

## **SERVING THE PUBLIC**

**THE ROLE AND BENEFIT OF LOCAL PUBLIC ENTERPRISES IN EUROPE**

**DISTINCTIVE CHARACTER**

**COMMUNITY BENEFIT**

**CONTROL**

## CONTENTS

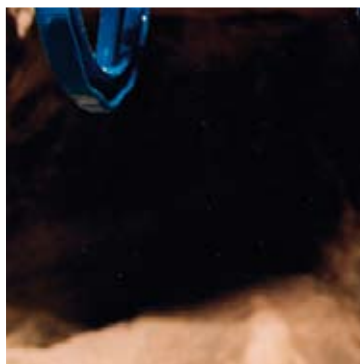
Introduction: Commissioned by the municipal executive committee	4
Local public enterprises serving the public	7
What is distinctive for local public enterprises?	9
Examples of benefit to the community and goal fulfilment	12
Examples:	
Sem Action 70, Haute-Saône	13
Stadtwerke Osnabrück AG	14
Innsbruck Airport	16
Stadtwerke Torgau GmbH	17
Växjö Energi AB	19
SEMITAN, Nantes	20
Ahrental Mechanisch Biologische Abfallbehandlungsanlage, Tyrol	21
Orsa Grönklitt AB	22
INTRADEL, Liège-region	23
The comprehensive performance assessment: The real evaluation of French local public enterprises	25
Local public enterprises — an economic view	26
There is a strong interest for local public enterprises to have a clear and well defined ownership control	28
Conclusions	29
Stockholm declaration — the opinion of the elected representatives in Europe	30
NEELS — Network of European Elected representatives for Local Services of general interest	31

*"For obtaining the goals of the Lisbon strategy Europe needs well functioning and high quality infrastructure and services of general interest. In a very large extent provided by local public enterprises."*

*"In accordance with the principle of subsidiarity the freedom for local authorities to choose the management method for the services of general interest must be respected."*

*"The relationships between the objectives of SGEIs and internal market and competition rules must be in balance."*

*"Public Private Partnerships are one of several methods for local authorities to manage and secure the production and distribution of services of general interest."*



## Introduction:

# Commissioned by the municipal executive committee

Local public enterprises have a special position in the community that relatively few people seems to be aware of. However, the existence of this corporate form gives rise to a number of relevant questions. Why do they exist at all? Don't they out-compete private companies? Wouldn't it be preferable to run the activity in a traditional administrative form? Isn't it a very small sector of no economic importance?

In order to discuss and clarify the special tasks of local public enterprises KFS, The Swedish Organisation for Local Enterprises, organised a number of regional round-table discussions around Sweden to which politicians and leading officials in municipalities and local public enterprises were invited. Ten seminars with over 150 participants from 50 municipalities from practically the whole of Sweden took part in the discussions which were led by the chairperson of the municipal executive committee at the place in question.

The round-table discussions have led to a number of important insights and taking of position by the participants. In particular, the tasks of the local public enterprises were discussed in terms of their distinctive nature and usefulness to the community and the importance of clear control and concrete directives from the owners. If the criteria of benefit to the community are not met, it can be rightly asked why the company is not an "ordinary" private company. A discussion also took place on how local public enterprises can be better at explaining their distinctive nature and

benefit to the community to the inhabitants of the municipality, politicians at municipal, regional and national level and in contacts with the media.

This Swedish project has been discussed and its conclusions approved by several other national organisations for local public enterprises in Europe; VKU in Germany (Verband kommunaler Unternehmen), FNSEM in France (Fédération nationale des sociétés d'économie mixte), Confservizi in Italy (Confederazione Nazionale dei Servizi) and VKÖ in Austria (Verband kommunaler Unternehmen Österreichs). This originally Swedish publication has therefore been extended to European level with the help of examples of good practice from France and Germany and with articles from FNSEM and Confservizi.

Local public enterprises are of course different in different countries, in missions and in legislation, but they are all providing services of general interest. It is thus very important that local public enterprises are given the very best conditions to obtain the goals; best value of services of general interest to the citizens of Europe.

The conditions such as freedom of choice for the municipalities and the balance between competition and the objectives of general interest are very important. It is also essential to exempt local services provided to citizens and limited to local territory, which do not interfere in the internal market, or only to an extent that is

not contrary to Community interest from the application of the competition rules.

To obtain the goals of the Lisbon strategy, such as growth, social and employment aspects and environmental protection Europe needs well functioning and high quality infrastructure and services of general interest. In a very large extent provided by local public enterprises. New jobs are, more and more, created in small and local enterprises, for example in sectors like tourism. Very often this is local public enterprises. Therefore the role and benefit of local public enterprises must be recognized and supported in Europe.

Local public enterprises are often subject to criticism both from the inhabitants of the municipality and private entrepreneurs as well as individual politicians and the media. With this publication we want to change this by more clearly communicating

our mission and showing the difference between a local public enterprise, a private company and a municipal administration. If we do not succeed in doing this, the myths that exist about our companies will persist.

Are local public enterprises in the process of disappearing or are they a well-performing form of community benefit that is to be safeguarded and perhaps further developed? We are convinced that local public enterprises have an evident and durable role in the community and will remain! However, it is important not to take this role for granted but to continuously communicate and to remind about our unique position based on our distinctive character, community benefit and control.

ERIK HELLERYD  
PRESIDENT OF CEEP LOCAL ENTERPRISES COMMITTEE  
MANAGING DIRECTOR OF KFS





## Local public enterprises serving the public

In 1999 FNSEM (Fédération nationale des sociétés d'économie mixte) and Dexia commenced a project aimed to unravel what, up to this point, was thought to be a French phenomenon. It turned out that in most European Union countries such mixed local public capital enterprises existed.

According to a study published by Dexia and FNSEM in 2004 approximately 16.000 local public enterprises are registered throughout the European Union, representing 140 billion Euro in turnover and 1.1 million employees. Most operate in the eight major activity areas (economic development, tourism, urban development, public infrastructure, water and energy production and supply networks) representing a total of more than thirty sectors, most of which belong to the traditional local government realm of responsibilities.

Decentralisation and liberalisation of the public sector, along with growing local government needs in terms of financing has had a considerable impact on local government management of public services over the last two decades. The trend towards an increasing number of local responsibilities is paralleled by an increase in number of local public enterprises. In this process local government often find it economically efficient to outsource public services to local public enterprises. These are, in most cases, subject to corporate law and can therefore compete with privately owned companies. Outsourcing to local public enterprises also allows local governments to retain control at the same time as it facilitates the introduction of private capital.

### Definition

A local public enterprise is a corporate entity with a general interest vocation and where at least 50 per cent of the capital is held by one or several local governments, or less than 50 per cent if these local governments retain in practise real control over the enterprise's activities.

### A change in numbers

There has been an increase of local public enterprises in most member countries during the last five years or so, except for Estonia, Latvia, Lithuania, Portugal and France. In the Baltic States the decrease this is due to an ongoing privatisation process. In France reorganisation of the housing and local planning sectors was the main contributor to the decline, still the number of enterprises has increased in the service sector. In Germany, Denmark, United Kingdom and Slovenia the number of local public enterprises has not changed significantly.

### A change in capital possession

An array of rules for ownership of the local public enterprise exists through out the member countries.

Despite that there is an opening for private shareholders in an increasing number of local public enterprises (10 per cent in 1993 and 20 per cent in 2003), local governments often remain the sole shareholders.

In fact, a majority of the countries display a situation where the local government still is in 100 per cent control of the capital. Two particular reasons for the opening for private shareholders are brought forward. First, it serves as a possibility for local governments to partially withdraw from the local public enterprise, when faced with financial difficulties. Secondly, it is also a way of bringing on valuable allies in a competitive context.

### Number of Local Public Enterprises

Country	Local Public Enterprises
Austria	149
Belgium	243
Denmark	224
Finland	944
France	1 198
Germany	3 500
Greece	1 198
Ireland	Na
Italy	947
Netherlands	Na
Portugal	76
Spain	770
Sweden	1 750
United Kingdom	185
Czech republic	339
Estonia	224
Hungary	Na
Latvia	669
Lithuania	Na
Poland	2 415
Slovakia	39
Slovenia	60

Decentralisation many times helps to make the operational legal framework of local public enterprises more obvious and at the same time increases the number of responsibilities devolved to local governments. Often there is a connection between the level of decentralisation and number of local public enterprises. Regarding the level of decentralisation one can divide the countries into three different groups: One where local public enterprises are traditional tools in long-standing decentralised states; one where they function as increasingly used and modernised tools following a recent or consolidated decentralisation; and finally one where progress is slower in more centralised states.



### Decentralisation

Countries in the European Union are undergoing a decentralisation process, something that is said to drive the development of local public enterprises.

## What is distinctive for local public enterprises?

### Distinctive character

Local public enterprises have a particular mission decided on by the local authorities of the respective municipality. It is this special mission that distinguishes a local public enterprise from a private enterprise. Politicians can use a local public enterprise to stimulate local cultural life, speed up the transition to more environmentally friendly fuels in the municipality's energy production, promote tourism in sparsely populated rural municipalities etc. This distinctive character must be clearly described in the owner directives but

also communicated to the public – a task which is too often underestimated. The risk of attracting criticism is great if one fails to communicate the special mission.

### Why aren't operations run in a private company?

There are a number of crucial differences between a local public enterprise and a privately-owned company. While a private enterprise naturally has the mission of maximising profit and return to the owners, the local public enterprise has partly different aims. Local public enterprises must, for instance, put the benefit of the community before commercial utility by a more long-term taking of responsibility and by complying with the decisions on special priorities reached by the politicians.

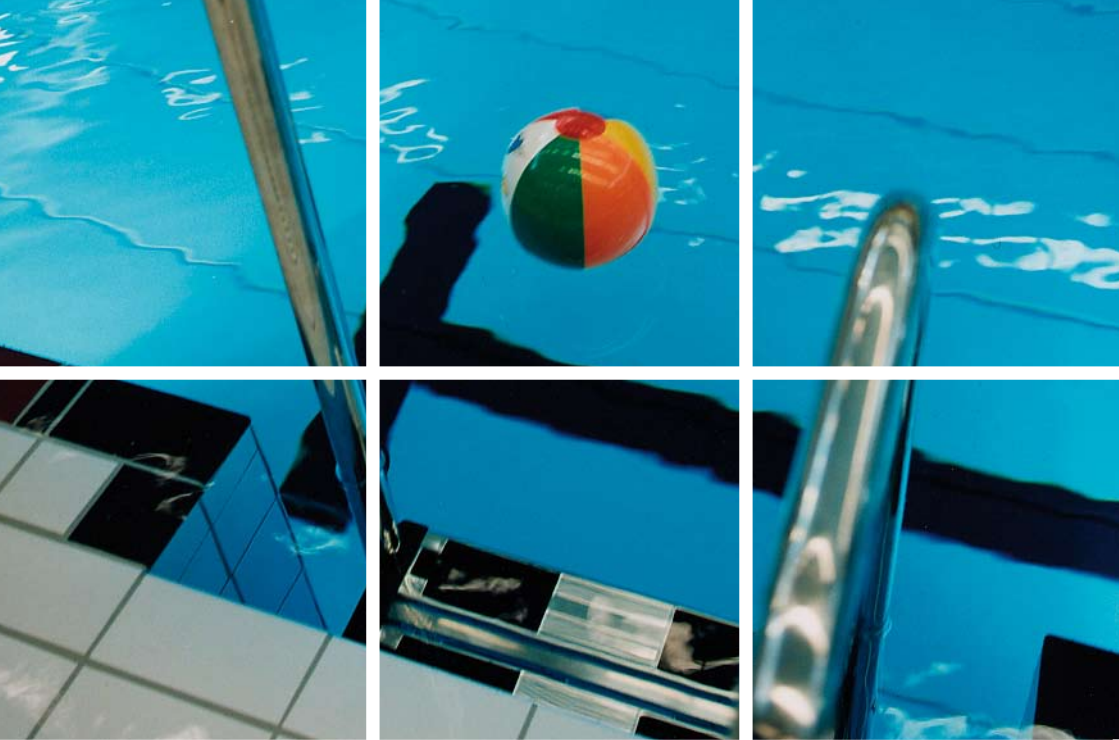
Despite these differences the local public enterprises often break even or make a profit. The myth that local public enterprises are inefficient can thus be quashed since they succeed in combining special priorities with a commercial approach.

### Why aren't activities run in an administrative form?

What can local public enterprises do which can't be done by the administration?

Unlike a local authority activity, a local public enterprise can compete on deregulated markets where there are special requirements for a clear separate accounting for costs. This is a clear demarcation from the local authority, which often makes





explicit that the enterprises must operate and survive on their own merits and that the municipality is not to contribute funds to the activity.

Furthermore, the corporate form makes easier merger with local private players in different activities such as tourist companies, energy companies, etc. where the municipality has an interest in guiding the activity by active partnership towards set goals.

Many local authorities have also created regional companies where a number of municipalities own a company jointly, for, for instance, public cleansing, water supply, etc. A local public enterprise is in these cases sometimes a simpler alternative to creating an association of local authorities.

### **View of local public enterprises of municipal leaders and company managers in local authorities**

The distinctive character and benefit to the community in the form of a special mission are thus the most important foundations for local public enterprises. A clear majority of local elected representatives and managers do not believe, however, that the inhabitants of the municipality are aware of their activities – which is a long-term threat to the existence of local public enterprises. This is shown by a survey that KFS in Sweden carried out among over 500 municipal leaders and company managers. The survey was specifically intended to investigate the view of the form of activity of local public enterprises and the types of goals

that these activities have, as well as the relationship between the owner and these enterprises. The survey indicated a number of interesting circumstances that were discussed at the round-table meetings.

72 per cent of the company managers consider that community benefit and commercial goals were set for the activity. 15 per cent consider that only commercial goals were set for the activity. The latter category shows that there may be enterprises which do not necessarily have to be operated in the form of a local public enterprise but which could just as well be run privately.

Both company managers and municipal leaders consider that the foremost disadvantages with the form of association of local public enterprises is the insufficient expertise of the company boards and the difficulty in combining political goals and a commercial approach. However, there is in the KFS survey a clear majority of both company managers and municipal leaders who consider that local public enterprises have a natural place in the activities of the municipality. An important conclusion of this is that the solution to these problems is probably to be found in clearer or increased control by the owner.

The survey mentioned reduced bureaucracy and faster decision-making, clearer rules of play and a clearer division of responsibility as the foremost advantages of the corporate form compared with the administrative form. It was also considered that local public enterprises increased the attractiveness of the municipality as an employer and partner.

In addition to the importance of having objectives that were beneficial to the community, it is, of course, also important that the objectives are met. The survey

showed that around 95 per cent of the company managers and just under 80 per cent of the municipal leaders consider that goal fulfilment is quite good or very good which must be considered as being a very good result.

The KFS survey also strengthens the thesis that the enterprises must communicate their activity more clearly. 75 per cent of the company managers and around 80 per cent of the municipal leaders consider that the objectives that were of benefit to the community were not especially well-known or not known at all by the inhabitants of the municipality. The objectives that were of benefit to the community are the basis for the existence of the local public enterprise and must therefore be well-known or at least known by the inhabitants of the municipality.

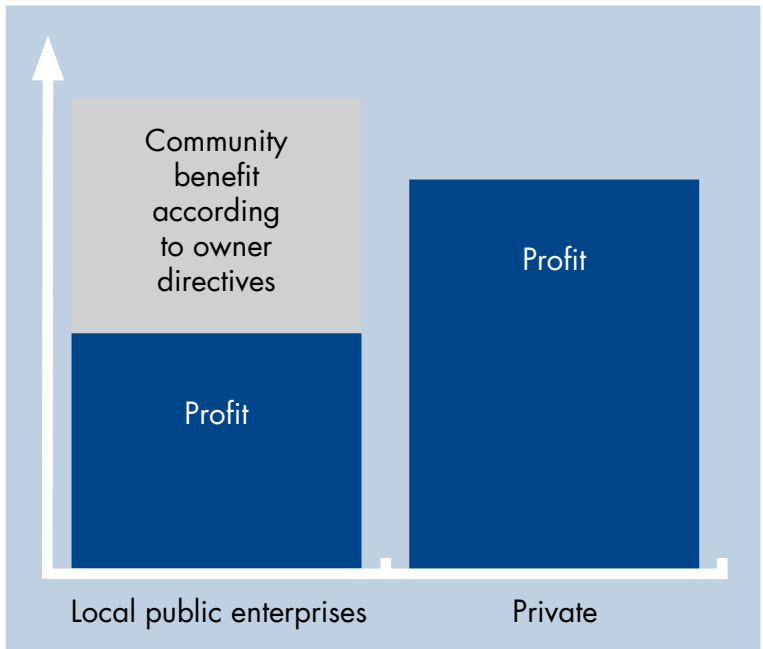
# Examples of benefit to the community and goal fulfilment

## Benefit to the community

Benefit to the community takes priority over profit maximisation and commercial utility in local public enterprises which gives them a unique position and substantial opportunities to work for a good development in line with political decisions. The performance of the local public enterprises cannot thus be measured in economic terms alone but is of a dual nature. The result is a combination of financial profit and compliance with other benefit to the community in accordance with the owner directives (see diagram below).

The profit of the local public enterprises is to produce a reasonable return to the owners at the same time as the goals of benefit to the community are to be complied with. The return is often re-invested in the activity as well. The requirements for the financial return are therefore not always as high as those made by private investors and owners.

This publication contains a number of examples of types of local public enterprises with clear owner directives that have succeeded in combining community benefit goals with a commercial approach.



Benefit to the community. Performance of local public enterprises compared with private enterprises

## The Sem Action 70 promotes the implementation and development of enterprises

Founded in 1990, Action 70, the economic development agency for the Haute-Saône, is assisting local authorities and industrial undertakings for the implementation of their projects.

This Sem, (Société d'Economie Mixte) is characterized by the mix of its public and private stock capital provided by eleven shareholders: the General Council of the Haute-Saône as principal shareholder, three chambers of commerce, six banks and enterprise agencies for business start-ups.

Thus, it helps companies to start up and to develop, thanks to the initiative of local elected representatives, and in synergy with all institutions involved in the economic life of the territory.

Consisting of a highly dynamic team of 15 employees, Action 70 offers its various competencies to the enterprises and institutions for:

- the start-up and take-over of enterprises
- the assistance to the industrial development (investment projects, development of new products, search of financing schemes with the public and private partners, support in difficulties)
- industrial real estate property (study of the needs, financial planning, building)
- tracking down investors from outside the Haute-Saône
- the support and consulting for structures of administrative unions between local authorities.

One of the particularities of Action 70 is the promotion of the implementation

and development of enterprises by offering attractive industrial real estate property.

Action 70 erects new buildings and let them out to enterprises, thus helping them to save their financial capacities for their investments in equipments and materials for their production.

At present, Action 70 is managing:

- an own stock of 12 industrial properties between 500 and 6.000 m<sup>2</sup> with a total rental surface of about 26.000 m<sup>2</sup>
- Two office buildings with offices ranging from 250 to 350 m<sup>2</sup> with a total rental surface of 2.370 m<sup>2</sup>

The Sem Action 70 is in attendance on 280 industrial undertakings in the Haute-Saône, that stand for 20.000 employees in a wealthy and diversified industrial sector.

It is also assisting 34 intercommunal structures (administrative unions of local authorities and counties), whom it helps to determine their development programmes and strategies.

In order to cope with the growing local need of access to territorial and economic information and to promote the implementation of territory-based policies, Action 70 has developed, over the last four years, an extranet-based documentation centre [www.telepole.com](http://www.telepole.com) enabling the exchange and cooperation in a network of local development agents in the Haute-Saône. This tool of intercommunal cooperation is a real territorial network that offers synergies for local development actions (creation of areas with highly qualitative activities).

## Stadtwerke Osnabrück AG — a multi-utility which benefits to the community

The Stadtwerke Osnabrück are a good example that illustrates the special qualities of local public enterprises. The Stadtwerke Osnabrück have been in existence since 1890. At that time they were active only in the fields of gas and water supply. Nowadays, in addition to mere supply services, they also perform other important functions. They have thus developed into a real 'multi-utility'. Transformed into a public limited company in 1964, this enterprise remains wholly-owned by the city of Osnabrück (approximately 162.000 inhabitants). Today, the Stadtwerke Osnabrück are responsible for supplying electricity, gas, district heating as well as drinking water and run local public transport services. It was only during the past few years that the Stadtwerke were given additional important responsibilities: sewage disposal and treatment as well as the management of three modern swimming baths, among them the new Nettebad, one of the largest swimming and wellness centers of Lower Saxony.

With regard to the inhabitants the Stadtwerke do not only guarantee secure, safe and cost-effective services but they also want to be the driving force for the economy of Osnabrück. Furthermore, the Stadtwerke Osnabrück have several subsidiaries that take care of specific needs and concerns.

One of these subsidiaries is the Nord-WestBahn GmbH which within few years has become the largest private railway company of Germany's local public transport.

60 modern rail coaches and 300 employees help transport eight million passengers a year on a 700-km trackage in North Rhine-Westphalia and Lower Saxony beyond the municipal area of Osnabrück.

Another subsidiary is the ITEBO GmbH, a qualified electronic data processing partner for local authorities, utilities, church institutions and medium-sized companies. The ITEBO GmbH offers services for local authorities ranging from residents' registration offices and municipal finances to regulatory offence proceedings. A very remarkable subsidiary is the Münster Osnabrück International Airport which counts among Germany's most expansive commercial airports.

Finally the Osnatel GmbH, a specialist for telephone and internet services, has to be mentioned. This subsidiary aims at strengthening the industrial location of Osnabrück, stimulating competition in the regional telecommunications sector and promoting the creation of new innovative jobs.

The Stadtwerke Osnabrück are especially committed to environmental protection. Several renewable sources of electricity are connected to the utility's grid. Most of the electricity from renewable energy sources is produced by the utility's four wind power stations. Furthermore electricity produced from sewage treatment plant gas, landfill gas, hydropower and solar energy is fed into the grid. Electricity consumers can switch off to green electricity thus contributing to the creation of more

green electricity plants. As early as 1992 the Stadtwerke fitted their new buses with CRT particulate filters.

The activities of the Stadtwerke Osnabrück described above illustrate that this utility is one of the city's most important employers. As a municipal and regional service provider the enterprise secures jobs in the region, makes a major contribution to local and regional wealth creation and is a large customer for specialist businesses locally. Further more, one should not underestimate the manifold contribution the Stadtwerke Osnabrück make via their subsidiaries to the city's necessary and desirable infrastructure. The self-concept of the Stadtwerke is closely linked to Osnabrück's social life. The enterprise is for instance one of the most important sponsors for arts, culture and sport. There are close relationships to sports clubs, educational projects and social institutions (e.g. relationships to the zoo of Osnabrück, the theater and the sports club VfL Osnabrück). All this rounds off the activities of the Stadtwerke Osnabrück and shows that benefit to the community is of crucial importance to them and that profit maximisation is by no means given absolute priority.



## The Innsbruck Airport — an important factor to the economy and location of Tyrol

The Innsbruck Airport, an important factor to the economy and location of Tyrol, developed into a modern service centre within the last years. It provides a prestigious entrée to Tyrol to the arriving guest and stimulates the region's economy in fulfilling its tasks in traffic infrastructure. The Innsbruck Airport is one of the biggest employers of the capital, it is an enterprise that substantially contributes to maintain competitiveness of the regional economy, especially in terms of attracting new enterprises.

The Innsbruck Airport is a regional airport and therefore has, on the one hand, a linking function to international (intercontinental) airports, thus safeguarding the region's international connection and reachability to business and tourism traffic. The scheduled traffic has its focus on non-stop flights to interregional and national destinations such as Vienna, Frankfurt and London and again, as from December 2005, to Amsterdam and Paris.

These connections are also highly important to tourism and in particular to the congress business.

On the other hand, the Innsbruck Airport plays an important role in charter traffic as well, both outgoing and incoming flights. Each year, some ten thousands of Tyroleans make use of the Innsbruck Airport and start their holiday flights 'right from the front door'. Furthermore, several ten thousands of guests from all over the world land at the Innsbruck Airport, in the very heart of the Alps, to



spend their holidays in Tyrol. In 2004, the scheduled and charter business of the Innsbruck Airport totalled some 730.000 passengers.

The Innsbruck Airport proves its important role in the regional economy. More than 30 enterprises either have their headquarters, a branch or a subsidiary at the Innsbruck Airport and employ almost 1.200 people.

Direct and indirect income and employment effects of the Innsbruck Airport summed up to approximately 75 million Euros of total income in the region in 2004. Moreover, these enterprises located at the airport, place important investment, purchase and maintenance orders in the region. The major part of contracts at the Innsbruck Airport refers to the construction, repair and security business.

Dr Elmar Schmid, Chairman of the Board of Directors of the Innsbruck Airport and CEO of the IKB Innsbrucker Kommunalbetriebe AG (Innsbruck's municipal utility and infrastructure provider):

– The Innsbruck Airport not only impresses by its outstanding service quality, but also by its huge economic importance to the Provincial Capital Innsbruck and the whole Province Tyrol. The fields of activities of the IKB comprise the over all necessities of every day's life, according to the company's mission. The IKB therefore acquired 49 per cent of the shares of the Innsbruck Airport and became a full service company even in transportation.

The IKB also owns 51 per cent of the shares of the Innsbrucker Verkehrsbetriebe (Innsbruck's municipal transportation company).

## **Stadtwerke Torgau GmbH has a vital function as the factor that gives fresh impetus to the region**

The Stadtwerke Torgau GmbH, that is wholly-owned by the city of Torgau (Saxony) demonstrates the special qualities of local public enterprises.

Today Torgau, where a gasworks was put into operation for the first time in 1863, has about 19.000 inhabitants. In 1992 (shortly after reunification in 1990) the Stadtwerke Torgau GmbH was founded and in 1995 the supplies to the population of electricity, gas and district heating came under one roof. Know-how in business administration and the economic successes the Stadtwerke Torgau had already achieved were the decisive

factors to give them additional responsibilities for municipal services such as the management of the city's swimming bath on 1st July 1996 and the management of the tourist office in January 1997. Today both sectors are united in the Torgauer Tourismus und Bäder GmbH. In 1997 the Stadtwerke began to take charge of Torgau's green areas and within a short period the modernly equipped department City-Dienst (City-Service) came into being, that reliably cares for the city's green areas.

In all the Stadtwerke Torgau are in a position to offer their citizens a broad

range of services that go beyond the mere supply of electricity, gas and district heating. The Stadtwerke offer for example comprehensive and professional advice on energy issues, a service frequently used by citizens who are interested in energy saving, environmental protection and the use of renewable energy sources. The utility's programme also includes energy services such as planning, constructing and operating low-voltage grids as well as district-heating contracting.

The City-Dienst is an especially flexible service provider with multifarious responsibilities. The 17 employees perform their functions primarily in the municipal sector, but they are also active in the private sector. The most important works are mowing, planting, cleaning and maintaining streets and sidewalks, winter services, demolition and disposal services. In order to increase its efficiency the latest technical equipment is available to the City-Dienst.

From the above it becomes obvious that the Stadtwerke Torgau GmbH with its activities in the relatively small city is not only an important employer but also has a vital function as the factor that gives fresh impetus to the region. This is one reason for the enterprises commitment to the Torgauer Tourismus und Bäder GmbH. Their social responsibility is also an important characteristic. One example is the fact that the enterprise with a total staff of 80 persons offers vocational training to 19 apprentices.

The Stadtwerke Torgau GmbH also attaches great importance to environmental protection. The fact that the enterprises motor vehicle fleet includes eight vehicles powered by natural gas underlines its

ecological responsibility. Furthermore the utility operates a refueling station where everybody can fill up with environmentally friendly natural gas.

In all the above mentioned facts clearly show that commercial utility is certainly an essential factor for successful economic activities – this is also true as far the Stadtwerke Torgau GmbH is concerned. But for a utility like the Stadtwerke Torgau GmbH the local authority, its citizens and their needs are at the top of the list of priorities. A proof for this is for example the utility's commitment to municipal clubs and various support activities for children and young people.



## Växjö Energi AB guarantees quality and safety for a long-term sustainable environment

Växjö Energi AB is an energy company wholly owned by the municipality. It is engaged in production and sale of electricity and district heating, distribution via the electricity and district heating grid and IT-communication through its own broadband. Växjö Energi's customers consist of inhabitants and businesses in the municipality and the market is geographically limited to the municipality.

Competition on the electricity grid is non-existent since it is a so-called natural monopoly. Competition in district heating is likewise limited since in many places has a dominant position as a form of heating.

Competition in the broadband sector consists largely of a large number of players and access technologies. However, the market for electricity has been deregulated since 1996 and takes place on a competitive market where primarily Vattenfall, Sydkraft and Fortum dominate the market.

The business concept of the enterprise is:

- Växjö Energi AB shall as a strong independent player offer its customers energy and IT communications through a well-developed infrastructure.
- Växjö Energi AB shall through the skill and expertise of its staff provide its customers with local service and reliable deliveries.
- Växjö Energi AB is a local public enterprise that invests in quality and safety for a long-term sustainable environment.

The municipality of Växjö's commitment to Växjö Energi has contributed to

confirming Växjö's role as a leading environmental municipality. The company's mission is to promote good electricity and heating supply and IT communications on the basis of good technical practice and with optimal use of resources. This purpose directly relates to the goals in the municipality of Växjö's energy plan where it is stated that the municipality is to work for a safe, reliable and efficient supply of energy on competitive terms and a transition to a sustainable energy system that functions in interaction with ecocycles and is based on renewable sources of energy.

Växjö Energi started the development of the district heating network in the 1970s and was the first in Sweden to rebuild an oil-fired district heating boiler to use biofuel. District heating connections increase by several hundred houses a year. At the same time as electricity and district heating production takes place with the greatest consideration to the environment, prices are relatively low. Växjö Energi also participates actively in bioenergy research and other collaboration with universities as part of its environment work.

The municipality of Växjö has through clear directives to the company ensured the expansion of district heating and a transition to bioenergy based production at a faster rate than would otherwise have been the case. It is possible to combine benefit to the community and a commercial approach in a local public enterprise.

## SEMITAN controls and develops the entire network of public transports in Nantes

SEMITAN was founded in 1979 by the 24 local authorities of the conurbation of Nantes (Nantes Métropole, 570.000 inhabitants) in order to build and operate the first modern French tramway, and to manage the development of the entire network of public transports. It is a semi-public local enterprise. Its stock capital is shared by Nantes Métropole (65 per cent), the private transport service provider Transdev (14.99 per cent), a savings bank (10 per cent), the Chamber of Commerce of Nantes (10 per cent) and one users' organisation (0.01 per cent).

At present, SEMITAN is managing the longest tramway network in France with 40 kilometres on three lines.

Its traffic has considerably increased over the last years to reach 420.000 passengers transported every day on the network in 2004.

As a result of public tenders, Nantes Métropole has prolonged, in 1998 and recently in 2004, the delegation of its mission of public service consisting in the operation of the network.

The contract between SEMITAN and Nantes Métropole enables the local authority to extend the responsibility of the enterprise, to fully maintain its right to decide about the further development of its public transports policy and to control the SEMITAN-management.

The entire development management is subject to regular investment assignments to SEMITAN covering:

- the infrastructure (built of new tramways or the implementation of new high-quality transport concepts by the introduction of new so-called busways)
- tools and rolling stock, notably the purchase of 155 natural gas-powered buses, i. e. 60 per cent of the total vehicle fleet.

Besides traditional modes of transportation (tramway, bus), the development strategy geared to research and experimentation of new products and services related likely to foster the development of the urban mobility of the citizens of Nantes (river shuttles, fast lines, an information system based on cellular phones).

This development policy is based on a policy of steady investments, over the last twenty years, in favour of urban public transports and has a considerable impact on the economy and local employment situation, the importance of which is hardly illustrated by the mere figures: SEMITAN has 1.448 employees who generate an annual turnover of 88 million euro.

Nantes Métropole and SEMITAN have already set their clock to the European time, as they are proactively participating in the Civitas-project, thus sharing experiences with the cities of Bristol, Bremen, Aalborg and Kaunas, mainly in order to improve their overall offer: gas-powered vehicles, NF-certified line services, implementation and renewal of the network, pricing tactics, etc.

## AMBA — Tyrol decides for independent waste management

At the latest by 1 January 2009, Tyrol may no longer deposit its waste untreated, too. Following this provision of the provincial law, Tyrol thus had to decide whether to export its waste to neighbouring countries respectively to other Austrian Länder, or to build waste treatment plants of its own.

Already in 2003, the respective authorities of the capital of Innsbruck opted for the independent waste management model. Being independent of a third party, preventing additional traffic as well as getting economic added value from the own plant due to energy and new jobs, were the crucial factors for this decision.

At first, all existing waste management techniques known as modern and future-proof, were winnowed. Two of them, the thermal waste treatment and the mechanical biological plant, came into question. Waste management by incineration had vigorously been rejected beforehand by the local people of Tyrol.

The IKB Innsbrucker Kommunalbetriebe AG (Innsbruck's municipal utility and infrastructure provider) and the ATM Abfallwirtschaft Tirol Mitte (Waste Management Central Tyrol), together managing two thirds of all residual waste of Tyrol, decided to cooperate in running a mechanical biological plant at the existing waste disposal site in the Ahren Valley (Ahrental near Innsbruck).

Yet, this decision was preceded by an intensive technology test as regards efficiency and future-proofness. Both proponents and critics were likewise convinced by the test results showing that the existing mechanical biological plants in Austria and in Germany are efficient and environment-friendly.

DI Harald Schneider, Executive Director of the IKB (Innsbrucker Kommunalbetriebe AG):

– The multiple benefit combined with the high technical standard of the planned mechanical biological plant in the Ahren Valley ensure the optimal Tyrolean waste management solution.

In June 2004, the Provincial Government of Tyrol agreed to build a mechanical biological plant. An invitation to tender for the construction project was issued throughout Europe and, in December of the same year, accepted by an experienced and powerful bidding group. On 21 April 2005, the Environmental Impact Assessment was submitted. By the end of this approval process, the plant construction is foreseen to start by the beginning of 2006 and scheduled commissioning of the AMBA – Ahrental Mechanisch Biologische Abfallbehandlungsanlage (Ahren Valley mechanical biological plant) by 2007.

## Orsa Grönklitt AB a tool for long-term development and to retain tourist expertise in the local area

The Swedish tourist company Orsa Grönklitt AB is wholly owned by the municipality. The municipality has made the development of the tourist industry and the reception of visitors a priority for investment and action, in particular tourism that focuses on developing experiences based on knowledge of the wilderness and wild animals and predators. Around the main attraction – the bear and beasts of prey park – Orsa Grönklitt lets holiday cottages, runs a camping site, and downhill and long-distance ski facilities.

A strong long-term owner is required to make possible investment in a capital-intensive activity of this kind. It had scarcely been possible for a private player to make the extensive investments required to build up a strong tourist industry based on the wilderness. These investments have, of course, benefited the inhabitants of Orsa by providing good opportunities for training and leisure activities.

The municipality of Orsa has a declining population and is highly dependent on tourism. In the high season, the number of residents in the municipality increases by 75 per cent. There has been a broad agreement in the municipality on creating work and growth. The development of the tourist industry is therefore of key strategic importance. Orsa Grönklitt AB has approximately 45 annual employees although it generates many times more employment opportunities in adjacent activities which is one of the aims of the company.

The company is a tool for long-term development and to retain tourist exper-

tise in the local area. This takes place by active collaboration with a number of upper secondary schools and schools that are wholly or partly focused on care of animals and game preservation.

It has also been considered appropriate to run activity in a local public enterprise since there are far-advanced plans to create a jointly-owned property company with a large number of local entrepreneurs. This would have been difficult if the tourist activity had been organised in an administrative form.

The municipality of Orsa's participation in Orsa Grönklitt has contributed to the activity being run on commercial grounds. Turnover has doubled in the past five years due to active ownership and the number of visitors has increased steadily since 1999 after a slow declining trend. The reduction in population has also ceased, largely due to the key role of Orsa Grönklitt in the development of the municipality of Orsa. Several enterprises in other industries have decided to establish in the area.

Orsa Grönklitt complies with the goals set up by the municipality. The aim of the municipality in owning the company, to attract tourists and visitors to the municipality and thereby generate employment are examples of community benefit that works well. Furthermore, the participation of the municipality in Orsa Grönklitt has contributed to creating good conditions for a stable financial development. In the long-term, this will make possible a disposal of the whole or parts of the company to private players.

## **INTRADEL is the local public enterprise for integrated waste management in the Liège-region**

INTRADEL was founded in 1979 in order to provide an environmentally friendly solution at affordable costs for the waste management problems of the local authorities in the Liège-region.

INTRADEL is a private limited liability company, that belongs to 72 of the 84 local authorities of the Liège-province, the Walloon region, the Liège-region and three associations of local authorities. Therefore it is an Intercommunale.

The majority of the management board are representatives of the local authorities, as it is required by the decree that applies to the Walloon Intercommunales. The company employs 200 persons directly and 400 persons indirectly on the basis of various service provision contracts.

Its main objective is the waste treatment, recycling and collection in line with the sustainable development of the entire region, striving for the preservation of natural resources and the optimal balance of the involved social, economic and environmental challenges.

It provides services for 966.599 inhabitants; thus it is the biggest enterprise of Walloon local authorities in terms of population served.

In order to fulfil its mission, this Intercommunale:

- develops a policy of education and communication based on waste prevention and reuse,
- organises the selective separation and collection of waste to be recycled and

reused, either directly in private homes or in its recycling parks, such as glass, paper and cardboard, green waste, metals, agricultural plastics, corks, electrical and electronic waste, packaging material (that is also separated by the subsidiary SITEL in cooperation with a local social firm),

- develops, through the social firm SoFIE, the reuse of electrical equipment, its reconditioning and new launch on the market,



- ensures the treatment of green waste as well as of electrical and electronic waste through its subsidiary RECYDEL,
- recovers the energy of residual domestic waste,
- the burial of residual waste that cannot be recovered in special landfill sites.

In order to accomplish its mission, INTRADEL, which is certified according to the European standard EMAS II, manages:

- a network of 2.266 glass containers,
- one energy recovery plant which is managed by an external service provider,
- a technical waste burial plant which is also managed by external operators,
- a network of 47 recycling plants,
- composting centres.

In order to be as efficient as possible, INTRADEL has acquired shares of companies which are actively working in the fields of environment or social integration. INTRADEL wants to take particular profit of all opportunities in connection with its business activities in order to re-integrate long-term unemployed persons.

As per December 31st 2004, INTRADEL owned shares of 16 companies, eleven of which are public-private enterprises specialized in waste composting, recycling, separation, energetic recovery, vocational training, integration, sewage treatment and IT.

Its subsidiaries stand for 1.718.231 euro in the balance sheet as per December 31st 2004. At that date, the total amount of the consolidated balance sheet was 145.376.337 euro, the consolidated turnover came to 48.767.357 euro with a net profit of 1.022.428 euro, 54.552 euro of which came from third parties. The active business expansion policy of this Intercommunale in 2003 and 2004 has been awarded the “Gazelles Trends Tendances” prize.



## The comprehensive performance assessment: The real evaluation of French local public enterprises (SEM)

Unlike private enterprises the performance of which is essentially assessed on the basis of their financial results, the evaluation of local public enterprises cannot be reduced exclusively to their financial statement.

In fact, the indirect impact on the local economic and social reality, the dimension of general interest of their activities, the cost of the deficiency of private initiatives. All these aspects which lead to the establishment of local public enterprises are not part of the merely financial statement.

As a consequence, the actual results of local public enterprises are often depreciated and disregarded, because the real impact of their activities is not taken into account as, for instance, their close action in favour of local populations, companies and territories.

The comprehensive performance assessment is a method to evaluate the overall economic contribution of a local public

enterprise; it is based on the collection and analysis of information and data that enable to measure the full impact of its activities.

Measurable effects, often presented in figures, are the contribution to the image and attractiveness of a given territory, support of associative life and citizenship, the impact on economic stakeholders in terms of procurement and implementation, the contribution to missions of general interest.

About sixty French local public enterprises (SEM) of all regions, covering all lines of activities, are carrying out a comprehensive performance assessment since 2002.

The comprehensive performance assessment is an appreciated tool for communication, strategy and assistance to decision-making, especially when it comes to renew a contract between a SEM and a local authority.



## Local public enterprises — an economic view

Local public enterprises (LPE) have a special object – to participate in the supplying of Services of General Interest (SGI). They may have different ownership mix – from totally public to public private partnership (Institutional PPP) – and may operate under different legal arrangements in different countries.

The present situation with around 16.000 local public enterprises in Europe is the result of the evolution, and it will evolve itself. The organisation history of SGI providing demonstrates that there is always a transformation that is ongoing, and it is motivated by the need to adapt it according to the intentions of the community. During the 19th century most European countries experienced competition among private operators – both for the market and within it – in the supply of SGI. At the arrival of the failures of this process, throughout Europe started the so called municipalization process, with substantial reorganisation of operators via vertical and horizontal integration. Local public bodies providing SGI has been a

fundamental characteristic of the 20th century. Toward the end of the past century, the reorganisation of the public body in enterprises, and the private involvement in the SGI provision emerges as a possible solution to some new questions. To sum up, the ownership point of view suggests that there are cycles, but not an optimal solution to converge to. The real evolution, perhaps, lies in the specific forms of the organisation arrangements that the providers set up to better satisfy the citizens' needs.

In the organisation of the activities related to SGI provision, there are at least



two relevant aspects to be considered: technology and social obligations. From the first, it is possible to investigate the most efficient production function to adopt, and in most cases it corresponds to a natural monopoly technology (examples: natural gas and electricity networks, water provision and sewerage networks). It involves that the most efficient industrial structure is obtained with the presence of only one supplier. In this case with natural monopoly, competition is able to operate only *ex ante*, and it involves a fundamental activity from the public administration in charge of controlling the selected provider. A proper regulatory accounting of all assets and liabilities must therefore be in place.

Let us now consider social obligations, or the need to preserve universal service obligation (USO) and some cross subsidization among categories of consumers. If – from an efficiency point of view – tariffs should always reflect the current and future cost of provision, each consumer should pay for the overall costs that his consumption has originated. Nevertheless, there are equity evaluations to be carefully considers in the SGI provision. They imply in most cases not to discriminate the most disadvantaged consumers, studying solutions to the problem of affordability and of service availability in certain areas.

Solving all these problems by contractual agreement between the public administration and the service provider implies the possibilities to predict all the relevant aspects, and to write them clearly in an enforceable contract. It happens only if the knowledge is perfect, but it isn't. If the shortcomings become relevant, the remaining solutions involves alternative

forms of governance, such as direct provision by the public body or the setting up of an enterprise with public participation. The first solution has been criticized by several point of views, mainly: efficiency improvement, capacity to attract capital for investment financing, flexibility of the organisation and ability to protect the value for the municipality. While the first three elements are quite obvious, the fourth deserves some clarification. If the provision of an SGI involves the setting up of a productive and organised body, it has no value if it is not exchangeable in the market. And it happens when there is the direct provision by a municipality itself, simply because it is not possible to sell a part of an institution. From this point of view, local communities can protect their own public value by setting up an enterprise, that is in principle a market oriented organisation.

To summarize the previous considerations, the phenomenon of LPE is relevant throughout Europe; the historic perspective demonstrates that ownership of providers changes continuously; the technical specificities may imply only the possibilities of *ex ante* competition, with the relevant risks associated to it; social obligations require some advanced form of governance, being not possible to write all in an enforceable contract; alternatives are direct management by a public body, which involves several shortcomings, or the setting up of a LPE. The widespread adoption of the latter demonstrates that, in terms of comparative institutional analysis its performance is satisfactory. This is a first preliminary answer to the fundamental questions raised in the Introduction.

## There is a strong interest for local public enterprises to have a clear and well defined ownership control

The activity of local public enterprises is based on the combination of benefit to the community and a commercial approach. The surveys carried out in Sweden in 2003 and discussions at the round-table talks within the KFS project clearly show that communication between the enterprises and their environment must be strengthened. The KFS project also showed that there is no shortage of opportunities to communicate – during a month in 2003, there were 950 opportunities to draw attention to community benefit, their distinctive character and control in the media. And this was only in Sweden.

Very great demands are made on the politicians in the local authority to be able to communicate in a simpler way. It is the politicians that formulate the owner directives and who thereby must justify to the public why the activity is run as a local public enterprise. It is then up to the management of the respective company to ensure compliance with its directives and the goals.

Local elected representatives should not engage in the activity if they are unable to formulate clear and measurable goals for the activity in the owner directives. There is a strong interest for local public enterprises to have a clear and well defined ownership control and concrete owner directives to obtain benefit for the community. If this is not possible, then it is possible that external criticism is justified.

Ownership control works well when the local public enterprise serves in a resource-efficient way as a strong instrument to realise the political goals set for the enterprise's sphere of operations. This requires that:

- There is a clear owner concept
- The owner concept is communicated to the enterprise
- The enterprise acts in accordance with the concept
- The enterprise uses resources efficiently

In addition to these requirements that the inhabitants of the municipality can make on local elected representatives, there are also a number of legal requirements on the operations. In Sweden they are described in the Local Government Act. Under these, the municipality as owner shall:

- Establish the municipal purpose of the activity
- Appoint all board members and at least one auditor
- Decide that the public has a right to examine documents at the company
- Ensure that the municipal council is able to express its point of view before business decisions of a principled nature or otherwise of particular importance are made

## Conclusions

One of the most important conclusions is that local public enterprises have a very important role to play in municipal activities. This is naturally why local elected representatives in different local bodies in Europe have actively decided to operate certain municipal activity in a corporate form in over 16.000 cases. By this summary in this publication, we have aimed to show that local public enterprises have not been created by accident but that this form has been chosen in the democratic process in preference to other forms for activity.

At the local level, the local public enterprises are appreciated by both the inhabitants and the private business sector in the municipality. Surveys have shown, however, that enterprises can be even clearer about their role and actively explain why the activity is operated by the municipality. The myths that exist about local public enterprises are often based on lack of knowledge about what municipal ownership really aims at. There is a challenge to all local public enterprises to make demands on their owner for clear owner directives. If the purpose of ownership of the local public enterprise cannot be justified, the owner should consider whether to retain the enterprise in municipal ownership.

Local public enterprises are also appreciated by their employees. The corporate form provides a feeling of belonging and creates pride in the workplace. On the contrary to what many critics allege, local public enterprises combine the special mission with a balanced finances.

It is accordingly only at the national and european level that local public enterprise lack clear advocates. This is perhaps not so strange bearing in mind that national and european politicians do not have the closeness and daily contact with the activity concerned.

Our hope is that the mythical picture of local public enterprises will change into an understanding of the benefits of the corporate form. To succeed in this, it is required that the enterprise can clearly show the differences between private and local public enterprises and the administrative form. Continuous communication about the special character and benefit to the community is crucial for local public enterprises to continue to have a strong position in society in future.

- Local public enterprises have a special mission decided upon by the municipal council.
- Local public enterprises give priority to community benefit before commercial utility.
- Local public enterprises have a strong interest for a clear and well defined ownership control and concrete owner directives.

## Stockholm declaration — the opinion of the elected representatives in Europe

On 6th and 7th May 2004, in the same spirit which reigned at the previous meetings in Paris, Berlin, Göteborg, Rome, Grenoble and Brussels, local elected officials with responsibilities in local public enterprises in the European Union and managers of national federations met in Stockholm.

1 Underlining the fact that these enterprises play an important role as one of many means for local authorities to supply services of general interest and services of economic general interest to its citizens.

2 Once again stressing the argument that community legislation and the jurisprudence derived from it must be implemented with strict respect for the principle of subsidiarity and thereby guaranteeing freedom of choice for local authorities regarding their management when acting within the framework of their responsibilities as they are defined by their respective national legislations.

3 Stressing the fact that these principles must exclude any legal initiatives of a mandatory character by the community that infringes on the choice of methods available for local authorities to honor their responsibilities vis a vis their citizens.

4 Raising the notion that services of general interest being by nature variable in terms of time and space, and that it is therefore up to each member state to define those services.

5 Stressing that services of general interest have a strong impact on territorial

and social cohesion, and that it is vital to ensure access to these services for every citizen independent of whether he or she lives in urban or rural areas.

6 Pointing to the fact, that local enterprises can in many cases actually promote further competition at the local level and thereby contribute to making the market more efficient. They can in that context also stimulate the development of new internal methods for delivering services.

7 Stating the argument that possible decisions based on the green paper on Services of General Interest as well as on the green paper on Public Private Partnerships and Community Legislation on public Procurement and Concessions should be seen in one context, as

8 Public Private Partnerships are one of several methods for local authorities to manage and secure the production and distribution of services of general interest.



9 The instrument of 'competitive dialogue' could be an appropriate procedure in order to facilitate the establishment of PPPs in cases where municipalities and regions have decided to put to tender a specific service.

10 In face of the now enacted enlargement of the European Union and in view of the growing challenges both economically and socially that the local authorities of Europe will have to stand up to in coming years there is a clear need for deeper discussions, analyses, bench-marking and political initiatives among the elected representatives of local enterprises and their owners – cities and municipalities.

## **NEELS — Network of European Elected representatives for Local Services of general interest**

An optimal and efficient promotion of the local services of general interest at European level depends on the democratic legitimacy of the local elected representatives and on their know-how in the field of local public services. That is way CEEP Local Enterprises Committee in many years has arranged European meetings of local elected representatives and that is way NEELS was created in February 2005.

NEELS is a network in the form of an association under Belgian law made up of local elected representatives as well as non-executive members of the board of local public enterprises who are appointed by local and regional authorities and any natural person or legal entity promoting the interest of local public enterprises.

CEEP and NEELS have both the goal to promote services of general interest at European level. Doing so, NEELS concentrates on local services of general interest while CEEP has a wider approach covering all kinds of services of general interest. Therefore, the appropriate body within CEEP to work with NEELS is the Local Enterprises Committee.

The five goals of NEELS are;

- To bring together in one network elected representatives responsible for local and regional SGIs in order to promote between them discussion, exchanges of experience and bench-marking of economic and social performance.



- To cooperate in particular with the Local Public Enterprises Committee of CEEP in order to promote Local Public Enterprises in the European Union.
- To analyse, clarify and promote the common interests of local services of general interest at European level in close cooperation with associations of elected representatives at national and European Union level.
- To promote and develop local public enterprises as tools which are particularly suited to satisfy the needs of citizens.
- To provide members and possibly third parties with services in the area of European information, lobbying, and event organisation.



CEEP – EUROPEAN CENTRE  
OF ENTERPRISES WITH  
PUBLIC PARTICIPATION AND  
OF ENTERPRISES OF GENERAL  
ECONOMIC INTEREST

CEEP gathers enterprises and organisations from across Europe, both public and private, at national, regional and local level, which are public employers or providers of general interest, and is one of the three social partners in the European Social Dialogue.











The Swedish Organisation  
for Local Enterprises

[www.kfs.net](http://www.kfs.net)



Fédération nationale des  
sociétés d'économie mixte

[www.fedsem.fr](http://www.fedsem.fr)



Confederazione  
Nazionale dei Servizi

[www.confservizi.net](http://www.confservizi.net)



Verband kommunaler  
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[www.vku.de](http://www.vku.de)



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