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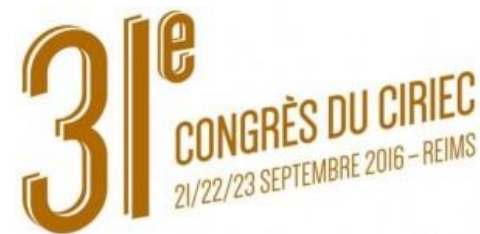


The local provision of public services: municipal capitalism, PPP's schemes and the regulation issues in Italy

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Focus on

- Referring to services locally provided by (public or private) firms on the basis of a public service concession
- According to Italian legislation both national and regional (focus on Emilia Romagna)
- Focusing on four activities: integrated water services, waste management, local transports, gas distribution
- Institutional approach

1. Municipal capitalism: latest evidence in Italy

- Push towards **privatization** of public services: more efficiency and less political objectives along with reduced public resources available – it was a “reluctant privatization” (Bortolotti and Faccio 2004)
- **Increasing role of local municipalities** in the ownership of public or mixed firms managing local public services – “**municipal capitalism**” (Bianchi et al, 2009)
- Greater companies owned by more than one municipality and operating in **more than one territory**, often pushed by regulation or by economic reasons
- At the same time, the **role in regulation activity** is increased for local levels of government: the idea was more regulation, less management (more market)

2. The issue of the optimal territorial level for regulation

- Increasing push from national and regional regulation towards “optimal territorial level of regulation” (Ambito) greater than single municipality
- Most of the time the “optimal territorial level of regulation” is either provincial or regional (territorial contiguity)
- In the meanwhile, a constitutional process aimed to eliminate provinces is also changing the territorial institutional framework

2. The evolution of regulation at national level /1

2008 (L.133, art.23bis – Berlusconi): liberalisation of local public services with a substantial marginalisation of in-house providing and limitations to mixed firms

2011 (Berlusconi): national referendum eliminates the previous law with a strong orientation towards the Water service (with the abolition of the returns to invested capital)

2012 (Berlusconi): L.122-art.23 is re-introduced except for the water service (art. 4 d.l.13 August 2011, n. 138)

2013 (Monti): revision with L. 183/2011 art.9: re-introduced the principle that is preferable a competitive procedure. Direct concession can be applied only in the case of a mixed firm (where the private partner has been chosen with competitive procedure) or in-house providing (less than 200k€)

2. The evolution of regulation at national level /2

- 2012: the Constitutional Court has abolished the previous situation

Basically, it has been reintroduced the possibility for three “European” alternatives:

- Inhouse providing (direct concession)
- Mixed firm: direct concession if the private partner has been chosen on the basis of a competition
- Competition for the service

2. Recent evolution (Renzi)

- Main objective: reduction of the number of companies owned by public governments at local level

Three main tools:

- Incentives to dismiss the shares owned by local government in firms managing services (revenues from shares' sales can be used freely without restrictions coming from the Internal Stability Pact)
- Restrictions of the sectors where it is allowed for local governments to own firms
- Restrictions for the local government in maintaining ownership of firms with negative economic results (the local government has to cover the loss in its own current budget)

Additionally:

- The regulative role of municipalities has been gradually reduced by the increasing role of national (and regional) regulation agencies

3. The reactions...

- Political reactions against the higher territorial level of management of the service (OIMBY effect - Only in.....)
- Political reactions often against large multiutilities action: governance too far away from the local territory, offices not very close too citizens, more profits and less quality, higher prices.... (ex. A2A and IREN will never merge...)
- Regulation and management are too identified by citizens (who is increasing prices?)

4. A summary: the case of Emilia Romagna (Piacenza)

	Regulation - planning	Regulation - prices	Management of the service	Future
Water manag't	Regional and provincial with the active participation of the municipality	National authority	Currently, a listed company partly owned by municipalities (Piacenza<2% but in pact with other local government)	Tender for the new concession – moderately contestable
Waste manag't	Regional and provincial with the active participation of the municipality	National regulated tax with decision at municipal level		Tender for the new concession – highly contestable

	Regulation - planning	Regulation - prices	Management of the service	Future
Transport	Provincial level - with a regulatory framework provided at regional level	Regional objectives – Decision at municipal level	PPP owned by a private partner (actually at the beginning a foreign large company and now a regional large “public” company) jointly with many municipalities in three territories	Tender for the new concession – highly contestable
Gas distribution	National regulation and local planning	National regulation	National company	Tender for the new concession – limited contestability – not high chances for the company owned by the municipality

5. Relevant issues: the potential conflicts in the fully competitive approach

- The potential conflict for the Municipality stemming out from the role of regulation and ownership of the management company when the fully competitive solution is adopted
- On one side, there is a relevant legislation in Italy aimed to promote competition in local public services that has to be implemented with appropriate tenders
- On the other side, the “double role” of Municipality might be a serious obstacle to the search of efficiency through tenders
- In Italy there is a structural problem in implementing efficient tenders (the case of local public transport)

5. An additional problem: what happens after the tenders?

- Once the tenders are implemented and the companies owned by the municipalities are not eventually involved in the management of the service, does it make sense for the municipality to keep the shares of the company?

6. Potential solution: mixed PPP firms?

- Mixed PPP firms (partnership between Municipalities and larger specialized companies) might be potential solutions – It is possible to award directly the service to them
- There is literature (Boggio 2012) proving that mixed firms might be useful to reconcile political objectives with efficiency and productivity
- Mixed firms are not easy to be implemented:
 1. inadequate equity of Municipalities and also scarcity of competences too;
 2. larger and specialised companies are not willing to make agreements with “political” bodies.

6. Mixed PPP firms: Advantages and dangers

- Calibrate the quality of the service, activating citizens' needs
 - Reconcile economic efficiency with citizens expectations
 - In the smaller cities, the public utilities are a crucial factor of development and competitiveness
- We know that these are all “dangerous” claims in context where the political system “prefers” political objectives to efficiency and long-term sustainability

7. In-house providing

- Is reasonable to marginalize in-house providing?
- No. There are cases in Europe where in-house providing is efficient and performing
- There is a main obstacle to in-house providing: the financial constraint first (inadequate startup equity)
- There is additionally a problem of control of the quality of the service
- It strongly depends on the history of the service at local level.

8. Asymmetries between control and management: the regulatory side

- Important changes should be implemented in the relationship between regulation and management of the service
- Top: national and regional government should organize regulations and tenders at local level through appropriate Agencies
- Bottom: municipalities implement (or should implement) the planning of the service
- Prices of the service are(should be) calculated on the basis of standard costs at regional level that might be changed at local level on the basis of local planning

8. Asymmetries between control and management: the management of the service side/2

- Municipalities: it is difficult to get out from the Municipal capitalism paradigm for those that are in the market now
- Smaller municipalities will come out from the companies in five/ten years (incentives needed)
- Mixed firms should be supported, but they are not
- In-house providing may continue in larger areas (large cities) but they will suffer

Many thanks for your attention

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