



## Japan Local Government Centre, London

### Monthly Report May 2011 (Germany) – Increase in small municipal energy companies

From the 1980s onwards for about 20 years, many municipal energy and water companies were privatised. This includes the outright sale as well as concessions, which mostly were concluded over 20 year terms. The reason was the prevailing view at the time of the need to reduce the size of the state sector (private before public, was a favourite saying), and that the private sector was more efficient. Also, many local authorities were experiencing financial difficulties and were able to realise one-off capital receipts through such sales.

However, in many cases the expectations regarding the benefits of such privatisation were not realised, and some drawbacks also became very clear. It transpired that not necessarily is the private sector always more efficient in running things, and even if savings can be realised, they not necessarily accrue to the citizens in the form of lower charges. Also, control by the local authority is completely lost, and aims such as securing jobs in the location fall by the wayside, while in many cases residual coordination tasks and higher costs as expected still fell on the local authority. Furthermore, profits from water and energy companies were often used to subsidise loss-making services such as public transport or local pools, and this type of cross-subsidy was no longer possible. Many municipal companies ended up in the hands of a few large companies, who in effect became able to dominate the German energy market, so that in a sense a public monopoly was replaced with a private monopoly.

Against this background, 're-municipalisation' of water and energy has emerged as a new trend, also reflecting the fact that between 2011 and 2015 about 1,000 different concession contracts reach the end of their contract period.

'Re-municipalisation' can take different forms. In a study conducted jointly by KPMG and the Institute of Public Finance and Management of Leipzig University in which all municipalities over 20,000 people (699, of which 159 replied) were asked about their opinions and plans regarding this topic, the following options were defined:

- Bringing back previously sold or outsourced services under local authority control
- Establishing a new municipality-owned company
- Giving concessions to public enterprises
- Enter into co-operative arrangements with other municipalities

The reasons why municipalities had already conducted or were considering re-municipalisation were also varied. The most commonly named reason was 'securing public influence on service provision' with over 90% of respondents citing this as a

motive. 44% said that they are motivated by the divergence of goals between the public and private sector. The goals municipalities hoped to achieve through re-municipalisation were mainly given as 'steering decisions on energy and water provision'; to 'achieve higher incomes', but also 'securing better value for money for residents' and 'pursue environmental objectives'.

According to the Association of Municipal Enterprises (VKU – Verband Kommunaler Unternehmen), between 2007 and 2010, 39 new municipal energy companies were established. However, among the 159 respondents to the survey, only a third said that re-municipalisation was either under way or being discussed, so although there is a trickle, it is not yet a flood.

Current examples where re-municipalisation is discussed on a large scale are to be found in Hamburg, where a petition for a referendum is demanding the city bring back electricity provision under public control, as well as Berlin, where the target is water provision. Berlin sold 49.9% of its water company in 1999, which has always been a much contested decision. A referendum aiming to overturn this decision by demanding that all contracts relating to the sale are published and if found to be in breach of the law, to be overturned, was held on 11 February of this year, and became the first successful state-wide referendum to be held in Berlin, as previous attempts had failed at the hurdles of insufficient turn-out or by not reaching the necessary quota of all voters. However, the outcome is not clear yet, as both the senate (city government) and the elected assembly contest the validity of the referendum. It probably will lead to a court case and much protracted negotiations.

*Any opinions expressed in this report are solely those of the author and do not necessarily represent those of JLGC or CLAIR.*