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PUBLIC SERVICES¹ IN THE 21ST CENTURY: DRIVING FOR EXCELLENCE

TOWARDS A STRONGER PUBLIC AND PRIVATE PARTNERSHIP

EXECUTIVE SUMMARY

Efficient, cost-effective and high quality public services are essential for European society. They enhance our quality of life and greatly contribute to promoting territorial and social cohesion in Europe.

Today's context of rapidly deteriorating public finances is reducing many member states' room for manoeuvre in delivering good public services and infrastructure. This is coupled with other challenges coming from the environment, climate change, ageing population and energy shortages, which requires public authorities to develop innovative and timely responses, and sound strategies for the delivery of public services.

Stronger partnership between the public and private sectors can help respond to these challenges and generate added-value for society in the form of wider choice and innovative solutions, better value for money and new sources of financing.

BUSINESSEUROPE urges EU and national authorities to facilitate public-private partnerships for the provision of public services and recommends the following actions:

- Promote a holistic culture in the management of public services and infrastructures that focuses on result-oriented strategies, performance targets and innovation;
- Encourage partnership approaches and ensure fair treatment of the private sector in the delivery of public services;
- Ensure equality of access to European or national funding for public authorities regardless of how they organise the provision of public services (through a public or private entity);

¹ In this paper "public services" refer broadly to Services of General Economic Interest, which are understood by the European Commission as being services of an economic nature which the Member States or the Community subject to specific public service obligations by virtue of a general interest criterion and must be provided against remuneration (2004 White Paper on services of general interest and 2007 EC Communication on Services of general interest, including social services of general interest).



- Secure more transparency and better enforcement of the applicable regulatory framework;
- Encourage a wider exchange of national best practices in partnerships between the public and private sectors;
- Better use of EU and national financial means to promote public-private partnerships.



INTRODUCTION

Services in general account for around 70% of EU GDP and employment, of which public services form an integral part². Europe is highly dependent on competitive and innovative public services as these greatly contribute to growth and job creation.

The current economic downturn is reinforcing the need for the provision of efficient, cost-effective and high quality public services, which are of fundamental importance for European society, the well-being of its citizens and the competitiveness of European businesses. They enhance our quality of life and greatly contribute to promoting territorial and social cohesion in the Union.

It is for each member state to decide what public services are considered to be of vital importance for society and therefore of general interest.³ It is for public authorities to decide on the scope of a service of “general interest”, and it is for them to organise those services and to decide in particular whether to provide such services themselves or to contract out their provision to a public or private entity.

The Treaty of Lisbon emphasises the importance of Services of General Interest (SGIs) under the Protocol on Services of General Interest⁴ and distinguishes between Services of General Economic Interest (SGEIs) and non-economic services.

SGEI are referred to in Articles 16 and 86(2) of the current EC Treaty and they are subject to Community legislation, in particular Single Market rules such as competition, state aid or public procurement laws. SGEIs are not defined in the Treaty or in secondary legislation. However, in Community practice there is broad agreement that the term refers to services of an economic nature which the Member States or the Community subject to specific public service obligations by virtue of a general interest criterion.

The EC Communication of 20.11.07 on “SGI and social services of general interest indicates that, for a specific service to be classified as a SGEI, it must be provided against remuneration (whether users pay for it directly or not). That same communication classifies as SGEIs network industries – electricity, gas, telecommunications, transport, postal services – waste management, provision of water and wastewater services. Beyond this, each service must be looked at specifically: for instance, social services may be classified as economic or non-economic, depending on the circumstances.

This paper offers a roadmap for the provision of better public services in the 21st century by showing today’s areas of challenge and by making the case for developing stronger cooperation between the public and private sectors to serve that goal.

² European Commission Economic Paper (2007) “Steps towards a deeper economic integration: the Internal Market in the 21st century. A contribution to the Single Market Review”.

³ European Commission (2007), Communication of General Interest [COM(2007)725]

⁴ Treaty of Lisbon amending the Treaty on the European Union and the Treaty establishing the European Community (2007/C 306/01).



TODAY'S CHALLENGES

Our society is currently facing serious economic difficulties as well as challenges coming from the environment, climate change, an ageing population and energy shortages. All of these require public authorities to develop adequate, cost-effective and timely responses for the delivery of public services.

Economic challenges

In 2006 total public expenditures in the EU as a percentage of GDP averaged 46.8% and ranged from 32% in Romania to 56% in Sweden⁵. By way of comparison, the share of public expenditures in the US was only 34.5% of GDP in 2006⁶, which shows that Europe's public spending is comparatively high.

The main functional components of public expenditures in the EU Member States are social protection at 41%, *general public services* and health each at 14% and education at 11% of total spending.⁷

Europe's current economic downturn is putting enormous pressure on national governments' public finances and is a growing concern reducing many member states' room for manoeuvre. In 2010, average EU public deficits are expected to be at 7.5% of GDP and public indebtedness to reach around 80% of GDP⁸.

Governments have to look even more critically at their expenditure as pressure on their budgets increases and to ensure a return to sound public finances. In this context, governments must commit credibly to modernising the public sector, not by merely reverting to tax hikes but by making public spending more growth-oriented. They also need to strive for better public procurement, responsible and wise management of public money and value for money in the provision of public services.

Societal and demographic challenges

European society is undergoing significant changes, which are having important consequences for our economy and the European welfare system, and call for early anticipation and adjustment.

Life expectancy is increasing due to higher quality of food, healthier working and living conditions, and more and better access to health services. By 2060, the EU will have moved from having four working-age people (aged 15-64) for every person aged over 65 to a ratio of only two to one⁹, putting sustainability of retirement schemes at risk and compromising the availability of a qualified workforce. This situation may be further aggravated by rising levels of unemployment. By 2010, the unemployment rate is expected to reach 11.5% in the euro area and 10.9% in the EU.

⁵ European Commission Economic Paper (2008). "The effectiveness and efficiency of public spending".

⁶ Ibid.

⁷ Ibid.

⁸ European Commission, European Economic Forecast, Autumn 2009

⁹ European Commission (2009), Communication, Ageing Report 2009 [COM(2009)180/4]



Citizens have become more demanding and expect the public sector to evolve and improve constantly. The public wants more affordable, high quality, accessible, innovative and increasingly personalised public services. For instance, public services increasingly need to be adapted for use by physically challenged citizens. Public services are often operated in line with charters that set quality standards and may provide for compensation to users for failure to meet those standards.

A recent Eurobarometer shows that a significant proportion of consumers consider prices of some basic economic public services to be either not affordable or excessive (31% for electricity and 33% for gas)¹⁰. These data may increase in the light of the current difficult economic situation.

Environmental, climate and energy challenges

European economies have to embark on a major drive to protect our environment and to ensure that energy supplies match future needs in a sustainable manner. A fundamental change in the way the world uses and produces energy is needed to effectively respond to climate change.

EU policy-makers have set clear and ambitious targets. Commitments have been made to reduce absolute greenhouse gas emissions by 20% by 2020 compared with 1990 (this may rise to 30% depending on commitments from other economies). To reduce global emissions, global net additional investment may need to rise to around 175 billion euro per year in 2020 according to independent estimates.¹¹ This commitment is supported by EU legislation targeting a number of industry sectors under the Emission Trading Scheme (ETS), setting objectives for each member state in terms of development of renewable energy sources, and in terms of abatement of greenhouse gas emissions in the non-ETS system.

As a result, member states either centrally or through territorial authorities will have to invest heavily to refurbish infrastructures and the urban fabric, and to reorganise provision of services to make our economies sustainable. In that context it will be even more essential that public budgets are spent in the most cost-efficient and environment-efficient way possible.

¹⁰ EC, 2007a, Eurobarometer 260, “Consumers opinions on Services of General Interest”.

¹¹ European Commission (2009), Communication, Towards a comprehensive climate change agreement in Copenhagen COM(2009) 39



DELIVERING BETTER PUBLIC SERVICES: TOWARDS CLOSER COOPERATION BETWEEN THE PUBLIC AND PRIVATE SECTORS

The provision of good public services must remain at the heart of the EU and national policy agendas. However, in the face of the drastic constraints on public finances, growth and employment and the need for a greener economy, cost-effectiveness and efficiency of public services are becoming more and more critical.

Many of these constraints take their toll at the local level with many opportunities also appearing at local level. Public services will have to set the example and may play a critical part in this overall development.

Public authorities set the standards for the provision of public services which can be delivered in various ways, including the participation of the private sector.

BUSINESSEUROPE believes that developing a stronger partnership between the public and private sectors for the provision of public services is a win-win approach to the many challenges faced by public authorities in managing those services.

By cooperating with the private sector, the public sector can promote quality of service and efficiency savings whilst retaining ownership of the public infrastructure investment and oversight of performance.

Public services are often provided at regional and local level. This provides opportunities for SMEs to take part in partnerships with the public sector, either as direct providers or, when a task requires significant financial resources or more global expertise, as members of a consortium.

Cooperation between the public and the private sector in the delivery of public services can provide various benefits¹²:

Better value for money - The private sector is, in general, efficient and cost-conscious because companies operate in an open and competition-driven market environment. As private companies would have to compete for contracts to deliver public services, they will strive to deliver value for money at a requested quality level.

EXAMPLE

A study conducted by DI, the Confederation of Danish Industries, shows that Danish municipalities have on average achieved annual savings of around 18.7% by subjecting public services to public procurement. The study is based on a number of different cases that municipalities have described themselves and published on a central website dedicated to public procurement in Denmark (www.udbudsportalen.dk).

¹² The examples provided are a few illustrations of the numerous types of partnership that can take place. Partnerships can occur in various sectors such as transportation, waste management, water and wastewater services, construction and operation of civil works, hospital, schools and miscellaneous public amenities.



A wide selection of public services is covered and for each of the cases, the municipalities identified the pre-procurement costs associated with the assignment. The difference between this and the value of the contract that was awarded to the private company that won the procurement constitutes the savings. The biggest annual savings (42.1%) are to be found in cleaning services in the municipality of Frederiksberg.

Enforceable quality standards – As private companies providing a public service seek to develop their business, user satisfaction is central to their strategy. As citizens become more demanding, companies are constantly striving to increase quality. Quality standards will typically be reflected in performance criteria that the private sector will commit to, thus accepting the risks and penalties linked to failure.

EXAMPLE

Enforceable quality standards are being used to ensure private providers achieve good sustainability outcomes for events associated with the London Olympics. BSI, the national standards body for the UK, has worked alongside the Olympic Delivery Authority (ODA) to produce a new Standard for Sustainable Event Management System, BS 8901, which will apply to all the conferences, seminars, roadshows, cultural events and promotional launches of the Games in 2012. The ODA is working with major suppliers to encourage its application across the sector.

'BSI 8901 is really going to create more interest and awareness of sustainability within the event industry (...) Standards form a very effective shorthand when placing an order, because everyone knows what they will be getting' (David Stubbs, Head of Sustainability, ODA)

Wider choice and innovative solutions – Private providers will put forward alternative approaches supported by their experience and they will promote innovative solutions that give them a competitive edge. They will manage the services to meet technical performance standards and to achieve customer satisfaction, which are the keys to their remuneration. Failure in implementing innovation is their risk.

EXAMPLE

The private sector supports the city of Oslo (Norway) in its strategy to become one of the world's most environmentally friendly capital cities by developing innovative and modern waste management solutions.

In 2005, the Port of Oslo asked a private partner to help develop a legally compliant solution to manage the waste flows generated by shipping. The objectives of this project, which the private partner successfully realised, were to (1) develop and operate a waste management system for the port in compliance with the European Union's directive on ship waste; (2) Comply with the high quality standards set by the municipality; (3) Offer treatment of commercial waste with the focus on materials and energy recovery. Regarding the latter for example, the private sector's solution was to process commercial waste into solid recovered fuels and to sell this to a heating plant in the city.



Performance-oriented management – Partnerships between the public and private sectors should be geared at providing optimised solutions to global public need; they should be result-oriented. The objectives pursued can be underpinned by performance criteria that would be built into the contract including environmental performance targets. For instance, the management/operation of public transportation services could promote increases in usage as a performance criterion, in as much as a quality public service will help abate pollution and reduce energy use.

EXAMPLE

The city of Parla in Spain has witnessed a significant increase in population growth over the last 40 years growing from approximately 2,000 inhabitants to 120,000 today. The significant residential and industrial developments which are deeply affecting the city’s layout prompted the City Council to implement a new Plan for Transport Infrastructure, including a tramway system to enable better access to services, infrastructure and trade centres, and easier access to the city itself.

Parla’s City Council decided on a public-private partnership (PPP) structure to best deliver this tramway project and a private company was awarded the contract in April 2005.

Two years since the project’s opening, the following benefits have been obtained (1) a daily flow of almost 19,000 passengers (23% above initial forecasts) (2) modernisation of the network of affected services such as water, electricity, gas and telephone (3) 150,000 m² have been redeveloped, creating new green spaces and pedestrian zones (4) the city’s people have adapted rapidly to this new transport system, opting for greener transportation.

The contract was underpinned by a series of performance-oriented objectives. The main environmental objective for instance is to achieve a certified Tramway system in conformity with ISO 14001¹³. Other objectives relate to reliability of the service, punctuality and objectives relating to its commercial image (e.g. lighting, comfort, cleaning etc).

Socially responsive partnerships – Contracts with the private sector to operate existing public services can fit the social environment and policies of the public sector in a flexible manner, in relation for instance to staff employment, or tariff structures. These contracts can be and often are predicated on a no-redundancy policy. Moreover, specialised service companies operating in the wider market are likely to have progressive training policies and to improve the qualifications of their employees.

EXAMPLE

The private sector operates a “high-tech” sorting and recycling centre in Greater Lyon (France). The centre serves a population of approximately 1 million inhabitants and processes 30,000 metric tons of paper, newspaper and packaging per year.

¹³ An internationally accepted standard that sets out how you can go about putting in place an effective Environmental Management System.



The project led to a socially responsive partnership through optimising working conditions and by raising residents' environmental awareness. Mechanisation has considerably reduced physical efforts for the staff in charge of sorting. Furthermore, a social policy based on task diversification, prospects for promotion and attractive training programmes enables efficiently motivating and retaining employees (100% of staff receive training every year). Next to this, working conditions are continuously improved due to ongoing research designed for this purpose.

Residents' environmental awareness, especially regarding waste sorting, is enhanced by an educational exploration sequence which hosts 10,000 visitors every year. This educational sequence, created in cooperation with environmental protection associations, allows residents to better understand the recycling process and the importance of sorting waste in their everyday life.

New sources of financing and risk allocation – Where public budgets are under pressure and when investment is required, partnership agreements may provide a way of channelling (additional) private funding into public infrastructure and services.

All partnerships are predicated on a split of risks between the public and private sectors. When an investment is involved, risk-sharing also applies. Under certain circumstances, the risk split may be such that the privately secured financing does not have to be accounted for in the public debt.

EXAMPLE

Public services in the utilities sector require large capital expenditures. Prior to 1989, Polish utilities were seriously underdeveloped due to years of low investment. Therefore, attracting private capital and know-how was a very acute issue.

In 1992, the authorities of Gdansk decided to invite a private partner to manage and exploit its water and sewage system and a 30-year long contract was concluded. Pursuant to the contract, a French private company acquired a 51% stake in SNG S.A. with the remaining 49% held by the town. The company manages, modernises and exploits the water and sewage system for approximately 500,000 inhabitants.

The main objective of the joint-venture was to provide high quality services for the population and improve water management in the area. The company has reduced water waste by half since 1992 and there has been a significant improvement in the quality of the water.

Thanks to involvement of an experienced private partner with financial resources, the water utility in Gdansk has been transformed. While the ownership of the infrastructure itself is still in public hands, risks related to service and modernisation of the facilities are largely with the private partner.



BUSINESSEUROPE'S RECOMMENDATIONS FOR ACHIEVING EXCELLENCE IN PUBLIC SERVICES THROUGH MORE PUBLIC-PRIVATE PARTNERSHIP

BUSINESSEUROPE firmly believes that stronger cooperation between the public and private sectors can improve the provision of public services in Europe.

This approach should be part of the Lisbon Strategy Post-2010 as it can combine successfully a drive for efficiency and competitiveness with the pursuit of environmentally-friendly solutions to development; and it is respectful of society's aspirations for customer satisfaction and quality of employment. It can also help mobilise additional private funding in support of infrastructure needs in Europe.

BUSINESSEUROPE believes that the significant and long-lasting impact that the economic downturn will have on public finances, adaptation to climate change and demographic trends and the transition to a greener economy make it urgent to tackle any obstacles to the development of such public-private cooperation for provision of public services.

In light of the above, BUSINESSEUROPE calls on the EU and national authorities to pursue the following actions:

- Promote a holistic culture in the management of public services and infrastructures that focuses on result-oriented strategies, performance targets and innovation including better use of ICT.
- Encourage partnership approaches and ensure fair treatment of the private sector in the delivery of public services. All factors of distortion, such as differential tax treatment, should be identified and sorted out at Community or national levels.
- Ensure equality of access to European or national funding for public authorities regardless of how they organise the provision of public services (through a public or private entity).
- Secure more transparency and better enforcement of the applicable legal framework. The existing framework is adequate; and the European Commission's efforts to clarify it where appropriate are welcome.
- Exchange best practices in terms of partnerships between the public and private sectors. Use the European Public Private Partnerships Expertise Centre (EPEC) as a platform to identify obstacles to the implementation of partnerships and to spread good examples in close dialogue with the private sector.
- Develop awareness of the various tools for public-private partnership and promoting use of the existing instruments available such as those promoted by the European Investment Bank (EIB).



- Design and implement programmes aimed at building capacity within public authorities to develop partnerships with the private sector. For example, providing supporting expertise through JASPERS for large infrastructure projects requiring EU funding.
- Carry out, in the framework of the preparation of the forthcoming EU Financial Perspectives (2014-2020), a thorough and realistic analysis of EU investment needs in the field of public infrastructure induced by EU regulation, the adaptation to climate change and the shift to a greener economy. With that understanding, evaluate potential recourse to private financing of infrastructure; review different sources (in particular for the equity portion) and consider optimal ways of leveraging public financing.

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