we can observe two opposing processes. On the one hand, the progressive privatization of services. On the other - part of the local government decides to take over public tasks, which were later privatised. In particular this relates to sectors such as energy, water supply and sanitation, waste management and public transport. Intensification of re-municipalisation processes takes place in Germany (energetics) and in France (water supply and sanitation). Among 75 re-municipalisation cases of water supply and sanitation services in Europe, in the period of 2000-2014, about 65% occurred in France (Lobina, Kishimoto, Petitjean, 2014, pp. 11-13). It is worth noting that the re-municipalisation of services also takes place in countries, where the central government still support privatization. In the United Kingdom, among 140 researched local governments in 2011, about 58% of them made or intend to take over tasks, which before were public and then privatised (UNISON, 2011, p.11). Single re-municipalisation cases also take place in other European countries: Norway, Belgium, Italy, Hungary. Until 2016 year, more than two thirds of German local governments plan to take over the energy suppliers and distribution networks (Hall, 2012, p.5).

Re-municipalisation is fairly recent phenomenon in the municipal economy and still not completely identified. In Europe, the first cases were observed at the beginning of the twenty-first century. However, re-municipalisation has been a subject of discussion and a scientific research only from about 6 years (Busshardt, 2014). In the foreign literature of the subject, the majority of scientific studies focus on single or only a few re-municipalisation cases within single municipal sector. The most commonly described examples are from the energy sector (Berlin, Hamburg), and water supply and sanitation sector (Paris, Grenoble, Postdam, Hamburg and Berlin) (Hachfeld 2008; Hall, Lobina, Terhorst, 2013). There are few synthetic research papers analysing causes and effects of re-municipalisation (Hall, 2012, Halmer, Hauenschild, 2014). This state of research may result from

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<sup>1</sup> Re-municipalisation is the reverse process of privatization consisting in transfer of earlier public, then privatized, task to the local governments. This process can be done by: taking back the material privatization (it relate to ownership change) or taking back functional privatization (resignation from outsourcing or public-private partnership liquidation).

the lack of complete statistical data. One of the largest databases, characterising the re-municipalisation cases in the world in the sector of water supply (Lobina, Kishimoto, Petitjean, 2014), was just established in 2014. It contains only information about the number of cases divided into: place, year, name of the company). However, the data are too limited to use them for the analysis of re-municipalisation causes.

In turn, in the Polish literature of the subject the problem of services re-municipalisation is practically not mentioned, although also in Polish municipal economy examples of this phenomenon can be found. In the foreign literature of subject the case of the water sector in Lodz is widely described (Motte, 2005). In the case of Polish municipal economy private sector participation in the municipal services provision is low. The dominant form of municipal services provision are local municipal utilities companies and market development degree of public-private partnership (PPP) is low compared with the Western European countries (Hausner 2013, MSP 2014). However, a growing financial problem of Polish local government can contribute to the intensification of processes of privatisation, liberalisation and outsourcing in municipal economy.

As previously mentioned, the literature of the subject does not include many research studies analysing in synthetic way causes of re-municipalisation, although there can be found and use scientific articles describing single examples of this phenomenon. On the basis of these articles there were selected following criteria of cases chosen for the researches: geographical range, public administration models<sup>2</sup> (Hausner, 2008, pp. 27,67.), re-municipalisation causes and entities initiating this process. The first criterion restricts the analysis only to the European countries, because the majority of identified and described in the literature re-municipalisation cases comes from this continent (Hall, Lobina, 2013; Hall 2012). The following countries were selected to these researches: the United Kingdom, Germany, France, Belgium, Hungary, Spain, Italy, Norway. The first three countries present typical European models of the public service organisation: the United Kingdom – a private model, France - a public-private model, Germany - a public model (Grzymała, 2010). Furthermore, Germany, France, Italy, the United Kingdom are characterized by the same historical determinant of the municipal services' development.

Moreover, the choice of countries was dictated by the diversity of public administration models. In Italy, there is a hybrid model, in which the dominant role in the organization of public services is played by a central government with regional governments with a little significance of local governments. While, France and Spain are countries, where the central solutions of organization in municipal services are preferred with the little significance of local governments too. However, in Belgium, Germany, Norway and Hungary, local governments play an important role in the organization of municipal services. Then in the UK, the territorial and administrative division is diverse and local governments have a limited impact on the organisation of municipal services.

On the basis of the author's global empirical researches on this phenomenon, 23 local governments were selected to the re-municipalisation examples of the case study (Table 1). The choice of this cases was dictated by last two criteria: re-municipalisation causes and actors initiating this process. These criteria will allow to research the specifications of re-municipalisation processes in European local governments and can provide necessary information for Polish local governments in the range of organization of municipal services .

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<sup>2</sup> Public administration models are different systems of institutions functioning on the basis of organizational and functional objectives in the field of social facts and phenomena adopted in the one country or group of countries. It stands out models: English, German, French, Swedish.

**Table 1:** The selected cases of re-municipalisation in Europe, in the years 2000-2014

Sector	Local government	Year of re-municipalisation
water supply and sanitation	Potsdam (Germany)	2000
	Berlin (Germany)	2013
	Budapest (Hungary)	2010
	Grenoble (France)	2000
	Arenys de Munt (Spain)	2011
	Paris (France)	2010
	Castres (France)	2004
public transport	Trondheim (Norway)	2002
	Kiel (Belgium)	2009
	London (UK)	2010
cleaning	Bremen (Niemcy)	2008
	Islington (UK)	2010
waste management	North Tyneside (UK)	2008
	Uckermark (Germany)	2005
	Rhein-Hunsrück-Kreis (Germany)	2006
	Böblingen (Germany)	2007
	Bergkamen (Germany)	2005
	Thurrock (UK)	2010
energy	Dresden (Germany)	2010
	Wolfhagen (Germany)	2002
	Hamburg (Germany)	2009
	Solingen (Germany)	2012
	Berlin (Germany)	2013

Source: own elaboration on the basis of: Halmer, Hauenschild, 2014; Hall, 2012, [www.remunicipalisation.org](http://www.remunicipalisation.org).

### 3. CAUSES OF SERVICES RE-MUNICIPALISATION IN EUROPE

As the experience of different countries and re-municipalisation cases analyzed in the literature showed, the reasons of undertaking this kind of processes are diverse and often related with each other. However, for the realization of the synthetic analysis, the author decided to group them into four reason groups – socio-economic, financial, political-ideological and technical:

- a) socio-economic causes – re-municipalisation is often caused by high price increases of municipal services provided by private entities during the period of the contract. Local governments also make re-municipalisation of services in order to improve the conditions of employment and to create workplaces.
- b) financial causes – they result from the high costs of the conducting procurement process and the monitoring of municipal services provided by private entities. Local governments often decide on the re-municipalisation in profitable sectors to reach additional operating income, which will contribute to the local government budget.
- c) political-ideological causes – this causes are related to the conviction that every citizen should have an access to municipal services, greater confidence of inhabitants to the local government as a entity providing municipal services, ecological aspects (e.g. the promotion of renewable energy sources) and the local government's intention to take over a given sector for other reasons than financial causes.
- d) technical causes – they arise from the need to prevent the failure of private entities in the operating activity, which evidence with the interruption of services provision, failure, deterioration of the municipal infrastructure state and the quality of services.

Entities initiating the re-municipalisation process were classified into three groups:

- a) consumers of services (C) – re-municipalisation initiated by the inhabitants through petitions, demonstrations or referendums;
- b) politicians (P) – local governments authorities decide to take control of the municipal services' provision;

- c) organizations (O) – social movements, ecological organizations or trade unions disseminate re-municipalisation ideas of services, through the public media, they often try to put pressure on politicians and get the support of services customers.

Table 2 presents above mentioned four groups of causes with the determination of initiators and corresponding re-municipalisation examples.

**Table 2:** Re-municipalisation processes in selected sectors

Causes	Initiator	Sector	Local government
socio-economic	P	water supply and sanitation	Potsdam (Germany)
	K		Berlin (Germany)
	P		Budapest (Hungary)
	P, K, O		Grenoble (France)
	P		Paris (France)
	K		Castres (France)
	P	cleaning	Bremen (Germany)
	P		Islington (UK)
	P	energy	Solingen (Germany)
	O	public transport	Kiel (Belgia)
Trondheim (Norway)			
financial	P	waste management	Uckermark (Germany)
	P		Rhein-Hunsrück-Kreis (Germany)
	P		Böblingen (Germany)
	P		Bergkamen (Germany)
	P	energy	Wolfhagen (Germany)
politico-ideological	P	energy	Dresden (Germany)
	P, K		Hamburg (Germany)
	P, K		Berlin (Germany)
	P	waste management	Thurrock (UK)
technical	P	waste management	North Tyneside (UK)
	P	public transport	London (UK)
	P	water supply and sanitation	Arenys de Munt (Spain)

Source: own elaboration on the basis of: Halmer, Hauenschild, 2014; Hall, 2012, [www.remunicipalisation.org](http://www.remunicipalisation.org).

#### 4. ANALYSIS OF THE AVAILABLE EMPIRICAL DATA

On the basis of data included in the Table 2, we can conclude that, among the examined cases the most common re-municipalisation causes were socio-economic reasons - 11 of 25 surveyed municipalities made re-municipalisation because of that reason. These causes determinate researched phenomenon mainly in the case of the water supply and sanitation. In many French cities contracting the water supply and sanitation services to private companies resulted in significant increase in the prices of these services and has become the main reason for departure from the privatisation – for example, in Paris from 25 years the water supply prices were doubled in real terms (Hall, Lobina, Terhorst, 2013, p. 197). Most of all, it was determined by the market imperfection – in Paris, there was a duopoly, in Grenoble and Castres - monopoly. Similar trend was observed in Germany in the case of water supply and sanitation, In Potsdam, within two years after the privatisation, the prices of these services increased by 29% (Halmer, Hauenschild, 2014). Access to the water is the basic human right, and making significant profits from these activity by private companies met with the opposition of politicians, various organisations and inhabitants. Re-municipalisation from the social initiative in the field of water supply and sanitation sector was also initiated in Grenoble and Castres.

Next factors determining re-municipalisation are financial causes, which are related to motives of the local authorities. Among researched local governments, the majority of re-municipalisation (caused by these cases) was observed in the waste management, while and single case was noted in the energy sector. Waste management is a profitable sector, so companies with local government ownership may

be an additional source of income for local authorities. Similar re-municipalisation motives result from a survey conducted in German local governments. Results of this survey indicated two main re-municipalisation causes: socio-political factors and cost-effectiveness (Halmer, Hauenschild, 2014). In Bergkamen, Boblingen and in the Rhein-Hunsrück-Kreis district union, a comparative analysis of the effectiveness of municipal services provision was carried out before the re-municipalisation. It showed that local government entities are characterized by lower costs of the services provision than private entities. Entrusting of the municipal services provision to private operators can increase transaction costs associated with conducting the procurements and monitoring services by local governments.

In turn, the analysis of case studies showed that the political-ideological causes of re-municipalisation occur especially in the energy sector. All cases come from Germany what is associated with an expiration at the same time 25-30-years electrical energy and gas supply contracts. In years 2009-2013, about 5 thousand contracts ended and by 2016, all contracts will end (Hall, Terhorst, 2011). This is an excellent opportunity to take over local tasks without bearing additional costs e.g. high compensations, which must be paid by the local authorities for breaking the contracts. Intensification of re-municipalisation processes in German energy sector mainly resulted from environmental aspects that belong to the political and ideological causes. Local governments made the re-municipalisation in order to increase the control over the energy sector and thus make sector restructuring and increasing the share of renewable energy sources. For example, in Hamburg, Wolfhagen, Solingen after the re-municipalisation, investments in renewable energy sources have increased. In the case of German energy sector, the initiators, for political and ideological causes, were also inhabitants treating the energy as a good fulfilled human's basic needs (Hamburg, Berlin).

Re-municipalisation can also be determined by technical factors. These causes, in contrast to the above mentioned, are not strongly correlated with the sector. Among researched local governments, they were observed both in network (water supply and sewage sector) and non-network (waste management, public transport) services. Technical factors determine the re-municipalisation only if failures of infrastructure are serious and the low quality of services is burdensome for the local community. For example, the privatization of underground in London by the PPP led to a number of technical problems. Almost every day, there were delays and derailments of trains, which had an impact on hundreds of thousands of travelers ("Figures shows big increases in London underground delays", 2011). Private companies, which within the framework of the PPP took over the infrastructure in order to renew it - went bankrupt. As a result, the local government was forced to make the re-municipalisation – i.e. to buy shares in these companies and take control on the entire infrastructure of London Underground. On the other hand, in Spanish town of Arenys de Munt, as a result of the water supply network failure in 2011, water losses amounted to up to 36%, which was the main cause of the re-municipalisation (Halmer, Hauenschild, 2014).

## **5. SUMMARY AND CONCLUSION**

Re-municipalisation processes in countries of Western Europe are determinate by various socio-economic, financial, political and ideological and technical factors. The analysis of case study revealed that these causes (except technical ones) are strongly correlated with the specificity of the sector. In the water supply and sanitation sector in European re-municipalisation processes dominate the socio-economic causes, in particular the substantial increase in prices of services provided by private entities. In the Polish water supply and sanitation sector, service prices are high – the total price of water and supply in Poland is relatively one of the highest prices in Europe and is approaching to the threshold of social acceptability (EY, 2015). Such a state can initiate social movements that are visible in European countries in case of the re-municipalisation. Nevertheless, the Polish water supply and sanitation sector is dominated by local government entities, so re-municipalisation of these services will be a marginal phenomenon. Taking into account negative effects of privatization that took place in tested European local governments and the reluctance of Polish local authorities to the privatization, it seems that the best solution for the Polish water supply and sanitation sector will be the consolidation of companies and establishment of regulations encouraging the growth of services provision's efficiency.

In the energy sector, European local governments re-municipalised services mainly for political and ideological causes, including environmental aspects. EU energy policy imposes on local governments taking restructuring action in order to limit greenhouse gas emissions. However, in case of the Polish energy sector – this is a huge challenge for Polish local governments, in particular, for local

government entities operating in the heat market, where about 75% of power generation comes from coal (Ciepela, 2011). It seems, therefore, that the only way to restructuring the Polish district heating sector is to attract strategic investors by local governments, ensuring low-emission energy supply. In order to counteract the negative effects of privatization, it will be necessary to determine regulations counteracting the market's monopolization, encouraging the growth of services provision efficiency and their accessibility, as well as ensuring the preservation of environmental standards.

In turn, in the waste management tested local governments in Europe made re-municipalisation of services mainly for financial causes. High transaction costs caused that entrusting provision of services to private entities was costly. In the Polish waste management about 50% private entities provide services in the field of waste management. However, amendment of the Waste Management Act of 2010 (2012), which imposes on local governments to increase the amount of wastes being recovered and recycled, may initiate re-municipalisation processes in the future.

The answer on the question posed in the title of this article is not clear. Re-municipalisation of services can be consider not only at the micro level, but also at macroeconomic level, as a wider phenomenon within the framework of the entire economy. This processes can be observed in many countries around the world, in various sectors. Thus the question arises, whether the re-municipalisation of services may evidence about the return of state paradigm in municipal economy? After analysis of the subject literature and selected re-municipalisation cases, we can see that this process was initiated as a result of negative experiences connected with the liberalization and privatisation of public services. Therefore, according to the concept of regulatory and ownership cycle (Gómez-Ibáñez, Meyerw, 1993; Klein, Roger, 1994), re-municipalisation processes can be treated as a natural stage of municipal economy development. On the other hand, growth of re-municipalisation cases coincided with the financial crisis, which revealed failures of the neo-liberal economics and the market paradigm as a mechanism regulating economics processes. It should be noted that the re-municipalisation is not a dominant phenomenon. In many countries, where it occur, local governments continue the public utilities privatisation in accordance with the idea of New Public Management. Thus, the re-municipalisation can't be regarded as a new paradigm of municipal services' provision.

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