



# Organisation of Public Services

Aino Salmiņš,  
Adviser of LALRG

# Our experience

Our experience from the Norway Grants project «Smart governance and performance improvement of Latvian municipalities» (network T3-1 «Investment policy of local governments in public services»)

# Provider of public services

Position of the state – a local government as a provider of public services is considered as a performer of commercial activity, therefore state support to municipalities can be provided with the same conditions as to entrepreneur (capital company). Is it always so ????

The Law on State Administration Structure

allows establishment of a capital company, if

1. it eliminates the market failure - the situation when market is not able to provide implementation of society's interests in the respective field;
2. the capital company owned or controlled by a public person produces goods or provides services which are strategically important for development of the administrative territory of the state or the local government or national security;
3. the company should undertake the management of properties which are strategically important for development of the administrative territory of the state or the local government or national security.

# Public services

- A municipal enterprise provides the users of public services with an opportunity to receive continuous, safe and qualitative public services; tariffs (prices) correspond to the economically substantiated costs and are not created with the aim to gain profit, and therefore:
- Usually the Regulator's methodology determines the maximum level of profit
- District heating, water supply and sewerage as well as waste management services for inhabitants cannot be considered **only** as the commercial services;
- Financial segregation of municipalities leads to the concept of «budget possibilities» in the area of public services;
- Public transport corresponds to the principles of controlled competition. Tariffs are calculated according to the economically substantiated costs. Furthermore, tariffs can be reduced by a competent authority, compensating the reduced difference

# Basic questions

- Should we create capital companies in all local governments?
- How to attract investments in the public service sector?
- Can we measure the effectiveness of investments in public services by the tariffs of these services?
- Which is more efficient – an outsourced service or an in-house service?
- How to determine a market failure and how to eliminate it?
- Are we capable of attracting other investments apart from EU funds?
- Why a state and municipal entrepreneur is less efficient than the private sector?

# Types of public services analysed within the project

- Waste management - inhouse principles
- Water supply and sewerage - services provided mostly by municipal enterprises
- Heat supply - active attraction of private capital
- Public transport - regulated competition
- Road maintenance - without attraction of concrete and predictable funds

# **Analysed forms of service provision**

- Municipal institution (agency)
- Joint institution (or agency)
- Municipal company
- Company with municipal capital less than 50%
- Private company
- Concession
- Public and private partnership

# Activities of the local government

- Elaboration and organisation of the policy
- Regulation
- Administration
- Provision of services
- Entrepreneurship
- Promotion
- Management of infrastructure and properties
- Support functions



# Investments policy

- Updating of development programs - they should be as universal as possible, the state requires also branch programs (for example, energy efficiency action plan)
- Updating of action and investment plans, separation of private and public investments
- Focus only on the attraction of EU funded activities
- The state sets a unified cycle for all, as it attempts to control reaching its goal within the whole territory
- A local government is in competition (and cooperation) with other local governments and the state; flexibility is necessary for reaching its goals, cycle of changes may differ in each branch
- Investment policy for the development of public services should not be subjected to a single «frame» which sets the basic financing
- What is dominating - reactive or proactive offers?

# LIAA SERVICED PROJECTS

	2010	2011	2012	2013	2014
Total number of requests	158	↑ 348	↑ 408	↑ 533	↓ 449
Projects in total	79	↓ 55	↑ 90	↑ 176	↑ 225
<i>Industry</i>	42	↓ 39	↑ 55	↑ 97	↑ 132
<i>Services</i>	37	↓ 16	↑ 35	↑ 79	↑ 93
New projects	59	↓ 37	↑ 55	↑ 90	↑ 107
Proactive offers			130	↑ 143	↓ 106
Investor visits	90	90	122	↑ 157	↑ 167
Positive decision	9	↑ 17	↓ 15	↑ 32	↑ 33
Performed post-service activities		27	23	↑ 37	↑ 49

Source: LIAA

# Efficiency of investments and public services

Type of public service	Effect of investments on the tariffs	Arguments
Heat supply	Are comparable and measurable	Reasonable investments can decrease service tariffs up to 30%, tariffs - the changeable part type of fuel 70%. Investments pay back considerably slower, if the losses in pipelines are below 20%. But the offered energy efficiency measures corresponding to the Directive can increase tariffs by 5-25%
Water management services	It is not possible to measure, other indicators are necessary - for example, availability of service, quality. Human right question. Tariffs correspond to the average indicator in Germany	Tariffs increase in all municipalities, but more faster in cases, when EU funds are implemented Unification of quality and normative act requirements between development and local centres increases the expenses of the service Competition will develop among water management systems, which technically can service equal number of customers
Waste management	Are measurable and justified	If in-house principles are kept and tax policy is not changed and if procurements are performed sensibly

# Efficiency of investments and public services

Type of public service	Effect of investments on the tariffs	Arguments
Public transport	Is measurable	Insufficient budget financing decreases service availability, creates additional expenses for municipalities who have to organize school-children transfers
Road maintenance	Is measurable	Investments lose sense if there is no national funding for road maintenance and the model of predictable funding, each year the losses more than 0.8 billions only in state roads

# Out-sourced services and in-house services

- in many cases management system with out-sourced services is neither more effective nor cheaper;
- the total amount of public procurements in local governments grows disproportionately
- work schedule and performance deadlines are delayed
- work quality of service providers is not always satisfactory
- operative reaction and ability to change tasks for service provider
- operative reaction to inhabitant proposals

## **But**

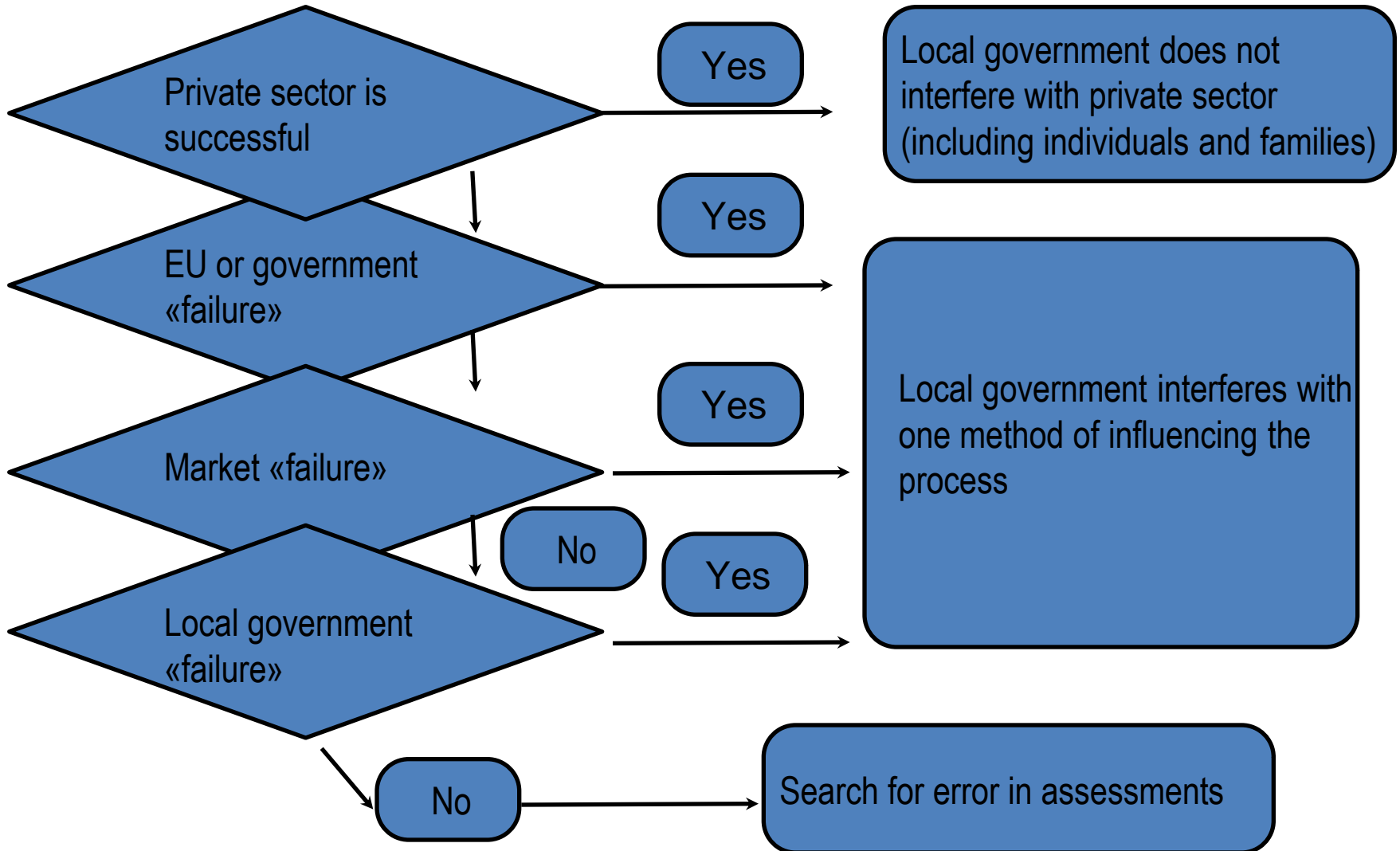
- Reliance only on the in-house pose the risk that the quality and efficiency indicators may decrease, therefore such services should be continuously compared with market offers, opportunities to raise staff qualification, motivation.
- Low salary economics degrades quality and availability of public services

# Aims of establishing municipal enterprises

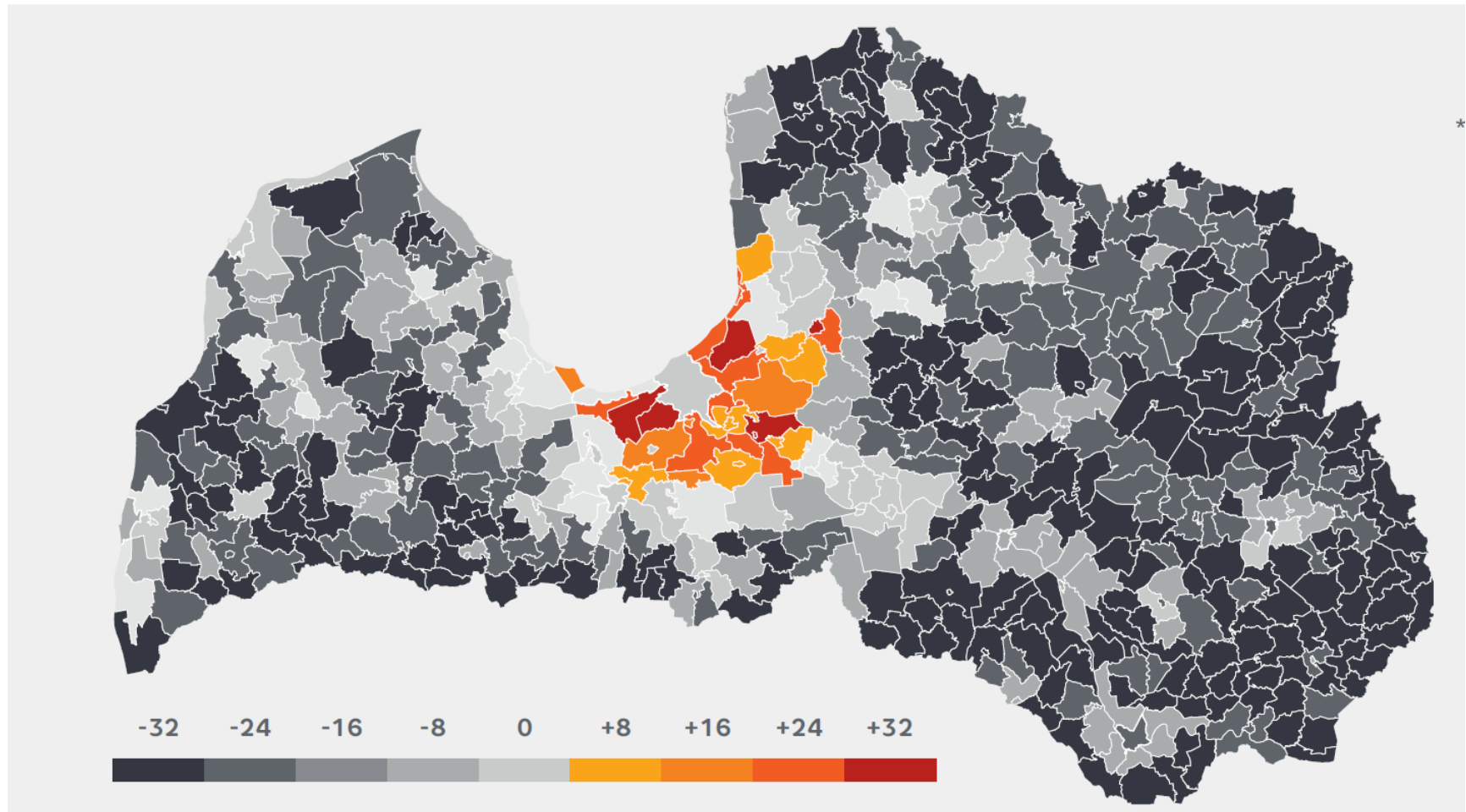
- Strategic resource management
- Types of market failures:
  - global market failures
  - EU market failures
  - national market failures
  - regional market failures
  - local market failures

# Economic decisions of the public

## sector



# ANTICIPATED POPULATION CHANGES IN LATVIAN CITIES AND PARISHES IN 2030 (% against 2015)





# Is a state and municipal enterprise less effective than a private enterprise?

- Normative acts limit entrepreneurship of local governments, free choice is necessary regarding the way how to provide a public service
- The main task of a municipal capital company is not always to gain profit, usually it operates in the interests of society and within market failure conditions
- Law on public procurement law
- If private capital is more than 50%, it is to avoid procurement law
- If we want to achieve high effectiveness and efficiency, it is necessary to establish a capital company with <50% of municipal capital