

WORKING PAPER

*Water and Sewage South (VA SYD) -
Governance versus Ownership in Jointly
Owned Local Government Organisations*

Ola MATTISSON & Ulf RAMBERG



CIRIEC N° 2013/10

**CIRIEC activities, publications and researches are realised
with the support of the Belgian Federal Government - Scientific Policy
and with the support of the Belgian French Speaking Community - Scientific Research.**

**Les activités, publications et recherches du CIRIEC sont réalisées
avec le soutien du Gouvernement fédéral belge - Politique scientifique
et avec celui de la Communauté française de Belgique - Recherche scientifique.**

**This working paper is indexed and available
in SSRN and RePEC**

**Ce working paper est indexé et disponible
dans SSRN et RePEC**

ISSN 2070-8289

© CIRIEC

No part of this publication may be reproduced.

Toute reproduction même partielle de cette publication est strictement interdite.

***Water and Sewage South (VA SYD) -
Governance versus Ownership
in Jointly Owned Local Government Organisations****

Ola Mattisson** & Ulf Ramberg***

Working paper CIRIEC N° 2013/10

* This case study was presented at the Seminar "Case histories of public enterprises: learning from success and failure", University of Milan, June 13-14, 2013, Research Project of CIRIEC International Scientific Commission on Public Services/Public Enterprises on "The Future of Public Enterprise - Mission, performance and governance: Learning from success and failures".

** Lund University, Sweden (Email: Ola.Mattisson@fek.lu.se).

*** Lund University, Sweden (Email: Ulf.Ramberg@fek.lu.se).

Abstract

This is a paper about ownership and governance in a jointly owned local government organization providing water services (Water and Sewage South). The paper discusses the conditions for governance and ownership influence in a jointly owned local government organisation. Extra attention is directed to the issues concerned with merging existing municipal organisations, previously acting solely within their own geographical area (inhabitants), into one organisation with a bigger geographical scope.

Keywords: Ownership, Governance, Local government, cooperation, water and sewage

JEL code: H7, Public Economics, state and local government, intergovernmental relations

Introduction

Inter-organisational cooperation is growing in extent and the research is extensive. Contributions stem from many academic disciplines such as economics, management and political science (Byrnes and Dollery, 2002; Huxham and Vangen 2005; and Smith, Carrol and Ashford 1995). However, cooperation in providing local government services in co-owned organisations has received limited attention (Mattisson, 2000; Elsass, 2003; and Warner, 2011).

Few studies have been concerned with the question of what happens *ex post*, i.e., in the process after the new organisation has started its operations. How can the established cooperation be managed once underway to put expected advantages into effect?

This paper focuses on the initiation and early years of a newly established organisation that was created to institutionalize cooperation between local governments. A new organisation was created to bear all responsibility and execution for water and sewage services within the cooperation municipalities. The ambition is to extend previous research on local government cooperation and decision making in a jointly owned public enterprise. It is proposed that complications of realizing economic potentials (i.e. synergies) are not inherent in the particular form of collaboration. Rather, the difficulties seem derived from the way participants view the collaboration and how they choose to structure operations. As local governments become part of a new structural form (a joint organisation), it raises questions about the possibilities for owners (politicians) to fulfil political goals and professionals to run operations efficiently.

The empirical data stem from a three year project with some 30 interviews per year (90 in total) about the integration process and the governance of the joint organisation.

The rest of the paper is organised as follows. In the next section we describe the Swedish local government context and then the case of VA SYD and its public mission is presented. Then the governance of VA SYD is presented and discussed. Finally some conclusions and lessons learned are presented.

Local government cooperation in joint organisations

Cooperation between municipalities is currently extensively discussed at all administrative levels of public sector, both in Sweden and other countries (Anell & Mattisson, 2009; Dollery & Johnsson, 2005; Warner, 2011). When governments join forces there are high hopes for large-scale advantages and possibilities to share critical resources and competencies.

Swedish municipalities have a long tradition of cooperation and sharing resources and studies show that most municipalities are involved in networks and exchanges with other municipalities (Mattisson, 2000). Similar tendencies can be seen in other countries (Jones and Lüder, 2003). A large part of the

municipalities claim that it is more and more difficult to manage their missions. Too many different tasks require too many different competences which make the small municipal organisation fragmented and less cost efficient. Some municipalities even question if they are able to carry the resources necessary to manage all their assignments (Knutsson et al. 2008). In order to improve the scale of municipal activities the actors put their faith in cooperative initiatives. The rhetoric claims that there is no need for a new structure (merging municipalities) but by a higher degree of cooperation will give scale-effects. Inter-municipal cooperation is seen as a central strategy to prepare the municipal sector for the challenges necessary to deal with. Historically, a majority of cooperative efforts have taken place in more or less temporary exchanges of resources (Anell & Mattisson, 2009). Normally it is a matter of networks for exchanging information or expertise of different kinds. However, as local governments are put under stronger pressure more radical approaches are considered (Lapsley & Skaerbaek, 2012; Mattisson, 2013). It is getting more and more difficult to make both ends meet. To gain even more of large-scale advantages local governments need more secure and stable institutions to cooperate within. Therefore a dramatic increase in number of joint municipal organisations is seen.

Development of local government cooperation is considered to be a crucial strategy for the future of the municipal sector. In the infrastructure and technical sector co-operations exist. Common to them all is that they got initiated when several municipalities were experiencing that existing (or non-existent) technical facilities no longer met the formal (legal) requirements in areas such as water, sewage or waste. These organisations were formed to make a capital investment in a joint facility with enough capacity for all municipalities. The joint facility is a run as a separate unit providing the owning municipalities with treatment services for waste, water and sewage. Still, every municipality runs the local distribution etc. within its own geographical area. Large scale advantages have been realized within the plants and works but not in maintenance and operations of the networks. This is a fact that has been questioned in general but it has shown difficult to merge several local organisations.

An increased horizontal cooperation between local governments is expected to be a crucial strategy for municipalities to develop in the future (Lapsley & Skaerbaek, 2012; Mattisson, 2013). To realize large scale advantages a higher degree of mutual adaption and integration is needed. This cannot be done in terms of loose networks, but requires a merger of resources and formation of a joint organisation to take responsibility for the things previously organised by the sole municipality.

The case study – Water and Sewage South (VA SYD)

In the above context VA SYD (Water and Sewage South) is an interesting case. It was formed in 2008 by the municipalities of Lund (100 000 inhabitants) and Malmö (250 000 inhabitants). The legal form is a statutory joint authority that was the result of a complete merge of two municipalities' capacities to provide water and sewage supply. The short distance between the two (approximately 20 km) and a fairly large population were regarded as favourable for joint efforts. All activities are completely funded by user fees and each municipality set their own user fee and decides upon their investment levels within its own geographical area.

In each of the municipalities, the conditions and actual operations had been considered to work well before the merger. But politicians in both municipalities were aware that the water and sewage sector had gradually become more complex and regulated, making it difficult to meet future standards. The process started around the year 2000. Something new was needed and after almost six years of discussions, investigations and two general city council elections, VA SYD went into operation. Subsequently two more municipalities, Burlöv (2011) and Eslöv (2012), decided to join. In 2013, VA SYD is running all facilities in the whole geographical area, serving 450 000 inhabitants. In 2012 the turnover was 465 MSEK (51 M euro) and the organisation had some 300 employees. Despite the high ambitions, some services and supplies (such as some of the fresh water) are still bought from external suppliers.

Public mission

The establishment of VA SYD was preceded by several projects and at least four reports analysing conditions and prerequisites. All in all this was a process of some seven years of investigations and, committee meetings. Gradually a consensus evolved about the basic reasons for cooperation and establishing VA SYD. Before the decision there was a clear political majority in both municipalities for considering this as the main tool in a strategy to secure a competent and skilled public responsible authority for water and sewage supply. From interviews and documents it is possible to identify five main arguments, or driving forces, behind the decision create VA SYD.

- A foreseen problem with future *supply of skills* is the most frequent argument. In general municipalities have low attractiveness as an employer. A large organisation is considered to provide better opportunities to create interesting work conditions in terms of scope and specialization.
- Another argument is *increased demands on the environment protection and quality*. The requirements for sewage treatment works are continuously increasing, which requires new competencies, skills and development activities.

- *Increases in costs.* It is considered important to be efficient and a larger scale gives opportunities to make structural changes. The individual municipality risks to no longer being capable of bearing all fixed and capacity costs necessary.
- *Customers' view on the water and sewage supply* is an area that requires more attention. A large organisation has better opportunities to organise devoted capacity for external communication and customer support
- *Changed responsibilities in society,* partly through changes in the Swedish Water act and the Water Framework Directive are also a driving force for change. Both forces require organising the supply of the water and sewage service over a wider geographical area.

All these five arguments are related to scale. A larger organisation is expected to have a greater capacity to devote specialized resources for different tasks. As service volume increases it has better ability to bear the fixed costs, and it is easier to reach a critical volume of the activities requiring specialization. Furthermore, it is also a matter of questioning the idea that each municipal territory is the best geographic area for organising water and sewage supply. A regional organisation is better equipped to initiate development and manage all these challenges. It is clear that collaboration was considered as a strategic measure in order to secure long-term capacity to upgrade the overall water and sewage supply system in the south of Sweden.

The decision to form VA SYD was taken to realize the above advantages. When the operations started in a new structural context it was time to establish a completely new organisation with its own procedures, its own identity and a supporting culture. Early in this process it became important to set long term goals and targets. To mark that it was a joint to prepare for the future a purpose with the organisation has been stated explicitly.

Syftet med flera kommuner i ett kommunalförbund är att kunna möta framtidsfrågorna tillsammans i en allt mer komplex bransch (skall detta vara var på svenska?).

The purpose of having several municipalities in one statutory joint authority is to be able to meet the future challenges in an industry that is growing in complexity.

It was considered important to state that the ambitions were long term and it was mainly about increasing the performance capacity of the organisation. Cost reduction possibilities were of interest, but mainly as an opportunity to redirect resources and increase performance. Therefore the vision was set as follows:

VA SYD ska vara en ledande aktör i det hållbara samhället, för kunden och miljön. (OK)

VA SYD should be a leading actor in a sustainable society, for customers and for the environment.

The ambitions of the political leadership were to create an organisation that proactively could act long-term for sustainability and development.

Regulation – the empirical context

The provision of water and sewage services in Sweden is regulated by the Public Water and Wastewater Plant Act from 2006 (SFS 2006: 412). The municipalities are responsible for the provision of water and sewage services and for the management of storm water. Both services are usually conducted by the same organisational entity. The municipalities are according to the Local Government Act (SFS 1991: 900) autonomous, which means that they to a large extent have the ability to decide how to arrange the provision of public services. As a consequence there are variations between municipalities in Sweden in regards to how the provision of services is organised. In-house solutions or municipally owned corporations used to be the most common solution for organising water and sewage services in Swedish municipalities. The provision of water and sewage is normally financed by fees. Tax subsidies are allowed but only used to a minor extent. The fee is decided yearly by the politicians in the local government council and it is to be based on operational cost and investment plans for the coming years.

The calculation of the fees are regulated by the Water and Sewage Act (SFS 2006: 412) and based upon a cost based price principle meaning that the fees charged for the provision of water and sewage services cannot exceed the actual cost the municipality has for providing the services. You are not allowed to make a profit in this sector and then use that profit in order to finance other public services. If a profit is made for one year the municipality is required to state in the investment plan for the three coming years how the profit is going to be used. Since the fee is based upon the actual costs, this means that the level of the fee is influenced by the level of investments and maintenance as well as geographical conditions within a municipality. Due to differences in conditions between municipalities the cost for providing the services and thus also the fee differs from one municipality to another.

The fee for water supply and wastewater management normally consists of two components: a fixed part and a current price that depends on the consumption (almost all consumers have water meters). The division between the two components varies from municipality to municipality. For example municipalities with seasonal tourism have decided to almost only base the fee upon a fixed price considering that the consumption of water varies with the season, but cost for the services are constant.

The municipalities are, according to the Water and Sewage Act (2006: 412), obliged to separate the financial statement for water and sewage services from the rest of the municipal activities. This in order to be able to account for that the fee does not exceed the necessary cost of providing the services. The level of the fee is decided by the politicians in the municipal council and the decision is

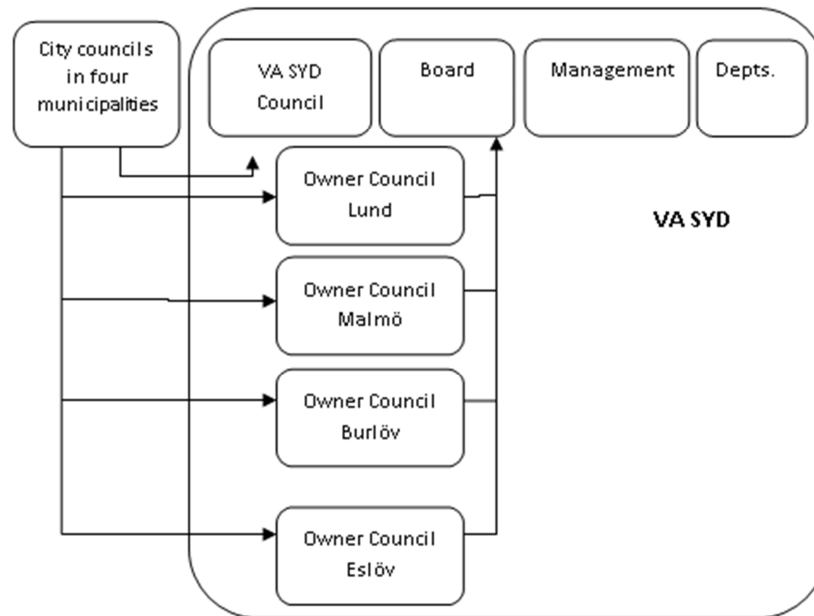
based upon information provided by civil servants in the organisation providing for the services.

Governance of VA SYD

One main reason to initiate VA SYD was increasing demands via regulation and expected future investment needs. Demands and needs that in the longer run would create pressure to raise the tariffs so high that the local politicians may lose trust and faith from their inhabitants. However, even if the tariffs have been raised in the four municipalities since the start of VA SYD, they are still quite low compared to rest of Sweden. The legal organisational form for VA SYD is a statutory joint authority. This can be formed by at least two municipalities and is formally regarded as a new individual entity, with the legal status of a municipality.

When merging the water and sewage supply in Lund and Malmö there were great differences between the parties. There were differences in size of operations, differences of hydraulic conditions, differences in the spatial structure as to the population density and finally also differences of the physical conditions of the assets (works and networks). Even though the ambition was to integrate all operations into one organisational unit it was regarded unfair (and thereby impossible) to merge all this into one single economic entity. Differences needed to be accounted for. Therefore it was decided to create separate economic entities and different user fees. Organisationally, this was arranged by separate ownership councils, one for each municipality. These ownership councils were organised under the VA SYD board and were responsible for the supply in its own municipality. This ownership council is a forum for the local political involvement as they are responsible for deciding user fees and the capital investments (and the capital costs) within the municipality. (See Figure 1)

Figure 1 – The Chain of Command in VA SYD



The legal form of the VA SYD has received much attention and was the subject of intense negotiations before a decision could be made. To create a joint-stock company was never an alternative. There was a fear that a company might put the political dimension aside in the process of strategic decision making. It was considered crucial to have an overall strong political governance of the water and sewage supply as a self-going professional unit might be too big and impossible to control. There was a clear consensus that a political organisation requires political governance.

The politicians focused on having a statutory joint authority. It was considered important to have a broad political participation in order to create commitment, transparency and control. By having a joint council, many, and even smaller, parties get involved in the activity which is considered to strengthen the democratic influence.

Collaboration means doing things together and there was much support for doing so. However, there was also a complete political unity of creating a joint organisation but different economic entities. Besides the physical conditions there were also ideological differences between the municipalities concerning the distribution of fixed and variable components in the water and sewage fee. By introducing an owner-council for each municipality the two water and sewage collectives could be kept apart while the joint authority's resources and capabilities can be used in both municipalities. In addition, the politicians also argue that the owner-councils are important to ensure democratic accountability.

The organisation is reporting to the board who are governing the organisation. The board is reporting to the VA SYD council that is the formal outmost decision maker about policies and operations within VA SYD as a whole.

Considering decisions about investments and fees in the different municipalities these issues are decided by the ownership councils. Even though they are not legally regulated, all parties have agreed to respect the ownership councils' directives when decisions are to be made in VA SYD general council.

None of the politicians are directly critical to how the governance of the joint authority practically works. They say they have the influence and role one would expect given the design made. One issue, however, reached the boundaries between politicians and officials. When the information to the politicians becomes more overarching and the political decisions more aggregate there is a risk that certain issues fall away. The view of the extent to which policies should be involved and decide on individual cases varies greatly among the politicians. No one is really critical to the procedure that exists today, but some note that the issue will be discussed more. VA SYD needs to be able to find its own political culture and form.

The chief officials perceive the statutory joint authority well adapted to its purpose. Now there is a public legal form of government which is well suited to the water and sewage service role in society and its long-term nature of existence. The fundamental tone is positive and the officials perceived the VA SYD as a strong and forward looking. By taking a holistic approach, the politicians has shown that VA SYD will be involved and participate in the development forward, a position that the following quote shows. Aside from initial problems of integration, the chief officials express that the governance generally works well and provides good conditions to deliver good quality service.

However good in theory, the chief officials note that the political governance structure have the potential to a practical and administrative problem. With four owner-municipalities, the number of political fora (and meetings) grows quickly and they all need similar, but slightly different, information. The division into different economic entities with different politicians is perceived to make things complicated and difficult. The chief officials try to harmonize conditions and operations to save money but are continuously reminded of the differences in ambitions and focus. Especially, this is a problem concerning the invested capital and conditions for the daily operations. For example, the condition of the works and networks that came into the joint authority varied greatly. Investing to harmonize the standard requires decisions from the owner council that so far has shown reluctant to allocate funds, giving priority to having low costs. Hence, the levels of ambitions are seen to vary between municipalities and between politicians. Primarily this affects the investment levels but in the longer run also the operations budget and operations procedures. Planning, as well as ongoing operations get more difficult with separate economic entities with different levels of ambition which may counteract some of the positive effects hoped for. From the lower levels within the organisation there is an expressed

demand for a joint vision and an explicit regional configuration (not one for every municipality) as a theme for a new and adapted regional organisation.

Ownership vs Governance – a discussion

From the interviews the overall impression is that politicians as well as chief officials generally perceive it as positive to carry out operations in a larger and more specialized organisation. From time to time it will result in problem of boundaries against other municipal services but the benefits of having a specialized organisation compensate for these problems. Our empirical studies indicate that there are economies of scale to realize. However, there are several difficulties to overcome and many adjustments are needed.

The ownership councils have been introduced to meet the political demands to separate between different municipalities' water and sewage collectives and thus the water and sewage economies. From a political standpoint it was a crucial prerequisite for the cooperation to take place at all. Two reasons were important. The first is that no one wants to mix money and assets. The other is that no municipality wants to relinquish decision-making power and exclusive political influence over "their own" water and sewage supply. It is clear that the system of ownership councils primarily serve political purposes. Seen from the operational issues, it would be significantly easier with a clearly defined governance board for all operations, i.e. one strong decision-maker. Fewer governing bodies would likely increase the chances of identifying one single aim that define a common quality standard for the entire VA SYD.

The construction of several governing bodies is complicated and not ideal. Some difficulties have been identified even though the study has identified a number of benefits. And there is also a strong belief that cooperation is a way to create opportunities to meet future demand. The complications surrounding the ownership councils (or any possible counterpart) are a consequence of the requirements to have separate decision-making abilities (and economic units). It is not possible to organise away these problems. Instead the only way to solve the problem is to give up on this requirement. In general, the easiest way is to integrate all activities into one economic unit. If this is no realistic alternative, the management challenge is to find practical solutions to deal with the diversity and balance of the common and unique for each individual municipality.

By cooperating in a joint organisation, local governments strengthen their abilities to create stronger organisational forms to enable overview and system thinking and rethinking. Realizing the advantages of a larger scale requires a regional vision and strategic direction that guide the municipal decision makers to both think and act on a regional level. It is a balancing act.

The empirical data indicates that several of the main reasons for creating a joint organization are being realized. A positive attitude towards being part of the organization is expressed by both the politicians and the management team.

The interviews show a lot of commitment to the organization and on being a driving force to develop and create something new. The general notion is that VA SYD is recognized as an attractive employer. Despite a difficult hiring situation in general, the recruitments works well. Although customers may notice short-term effects, for better or worse, much of the organization's activities focus on long term. There have been extensive efforts to create uniformity with respect to performance and quality, in many cases at a higher quality level than before. As for cost levels and efficiency, it is too early to say. However, it is worth mentioning that user fees have been increased in all four municipalities since VA SYD started. One explanation is generally higher levels of ambition in terms of common equipment (surveillance of facilities) and joint systems (security, it) but also the purchase cost of water has increased.

Both politicians and senior officials show enthusiasm about the early years. Initially in the process, this was not the case in the lower levels of the organization where the views were more blended. Critics questioned if VA SYD really was a necessary step to take since major changes was needed anyway and the advantages of the merger difficult to apprehend. Much of the scepticism expressed focused on being part of a much larger organization compared to the individual municipal units that people worked for before. Since procedures got more formalized, people complained about increased bureaucracy and less focus on professional issues. Both politicians and chief officials stressed the need to attend to hard as well as soft factors in the process. A major effort was made to create systematic procedures and processes (technical systems) for how VA SYD should work. The positive effect are only to be realized when common standards are implemented. However, apart from the technical systems, equally important is the employees and self-image within the organization.

A program was introduced to get all employees to feel and commit to the common organization, i.e. VA SYD. Despite the commitment, still there were differences in preferences about what level of performance was reasonable to aim for and how the operations were to be organized. The situation was accentuated by the fact that the different municipalities had brought their water and sewage assets into VA SYD and the standard of these assets varied greatly. As the different geographical areas (i.e. municipalities) had profound differences in physical standards, it created tensions in the daily operations about were to allocate resources, both for maintenance and investments. However, these tensions also created moment of discussions and opportunities to adjust personal views. Gradually, less criticism has been expressed and more of positive observations are expressed. In early 2013, the general impression from the interviews is that VA SYD is considered to be a good idea with great potential for the future. Many of the employees express devotion to be part of creating something new.

From a leadership perspective some observations can be made. Firstly, VA SYD expresses an ambition to create a favourable structure for water and

sewage supply that would work long-term and give opportunities to meet the future demands from the society. A bigger scale and being part of an organization solely focusing on one sector give better conditions to upgrade and adjust for the future. It is described as “crucial” to be able cope with technical challenges and provide a steady and secure supply. The challenge is to show ability to innovate and adapt to new demands at the same time. Present and potential new stakeholders (connected to things as sustainability, ethics, and contributions to society as a whole) are better served by a stronger (i.e. bigger) organization. This has to be linked to the technical skills that are highly valued historically. A common denominator in the statement from the interviews is that everyone seems to agree that in the long run, this is a matter of survival. The VA SYD initiative was never a project focusing on reducing costs. Instead the emphasis was on organization's ability to develop for the future and meet raised service standards. However, cost levels and priorities are mentioned in these discussions. In general people within the organization acknowledge that development work is taking place (to what extent varies between the units) and that the costs have increased less than was expected (due to issues related to integration and innovation).

A larger structure creates better operating conditions for the organization. In the interviews it is indicated that economies of scale in planning and production is being realized gradually. It has been possible to identify generic resources and activities that can be used in all municipalities. For activities in operations, it is easy to allocate the cost to the correct entity. Therefore, the costs will be lower as the resources are shared between several collectives.

On the other hand a condition to set up the joint organization was to keep the economic entities separate and guarantee that politicians in each municipality may decide upon fees and investments independently from others. Thus it is possible for each municipality to integrate some resources with others, without being fully harmonized. Even though VA SYD is about decision making about water supply in a regional context, a majority of the politicians will continue to primarily work within their own community. They are local politicians with their main obligations towards their local voters. Therefore it is perceived crucial that every municipality decide upon their own fees and investment plans.

When it comes to long-term decision-making the situation is different. Efforts to coordinate and harmonize the organization can be observed among the chief officials. From a practical point of view the officials claim that it is comparatively easy to coordinate procedures and assets that are possible to use in all municipalities. However, issues close to activities and priorities directly connected to the owner-councils has been substantially different. From the political bodies statements have been made to preserve unique features for the different municipalities. One example is the user fee and the division in fixed and variable components. The management group suggested a unified structure for all municipalities (still with individually set user fees for each municipality).

So far it has shown difficult to agree upon all the details and no change has yet come into effect. There are similar tendencies when it comes to capital investments in physical assets. From the professionals and the management there is a continuous search for technical solutions and establishing efficiency. Establishing norms for general operations and support functions make the activities more cost efficient. The politicians are, however, hesitant to accept minimum standard levels. Since the starting point differs it is costly for politicians to agree on a minimum standard if the assets are in a weak condition. Therefore the politicians are reluctant to accept minimum levels since it may result in raised user fee, something they wish to avoid as long as possible.

Concerning investment planning (and user fees) there is a continuous discussion going on about priorities and directions. In all municipalities the politicians have taken strong action to maintain the sole right to decide about capital expenditures within their own municipalities. The leading municipal politicians clearly express a will to form their own approach and decide on investment priorities, independently from other municipalities. Officials (and leading politicians within VA SYD) on the other hand, seek uniform solutions possible to accept for local politicians in all four municipalities.

To be able to act forcefully, these governance issues need to be sorted out. Until now the process has been handled by a constant muddling through as obstacles are dealt with as they have occurred. Some issues have proven difficult and have been left unsolved. A vast amount of practical issues to deal with have taken attention away from the systematic long-term structural work to realize the vision and the greater motives behind a larger and more forceful joint organization. To develop VA SYD further there is a need for integrating activities in the different municipalities. Without a shared approach, consented to by all municipalities, the structure with separate economic entities, risks to create political tension and less power to act regionally (as was an initial motive). The potential success in realising the scale effects sought for is entirely determined by the ability to unite the politicians to adapt to one another and decide on a consistent approach.

Conclusions and lessons learned

The process of establishing the new organization turned out to be a challenging task requiring a lot of time. In hindsight it is clear that the individuals involved never expected it to take so long to get things into operation. Initially a majority of the employees claim not to know much about the intentions behind the merger, but eventually the potential positive effects of size were spread in the organization. However, the hopes of potential advantages as a regional player were gradually sidelined as operational and practical things with integration took most of the attention. It was not until 2012, four years after the start that the operations were set in a true regional structure.

Overall, it is perceived as positive to conduct the operations in a larger (and specialized) organization. Despite problems of boundaries against other municipal functions (such as physical planning, environment) the positive effects are clearly mentioned. There are economies of scale, but they are difficult to implement and realize. Also, each municipality emphasizes the importance of its ownership council and ability to act acting from its own agenda. One reason is not to mix assets and money from different municipalities, another one is unwillingness to hand over decision power for “their own” assets to politicians from other municipalities. It has not proved possible to create a single view on priorities and goals for quality. Overall, this gives a situation where the joint organization has to work towards ambiguous and shifting objectives.

It is worth noticing that the system of ownership councils primarily serve political purposes. Politicians want to represent their own residents. There is a general resistance towards integrating a single municipal supply (genuinely local in character) into a regional structure. From an executive or professional view it would be significantly easier with one single clearly defined political council. Fewer governing bodies would likely increase the possibility to define a common quality standard for the entire supply.

A number of advantages with a larger scale have been identified and there is a strong belief that the bigger organization is a means to meet future demands. However, the design with several governing bodies is complicated and somewhat problematic. The ownership councils are a consequence of the need to separate influence and safeguard municipality’s capacity to decide within their areas. This situation creates a complexity that cannot be organized away. The only way to deal with it is to drop the condition of separate economic entities. If it is unrealistic to create a common joint economic entity, the only way is to find practical solutions to deal with the diversity and balance between the joint and the unique.

A key hope was that a larger organization would increase the attractiveness on an external market. After five years, VA SYD is considered to be a secure organization that is able to perform its task, although slow and bureaucratic at times. Increased size of operations has brought opportunities to introduce a more structured approach towards both political bodies and users. As things have turned out, the organization today has a clearer and more uniform contact with their clients.

As for the impact on operating costs, it is difficult today to see these ambitions fulfilled. One important reason for this is all about the difficulty of measuring and comparing cost effectiveness. The development does not indicate that the current operating costs decreased, rather the opposite. However, there is reason to interpret these figures with caution as the supply today is larger and generally perform more activities. The initial years were characterized by inventories and adjustments to lift all the parts into a unified quality. Added to

this, there have been special initiatives such as safety and security. It is noted that in several cases these activities were never performed before in the single municipal department. To that extent it is to be considered as cost driving to join the bigger organization.

As the initial ambitions were to develop the supply system it may be considered as acceptable with initial cost driving investments. However, the challenge to come will be to make these rearrangements quickly and cost efficient so it is possible to enjoy the benefits of the bigger structure.

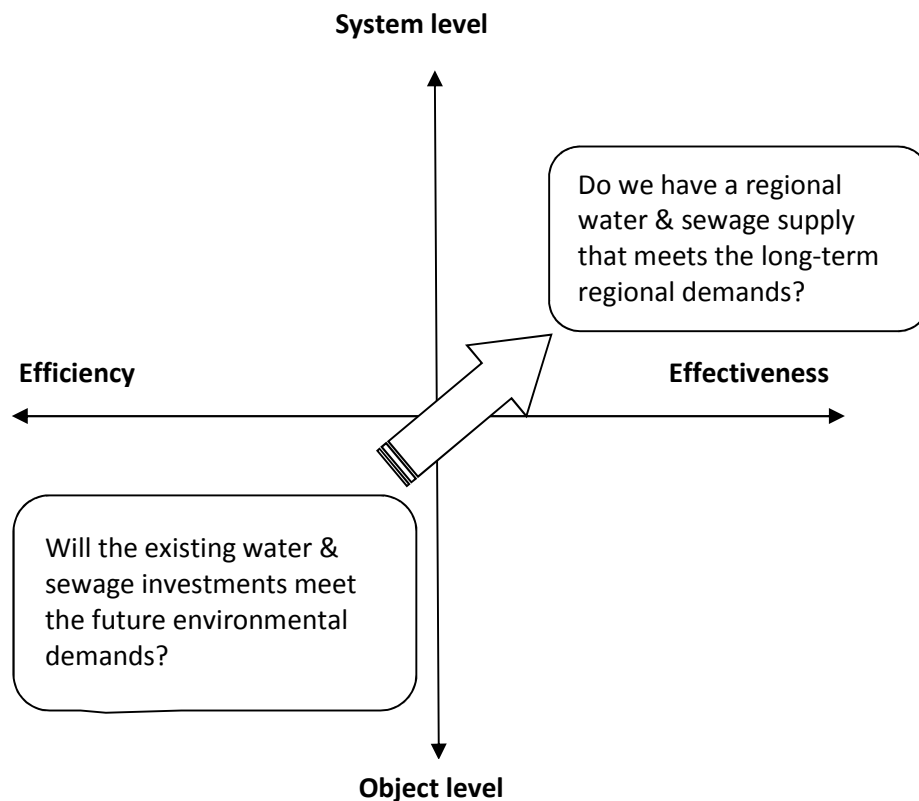
The interview data indicate that the power of a larger organization has come into effect. Staffing is today less dependent on single individuals and the operations thus less vulnerable. There are also more opportunities to put up plans and programs to develop the competence perspective as an individual. Meanwhile, it is also noted that things are more bureaucratic in the larger organization that rely more on systems and procedures.

It is important to note that the merger into a new and joint organization has meant an extensive effort to document and consolidate activities and resources, i.e. facilities, personnel and procedures. More and better information about network conditions and weaknesses of the system meant requests for development to “lift” all components to a minimal level. Not infrequently, this has also led to more or less urgent investments. The organization today delivers much higher quality in terms of systematic information about the facilities and their function. Additionally, the organization is also better equipped to implement uniform systems to run their facilities ahead. Thus, this has initially driven investments and cost but also gradually increased quality.

A clear impression from the study of VA SYD is a need to enhance efficiency as well as effectiveness. From a strategic viewpoint it is a matter of ensuring that scale and synergy benefits are realized at the same time as legitimacy is secured. For a single (or small) organization this is a challenging work as it has to be done despite demanding regulation and restrained budgets. By joining forces and a creating a bigger and more resourceful organization the local government facilitate for analysis and solutions on the system level. This is an opportunity to influence the vacuum of effectiveness at a system level (Figure 2).

On the local level, acting for object efficiency limits the possibilities to develop the local supply. Instead it is desirable for local governments to contribute to the regional vision and act on a system level. Short-term improvements of single activities (or facilities) need to be balanced against their impact on the effectiveness on the system level. To improve on the system level consistent actions needs to be taken in every step where investments and reinvestments are made. Step by step the system of facilities will develop and improve in quality and performance.

Figure 2 – Different Concepts of Efficiency on the Object and System



To realize the potentials with the larger organisation it is needed that local politicians are willing to hand over decision-making to the organization and thereby also adjust to the others parties. Expecting too much of local adjustments within the same organization results in complicated conditions for management as it will bring different subsets of procedures in each local setting.

Much of the issues discussed in this chapter highlights governance issues and questions to deal with when an organization is newly initiated and finding its forms. When standards are set and a joint approach is developed and shared it becomes less feasible to request special conditions. For new municipalities to enter, they have to comply in full with the joint approach as it is, and with no room for exceptions. From the view of the professionals this is a desirable situation as it gives stable conditions. However, it raises issues of the politicians' influence and accountability. It may show difficult to act strategically on the regional level and then face political accountability, by other measures, on the local level. Will politicians be able to decide on actions locally to support the performance on the regional (system) level? What types of conditions will this give for the professional (management) to realize the potentials of the bigger organization? These are issues that certainly need more research attention.

References

- Anell, A., Mattisson, O., *Samverkan i kommuner och landsting*, Studentlitteratur, Lund, 2009.
- Byrnes, J., Dollery, B., “Do Economies of Scale Exist in Australian Local Government? A Review of the Research Evidence”, in *Urban Policy and Research*, 2002, Vol. 20, No. 41, pp. 391-414.
- Dollery, B., Johnson, A., “Enhancing Efficiency in Australian Local Government: An Evaluation of Alternative Models of Municipal Governance” in *Urban Policy and Research*, 2005, Vol. 23, No. 1, pp. 73-85.
- Elsass, D., *Merger of City-Village services: Best Practices*, University of Wisconsin: UW-Extension Local Government Center, 2003.
- Huxham, C., Vangen, S., *Managing to Collaborate. The Theory and Practice of Collaborative Advantage*, London, Routledge, 2005.
- Jones, R. and K., *Reforming governmental accounting and budgeting in Europe*, Berlin, PWC, 2003.
- Knutsson, H., Mattisson, O., Ramberg, U., Tagesson, T., “Do management and strategy matter in municipal organizations?”, in *Financial Accountability & Management*, 2008, 24(3). pp. 295-319.
- Lapsley, I., Skaerbaek, P., “Why the Public Sector Matters”, in *Financial Accountability & Management*, 2012, Vol. 24, No. 1, pp. 355-358.
- Mattisson, O., *Kommunala huvudmannastrategier för kostnadspress och utveckling – En studie av kommunal teknik*, Lund Business Press, 2000.
- Mattisson, O., *Organisation och styrning på den lokala samhällsnivån – en forskningsöversikt om förändringar och utvecklingstendenser*. Lunds Universitet. Bilaga till utredningen om en Kommunallag för framtiden, 2013.
- Mattisson, O., Ramberg, U., *VA SYD 2008-2012. Framväxt och värdering av ett Kommunalförbund*, Lund University, Institute of Economic Research, 2013.
- Smith, K., Carrol, S., Ashford, S., “Intra- and Interorganizational Cooperation: Toward a Research Agenda”, in *Academy of Management Journal*, 1995, Vol. 38, No. 1, pp. 7-23.
- Warner, M., “Competition or Cooperation in Urban Service Delivery?”, in *Annals of Public and Cooperative Economics*, 2011, Vol. 82, No. 4, pp. 421-35.

This yearly series of working papers (WP) aims to publish essentially works in English or in French resulting from the scientific network of CIRIEC and more specifically its working groups. The WP are submitted to a review process and are published under the responsibility of the President of the International Scientific Council, the president of the scientific Commissions or the working groups coordinators and of the editor of the CIRIEC international scientific journal, the *Annals of Public and Cooperative Economics*.

These contributions may be published afterwards in a scientific journal or book.

The contents of the working papers do not involve CIRIEC's responsibility but solely the author(s)' one.

The submissions are to be sent to CIRIEC, Université de Liège au Sart Tilman, Bât B33 (bte 6), BE-4000 Liège, Belgique.

Cette collection annuelle de Working Papers (WP) est destinée à accueillir essentiellement des travaux en français ou en anglais issus du réseau scientifique du CIRIEC et en particulier de ses groupes de travail. Les WP font l'objet d'une procédure d'évaluation et sont publiés sous la responsabilité du président du Conseil scientifique international, des présidents des Commissions scientifiques ou des coordinateurs des groupes de travail et de la rédactrice de la revue scientifique internationale du CIRIEC, les *Annales de l'économie publique, sociale et coopérative*.

Ces contributions peuvent faire l'objet d'une publication scientifique ultérieure.

Le contenu des WP n'engage en rien la responsabilité du CIRIEC mais uniquement celle du ou des auteurs.

Les soumissions sont à envoyer à l'adresse du CIRIEC, Université de Liège au Sart Tilman, Bât B33 (bte 6), BE-4000 Liège, Belgique.

Publications

- 2013/01 The Third Sector importance: General perspectives and analysis for Bulgaria
Julia DOITCHINOVA & Darina ZAIMOVA
- 2013/02 The transformation of Milan's city energy enterprise in a leading national industrial group
Laura DELPONTE, Maddalena SORRENTINO, Matteo TURRI, Daniela VANDONE
- 2013/03 La remunicipalisation de l'eau à Paris – Etude de cas
Pierre BAUBY & Mihaela M. SIMILIE
- 2013/04 Stadtwerke Köln: a market-based approach towards public service provision
Dorothea GREILING
- 2013/05 In Turbulent Waters: British Columbia Ferry Service Inc., 1985-2012
Malcolm G. BIRD
- 2013/06 The water and sanitation service provision in Peru
Gisella ARAGÓN & José Luis BONIFAZ
- 2013/07 La Caisse de dépôt et placement du Québec : straddling between two worlds
Luc BERNIER
- 2013/08 Milan's water and sanitation service: from full direct provision to corporatization
Olivier CRESPI REGHIZZI
- 2013/09 Delivering ICT Shared Services to Local Governments: A new species of public enterprise?
Maddalena SORRENTINO & Massimo SIMONETTA
- 2013/10 Water and Sewage South (VA SYD) – Governance versus Ownership in Jointly Owned Local Government Organisations
Ola MATTISSON & Ulf Ramberg
- 2013/11 Measuring the Economic Value of Cooperatives, Mutual Societies and Companies with social purposes in Belgium: A Satellite Account approach
Fabienne FECHER & Wafa BEN SEDRINE-LEJEUNE

CIRIEC (International Centre of Research and Information on the Public, Social and Cooperative Economy) is a non governmental international scientific organization.

Its **objectives** are to undertake and promote the collection of information, scientific research, and the publication of works on economic sectors and activities oriented towards the service of the general and collective interest: action by the State and the local and regional public authorities in economic fields (economic policy, regulation); public utilities; public and mixed enterprises at the national, regional and municipal levels; the so-called "social economy" (not-for-profit economy, cooperatives, mutuals, and non-profit organizations); etc.

In these fields CIRIEC seeks to offer information and opportunities for mutual enrichment to practitioners and academics and for promoting international action. It develops activities of interest for both managers and researchers.

Le CIRIEC (Centre International de Recherches et d'Information sur l'Economie Publique, Sociale et Coopérative) est une organisation scientifique internationale non gouvernementale.

Ses **objectifs** sont d'assurer et de promouvoir la collecte d'informations, la recherche scientifique et la publication de travaux concernant les secteurs économiques et les activités orientés vers le service de l'intérêt général et collectif : l'action de l'Etat et des pouvoirs publics régionaux et locaux dans les domaines économiques (politique économique, régulation) ; les services publics ; les entreprises publiques et mixtes aux niveaux national, régional et local ; l'économie sociale : coopératives, mutuelles et associations sans but lucratif ; etc.

Le CIRIEC a pour but de mettre à la disposition des praticiens et des scientifiques des informations concernant ces différents domaines, de leur fournir des occasions d'enrichissement mutuel et de promouvoir une action et une réflexion internationales. Il développe des activités qui intéressent tant les gestionnaires que les chercheurs scientifiques.



International Centre of Research and Information on the Public, Social and Cooperative Economy - aisbl
Centre international de Recherches et d'Information sur l'Economie Publique, Sociale et Coopérative - aisbl

Université de Liège au Sart-Tilman
Bât. B33 - bte 6
BE-4000 Liège (Belgium)

Tel. : +32 (0)4 366 27 46
Fax : +32 (0)4 366 29 58
E-mail : ciriec@ulg.ac.be
<http://www.ciriec.ulg.ac.be>