Summary and conclusions

Background

SINTEF has on behalf of the Norwegian Association of Local and Regional Authorities (KS) analysed the status and trends in water and wastewater supply (WWWS) both at the national scale and the European scale, in order to evaluate possible consequences for Norwegian WWWS. A multidisciplinary team from SINTEF, assisted by the law firm Schjødt has conducted the work.

The first phase of the project, an analysis of the current situation and trends in water and wastewater supply in Norway is reported separately in Bakkejord and Finne (2005). In this main report the focus is on what is going on in EU and some comparable European countries. In addition a summary and update of the trends in Norway is included together with an analysis of the possible consequences for Norwegian municipalities. At the end 4 different scenarios are described.

The following two questions illustrate the objective of the project:

- Are the Norwegian water and wastewater sector facing a liberalisation scenario, either resulting from either internal (national) external forces driving forces?
- If liberalisation appears, what will be the most likely consequences for Norwegian municipalities?

Results

In **Norwegian municipalities** there are different views on what are the main challenges and what and how to prioritise within WWWS. The focus is often on keeping the level of tariffs as low as possible and on saving costs. At the same time the municipalities wants to prioritise water quality and improve system reliability. In general investments have low priority and the tariffs are in some cases considered to be to low and not according to the rehabilitation/investments needs. Recruiting new personnel with high competence is also a challenge in 1/3 of the municipalities. Safety and security issues are considered to be under control. The majority of Norwegian municipalities state that they are able to meet the coming challenges within the organisation. Less then 50% of the municipalities has discussed reorganisation of the sector, but only some of these has followed up with action.

It is our impression that the political and administrative leaders in the municipalities see few challenges and problems within water and wastewater sector compared to other sectors. As a consequence of this they don’t see the need for an extensive restructuring of the sector, neither exposing the sector to more competition. Only a few utilities are looking international for inspiration on how to organise the sector.

On several of the aspects there is a difference between what the municipalities say is a problem compared to what national associations are stating. This is particular the case related to economies of scale, possible barriers in existing laws and partly also on challenges related to financing and future labour/competence deficit.

The view on how to achieve modernisation and more efficient services vary. The municipalities want to keep the ownership of the assets under public control and there is a lot of opposition to more competition and outsourcing of contracts. The main reason for this is due to safety and reliability issues. As expected, political affiliation influence the view on issues like competition, outsourcing and privatisation. In general, the management group in the municipalities believe in benchmarking as a tool for improving the efficiency.

As a part of the project an analysis on the present situation in EU (i.e. parliament and commission) is carried out. Our conclusion is that in the short term there will be no liberalisation initiated from EU, particular as long as EU is in a state of "constitutional blues". However, the commission might still work on liberalisation issues at lower levels in the EU hierarchy. One important reason for this is also the great differences between the member countries in the way WWWS is organised (regulated, financed, organised etc). If liberalisation appear, it will most likely be linked to operational and maintenance and not ownership of infrastructure.

Nevertheless, in the present situation there might be other driving factors for liberalisation of WWWS such as: lack of clear directives might lead to controversial points to be decided in the primary court in EU (EFTA). Another driving force towards liberalisation might be WHO and GATS and the possible consequences thereof for WWWS.

The current situation and ongoing trends in Sweden, Denmark, Germany, UK, France and Nederland are analysed. The major findings are:

- The different **countries differ** in the way WWWS is organised. The economic, juridical, political, structural, historical conditions differ from one country to another making and direct comparison and exchange of experiences difficult. Preferred solutions in one country can not be automatically be transferred and adopted in another country.
- **Public ownership** of the WWWS infrastructure is most common. However, England and Wales (E&W) with both private ownership and operation is one clear exception. In all countries public tender for limited operations contracts are getting more and more common.
- There is a tendency of **restructuring** of WWWS leading to fewer units (e.g. cooperation between municipalities or fully merging). This is particularly the case for E&W and Nederland, but also in Denmark a significant reduction in the number of municipalities will take place from 2007 as a result of the planned municipality reform.
- Different types of **benchmarking** for improving the transparency of the industry and as a tool for improving the efficiency of WWWS, is getting more and more popular. Both obligatory and voluntary benchmarking schemes exist. Up to now benchmarking is mostly used with water and less frequently in wastewater.
- Most countries apply a system of full cost coverage for **financing** WWWS. In E&W a price cap-regulation is implemented together with econometric benchmarking. I Sweden the full-cost coverage principle is applied. In the autumn 2005 the Danish government proposed an alternative to the full cost coverage principle. However, the latest news from Demark indicates that this will now be cancelled.
- Some countries have made separate a **water and wastewater Act**. This was the case in E&W prior to the privatisation. I Nederland a new water act states that only public

organisations can own the water infrastructure. A similar act is underway in Sweden stating that both water and wastewater should have public ownership. In Denmark there are ongoing discussions on these issues.

From a Norwegian perspective the devolvement in our neighbour countries Sweden and Denmark is assumed to be important factors for the development of Norwegian WWWS. It is important to follow closely the ongoing processes regards to the development of municipal and intermunicipal companies/cooperation both at a national and the European scene.

Conclusions

In the short term we do not expect any decisions leading to more liberalisation of WWWS related to private ownership of the infrastructure. This is the case from both a European and a national perspective. This is also related to the big internal discussions in an EU member country like Germany. The EU extension/new member countries and the internal problems related to this process also indicates an EU in the mode of *constitutual blues*. At the end it will anyway be a national issue whether new directives will be implemented or not. What will happen in the long term is more uncertain. If liberalisation will take place, this will most likely be the result of internal processes in each country.

Liberalisation related to outsourcing of operation, maintenance and constructions are more likely to happen (continue). Competitive tendering of new infrastructure and to some part larger maintenance works is the case in most of the countries. Outsourcing of operations of WWWS on a larger scale, mainly has taken place in England & Wales and in France. However, also in other countries (including Norway) there is a tendency that some municipalities test the marked forces on operational works. Many countries have studied the processes taken place in England and Wales. In general there exist both supporters and opponents for a similar process also in other countries, but the majority are afraid "Of-what" (cf. Ofwat) will happen in their country!

Nederland and Sweden are preparing themselves against liberalisation by implementing new water (and wastewater) acts. In Nederland the water sector has been restructured and only a few water companies are left, all under public control and ownership. In Sweden a new water and wastewater act is underway (VA-lagen) stating that all infrastructure should have public ownership (majority). In Denmark there has been a shift towards liberalisation, however, the situation is not settled yet. The number of municipalities will be reduced from 271 to 98 from 2007 as a result of comprehensive municipality reform.

In Germany there are a lot of discussions on modernisation. France has long traditions with public private partnership and service and operations is contracted to external operators. There are some discussions in France related to the way contract are being negotiated.

In UK the situations differ from the different countries (Scotland, England and Wales). IN England and Wales the WWWS is fully privatised (both ownership and operations). For the major water company in Wales there has been great organisational changes after the formation of the non-profit company Glu Wales. In Scotland a restructuring of the water companies has taken place leading to only one (1) state owned company.

Even though the WWWS is organised under public control, most countries and political leaders want to modernize the sector and make it more efficient. In many countries testing of different ways of organisation the sector is underway assuming that the new solutions are still able to solve the existing problems.

Intermunicipal cooperation is common and exists in many forms, from instructed municipalities reform (Denmark) to informal and formal cooperation between independent municipalities (Sweden and Norway). Regardless, the challenges will be more or less the same e.g. drinking water quality, vulnerability, environmental aspects.

Modernisation and efficiency improvements are normally related to different types of benchmarking, this is also the case in Norway. In some countries there are ongoing discussions related to alternative financial system, however the full cost recovery principle has a strong position.

The formation of companies takes unequal routes in the different countries depending on how the WWWS is organised. The main reasons for establishing companies are reported to be scale advantages and easier access to specialised/qualified personnel. Huge future investments needs often improve the willingness to cooperate between municipalities. There are also cases where huge investment needs also leads to establishment of public private partnership (PPP) like in The Hague. In some countries the restructuring of the WWWS into large intermunicipal companies are interpretated as reinforcement of public ownership of the infrastructure. There are different experiences on how successful such big companies are and many municipalities in Norway and elsewhere fear that the companies might become too independent. In cases where public ownership is not defined by law, this might increase the risk of privatisation.

In Norway there are at present relatively few municipal/and or intermunicipal companies. However, the trend is slightly increasing. These new companies will normally have a role as a total supplier, having the responsibility for all aspect from the raw-water source to contact with the customers. This tendency will most likely continue. All these companies are 100 % owned by the public. In Sweden public ownership is included in the new law proposal and the same discussions are also underway in Norway e.g. initiated by the ongoing work of the governmental committee dealing with critical infrastructure (report available spring 2006).

Liberalisation of WWWS might also be inspired of the de-regulation process of the electricity grid sector. The experiences from this work are that a change in financial system and a new and clear is important. The Norwegian government evaluated this in 2003/2004 and the conclusion then was benchmarking and not a change in the financial system.

In the project four (4) different scenarios have been established. They differ in terms of two political dimension, either strong or weak EU and liberal/social democratic orientation. Both these aspects are difficult to predict, but the political dimension will most likely vary more rapidly than the changes in EU's strength. In spite of the work with opening up the scenarios and spreading them, they look surprisingly similar. The public responsibility for the WWWS sector remains in all of them. However, the degree of private involvement with respect to operations varies a lot. With the scenarios we draw the overall picture, so local deviation might occur. The indicated differences in financial system might also have larger influence on modernisation and efficiency than described in the scenarios. Nevertheless, the scenarios indicate the same as we found in the other analysis: The WWWS sector is facing a pressure of modernisation, independent of the signals from the EU. The main challenge for the WWWS sector will thus be face the demand for modernisation regardless of what is the driving force.