

**BUSINESSEUROPE**



**DRAFT POSITION PAPER**

27 July 2009

**PUBLIC SERVICES IN THE 21<sup>ST</sup> CENTURY: *DRIVING FOR EXCELLENCE***

**Executive Summary** *(to be completed at a later stage)*



## INTRODUCTION

Provision of efficient and innovative public services is of fundamental importance for European society, the well-being of its citizens and the competitiveness of EU businesses. It enhances our quality of life and greatly contributes 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.<sup>1</sup> 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 proposed Treaty of Lisbon acknowledges the key role of those services in the European social model under the Protocol on Services of General Interest.<sup>2</sup> The protocol 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 and 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. In contrast, “non-economic” services of general interest refer to functions which are exclusive state prerogatives like police or justice; they are not addressed in this paper.

Services in general account for around 70% of EU GDP and employment, of which public services form an integral part<sup>3</sup>. The EU is highly dependent on competitive and innovative public services as these greatly contribute to growth and job creation.

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

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<sup>1</sup> European Commission (2007), Communication of General Interest [COM(2007)725]

<sup>2</sup> Treaty of Lisbon amending the Treaty on the European Union and the Treaty establishing the European Community (2007/C 306/01).

<sup>3</sup> 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”.



## **CURRENT CHALLENGES FACING OUR SOCIETY**

Our society faces various challenges from the environment, climate change, an ageing population and energy shortages which require public authorities to develop adequate and timely responses and well-planned strategies for the delivery of public services.

### *Society is changing and becoming more demanding*

In the coming decades the composition of European society will change significantly. These changes will have 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 one, putting great pressure on public expenditure.<sup>4</sup>

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 handicapped 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)<sup>5</sup>. 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. 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.<sup>6</sup> This commitment is supported by EU legislation targeting certain energy-intensive sectors under the Emission Trading System (ETS), setting objectives for each member state in

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<sup>4</sup> European Commission (2009), Communication, Ageing Report 2009 [COM(2009)180/4]

<sup>5</sup> EC, 2007a, Eurobarometer 260, "Consumers opinions on Services of General Interest".

<sup>6</sup> European Commission (2009), Communication, Towards a comprehensive climate change agreement in Copenhagen COM(2009) 39



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.

### 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 Sweden<sup>7</sup>. By way of comparison, the share of public expenditures in the US was only 34.5% of GDP in 2006<sup>8</sup>, which shows that Europe's public spending is comparatively high. At the same time it is important to realise that Europe's relatively large public sector spending is the counterpart to a high standard of living enjoyed by European citizens and to a more comprehensive welfare system.

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.<sup>9</sup> It is important that Europe's public expenditure is spent in a way that ensures European citizens and companies the best value for their money.

In this context, governments need to strive for better public procurement, responsible and wise management of public money and value for money in the provision of public services.

The deep economic crisis that Europe faces today has put enormous pressure on national governments. The rapid deterioration of public finances is a growing concern and is already reducing many member states' room for manoeuvre. Next year only Finland, Cyprus and Bulgaria are expected by the Commission to remain under the limit of a 3% annual budget deficit as defined by the EU's Stability and Growth Pact. Based on the usual no-policy-change assumption, in 2010 the deficit is projected to rise further to above 7% of GDP in the EU and to 6½% in the euro area<sup>10</sup>.

Governments will have to look even more critically at their expenditure as pressure on their budgets increases and to ensure a return to sound public finances.

### Social challenges

The EU has witnessed an increased urbanisation of its population as rural activities were perceived to be arduous and less remunerative economically. Simultaneously, the

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<sup>7</sup> European Commission Economic Paper (2008). "The effectiveness and efficiency of public spending".

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> European Commission (2009). Economic Forecast: Spring 2009.



relative well-being of the EU and of some of its more affluent regions has generated migration flows from outside and within the EU.

Europe must now cope with large urban areas of impoverished population, with high rates of unemployment and higher security problems.

The current economic crisis is compounding further unemployment and hitting in particular the young. By 2010, the unemployment rate is expected to reach 11.5% in the euro area and 10.9% in the EU. For the euro area this is a level not seen in several decades.<sup>11</sup> There is a significant risk that new generations will be blighted by chronic unemployment.

## **TOWARDS BETTER COOPERATION BETWEEN THE PUBLIC AND PRIVATE SECTOR IN DELIVERING PUBLIC SERVICES**

The provision of high quality public services must remain at the heart of the EU and national policy agendas. It is an important element of the society's social and economic development. However, in the face of the drastic constraints on public finances, growth and employment and the need for a greener economy, efficiency is 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.

BUSINESSEUROPE fully agrees with the principle that it is for public authorities to set standards of provision of public services and to choose their mode of delivery (in-house or outsourced). However BUSINESSEUROPE also believes that developing a stronger partnership between the public and private sectors towards 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 in particular 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.

There are various benefits of better cooperation between the public and the private sector in the delivery of economic public services:

**[Note: Members are invited to provide success stories and relevant case studies to illustrate the benefits of better cooperation between the public and the private sector and to show how the benefits from private sector involvement are accrued in practice.**

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<sup>11</sup> European Commission (2009). Economic Forecast: Spring 2009.



(PLEASE answer according to the structure provided below each benefit)

**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 / CASE**

Challenge:

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The Solution

Project:  
Partners:  
Project Duration:  
Objectives:

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How did it lead to better value for money?

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**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 / CASE**

Challenge:

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The Solution

Project:  
Partners:  
Project Duration:  
Objectives:



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What enforceable quality standards did the private sector commit to?

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**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 / CASE**

Challenge:

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The Solution

- Project:
- Partners:
- Project Duration:
- Objectives:

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How did it lead to wider choice and what innovative solutions were used?

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**Performance oriented management** – Partnerships between the public and private sectors should be geared at providing optimised solutions to global public need; they should be results-oriented. The objectives pursued can be underpinned by performance criteria that would be built into 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 / CASE**

Challenge:

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The Solution



Project:  
Partners:  
Project Duration:  
Objectives:

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How did it lead to more performance-oriented management?

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**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 / CASE**

Challenge:

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The Solution

Project:  
Partners:  
Project Duration:  
Objectives:

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How did it lead to socially responsive partnerships?

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**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 / CASE**

Challenge:

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The Solution

Project:  
Partners:  
Project Duration:  
Objectives:

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How did it lead to new sources of financing and risk allocation?

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**BUSINESSEUROPE’S RECOMMENDATIONS FOR ACHIEVING EXCELLENCE IN PUBLIC SERVICES**

BUSINESSEUROPE strongly believes that stronger cooperation between the public will improve the provision of quality public services in the EU.

It is an approach that is fully consistent with the Lisbon Agenda 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 EU infrastructure needs.

BUSINESSEUROPE believes that the transition to a greener economy as well as the aftermath of the economic crisis make it urgent to sort out any obstacles to the development of such public-private cooperation. The decision on how to pursue the provision of public services belongs unequivocally to public authorities.

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 a better use of ICT.



- Encourage partnership approaches and ensuring 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 legal framework is adequate; and the European Commission's efforts to clarify it where appropriate are very welcome. In this context, public authorities should also play their role in ensuring transparency in the current legal framework.
- Exchange best practices in terms of partnerships between the public and private sectors. Use the European Public Private Partnerships Expertise Centre (<http://www.eib.org/epec/about/>), EPEC, as a platform to identify obstacles to the implementation of partnerships and to spread best practice.
- 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.
- In the framework of the preparation of the forthcoming EU Financial Perspective (2014-2020), carry out 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. In that context, carry out an assessment of potential sources of financing including funding by pension or insurance institutions.

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