

Municipal waste management in Livorno: a case study of local regulation.

Dangerous relations between local government and utilities:
can a municipal company fail ?

Turin School of Local Regulation

Turin, September 7th, 2017

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Comune
di Livorno

Livorno: the city

- Population: 200.000
- Important ancient, turistic and commercial **harbour**, **industrial site**.



1 - Torre del Magnolo
2 - Torre del Morocco
3 - Chiesa di Santo Caterina
4 - Fortezza Vecchia



Livorno: politics and government



Historically Livorno has only been governed by «**left parties**».

Communist party was born here il 1921 and has always been very strong; then the party has been transformed into the Democratic Party, that has governed the city up to 2015, last local election date. The last PD Mayor was **Alessandro Cosimi**

In 2015 an important «**change**» happened: Democratic Party lost local elections, and 5stars Movement (Beppe Grillo) won.

The new Mayor, Filippo Nogarini, announced a «strong change», after decades of monopolistic left government.



Livorno: the public companies and utilities, the «power system»

- The «left party» local governments based part of their power system on the network of local utilities owned by municipality:

Port Authority (shared with regional and national government)



ASA spa, Water and gas provider (PPP, with an industrial partner)



Aamps spa, Waste management company (in-house company)



Ctt nord spa, Local transport company (PPP, with an industrial partner)



AAMPS spa



AAMPS is the company - wholly owned by the Municipality of Livorno - that manages «municipal waste» in the city, founded in 1949

It provides street services (waste collection, separate collection, streets cleaning), and manages some treatment plants (the most important is a waste-to-energy plant).

The company has 294 employees, and high labour costs.

In 2014 separate collection accounted for 46 % of the total waste generated.

In 2015 The total turnover is about 44 millions euro/year, costs 48 , losses about 4 millions
Equity: 16,5 millions of euros.

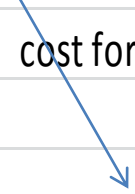


Aamps: costs per ton

	AAMPS	ITALIA	CENTRO	TOSCANA	50000 (2013)
Street cleaning	67,03	44,7	53,6	32,1	63,2
Separate collection	60,09	101,5	86	59,8	81,9
Treatment and disposal	131,75	116,9	127,5	125,4	133,7
Other costs	6,83	14,4	13,3	19,9	10,7
Not recyclables	198,67	233,2	226,8	205,1	226,4
Recyclables	195,11	144,5	190,1	130,2	198,5
Recycling treatment	55,95	40,8	32	47,8	24,8
Total recycling	251,06	185,3	222,1	178	223,3
General costs	41,96	58,5	62,2	86,7	61,4
Capital costs	55,76	16,4	29,9	35,1	34,2
Total cost	384,51	329,7	370,5	346,8	383,9

AAMPS: labour costs and benchmark

	Employees	Total costs	Labour costs	%	cost for employee
AAMPS	263	41.690.396,00	14.142.489,00	33,92	53.773,72
QUADRIFOGLIO	1014	134.810.000,00	46.497.719,00	34,49	45.855,74
ASM	284	53.819.614,00	13.086.557,00	24,32	46.079,43
GEOFOR	263	61.038.575,00	12.946.147,00	21,21	49.224,89
PUBLIAMBIENTE	388	70.587.078,00	18.007.460,00	25,51	46.410,98



Bad economical performances in the past years

- In 2014 Aamps had 10 millions of euro of economical losses, and 53 millions of debts (generated from 2006 to 2014).
- The real «hole» is about 11/12 millions of euro (36 millions of credits).
- Credits towards city administration was about 12 millions of euros (mostly for arrears).
- The «2013 final financial statement» was not approved by Auditors.

The «subregional» company

- Tuscany regional law on waste management organizes the service in «subregional areas (ATOS)», that can have only one provider for each area.
- Livorno is part of «ATO Costa » and Aamps will be merged into the new «subregional company» (named Retiambiente spa), owned by all the municipalities of ATO (106).
- So in one/two years the Municipality of Livorno will not have its own company anymore: it will be one of the shareholders of the new company together with all the others municipalities (and an industrial partner).

ATO
Toscana Costa
AUTORITÀ PER IL
SERVIZIO DI GESTIONE
RIFIUTI URBANI



The new local Government

- In the months following the elections, the 5Stars Movement government tried to understand the data, and appointed a board composed of high-level professionals (President Eng. Aldo Iacomelli) to face the problems.
- The «therapy» by Iacomelli was based on:
 - Equity injection to AAMPS by The Municipality of Livorno of 6/8 millions of Euros (already approved by the Municipal Council)
 - Payment of credits by City of Livorno in 3 years
 - New industrial plan (5 years) to reduce costs, and inefficiency, and get standard costs, as benchmark.
 - Haircut with banks and creditors.
 - Merging into the «subregional waste company»(Retiambiente spa), in a strong position.
 - Increase of separate collection, and waste to energy plant on.
- A «rational» strategy, based on data, and the industrial plan.



President
Iacomelli

The Mayor breakdown strategy



- **Mayor Nogarín** didn't agree with President Iacomelli (appointed by the Mayor).
- Nogarín decided to declare AAMPS bankruptcy because he was not willing to inject equity and pay for the obligations of past administrations (the Municipality is only share holder of the company).
- A «strong» strategy based on the principle «*I don't pay losses and debts of left wing former governments*» !
- The second issue is «I want to stay in house with Aamps, I don't want to merge with the others in a subregional company».
- Then «door to door separate collection system and stop to waste to energy plant».
- So **Nogarín fired Iacomelli** and the board (there is a legal conflict going on).



42 millions of debts from former PD governments have to be payed by PD, not by citizens of Livorno.



The new Mayor breakdown strategy

- The decision of the new Mayor has different «political» meanings:
 - **I (the municipality) don't pay costs** (losses or debts) generated by other different governments (left) – is it possible and correct? I don't use municipal budget to cover «losses and debts» (capital increase, funding to AAMPS) and I don't rise local taxes for that (charging the past costs to citizens and voters).

 - **The solution is the bankruptcy**, so political costs will be payed by former coalition (the company has failed cause of the coalition's faults!). The economical costs are payed by «stakeholder» of the former «power system»:
 - Unions (close usually to PD)
 - Local economy (coop, banks, connected with «left local power system»)
 - **No «subregional» strategy** (wanted by regional PD administration), I stay in my house with my local company, a new one, after breakdown.


How does it work

- The strategy of the Mayor:
 - A municipal owned company can fail ?
 - In case of failure what happens:
 - Municipality of Livorno doesn't pay the capital increase, saving in this way 6/8 millions of euros for other uses (social, environment, services).
 - Municipality of Livorno doesn't pay credits from taxes not payed, saving in this way 15 millions for other uses.
 - The «hole» will be covered by banks and creditors (local providers mostly) thanks to «bankruptcy agreement» (the credits will be payed partially), following the national law on bankruptcy , for private companies.
 - The agreement must be admitted by Court (already done) and approved by creditors (on next October) , based on a new «business plan» (ready)
 - Employees will be payed, but maybe the new «business plan» would define a new agreements on labour.
 - How much the failure procedure will cost to company and municipality (consultants, Court, advisors, lawyers) ? Maybe 1 or 2 millions of euros.
 - Is it possibile a «soft bankruptcy» (without liquidate the company)? The new national law on companies owned by public administrations (Madia Act) states that such companies can fail (art.14) as well as private ones.



The numbers of «soft bankruptcy»

- Payment of «bankruptcy costs (1,5 millions of euros)
- Payment of 100% for special creditors (employees) = 13,3 millions of euros)
- Payment of 80 % for general small creditors (24 months), 4,1 millions of euros
- Payment of 65 % for general big creditors (24 months), 7,4 millions of euros
- Payment of 84 % for banks at the end of other payments, 12,8 millions of euros.
- Other credits (taxes) = 100 %
- Credits for arrears put on future taxes up to 2021 (so payed by citizens), 12 millions euros.
- The «soft bankruptcy» saves 6 millions of euros and costs 1,5 (maybe 2,5 with contingencies). Defers payments for 2/4 years.

Timing of «soft bankruptcy»

- January 22, 2016: new board
- February 17, 2016: Board approves «soft bankruptcy demand to Court»
- March 3, 2016: the Court approves the demand
- June, 2016: Aamps shows «soft bankruptcy plan», that Livorno Municipality and Court approve.
- December 2016: creditors approve the Plan

Targets of the «plan»

- Door to door separate collection everywhere in the city (75 %)
- New Biowaste plant (mixed with sludge)
- Reduced use of waste to energy plant (decommissioned in 2021).
- Investment plan: 7,45 millions Euro (+9,0 existing)
- More employees: from 294 to 322 (reducing unit costs: from 51 to 48,7)
- Waste tax fro 224 to 186 per inhabitant
- Reduced taxes, reduced income (from 42 to 37 millions of euros within 2021, reduced costs.

Players and stakeholder of the game

- For sure, the former government has responsibility on AAMPS' bad performances, losses, and debts. How could it pay for that ?
Losing election ? Responsibility or penal actions on management named by Municipality ? With the bankruptcy ?
- The new Government can decide if the company has to fail ? Is it correct if there is another solution ?
- Why should bank and creditors pay instead of using the local budget ? Have bank and creditors any responsibility ?
- Will this decision avoid local tax increase in the future ?
- Citizens & tax payers will stay out of this game ?
- Is it correct to stay out of »subregional« company strategy, after a «change» of government ? Is it «fair» for the other municipalities?
- Local political decision on a company must follow «political» issues, or economical issues ?

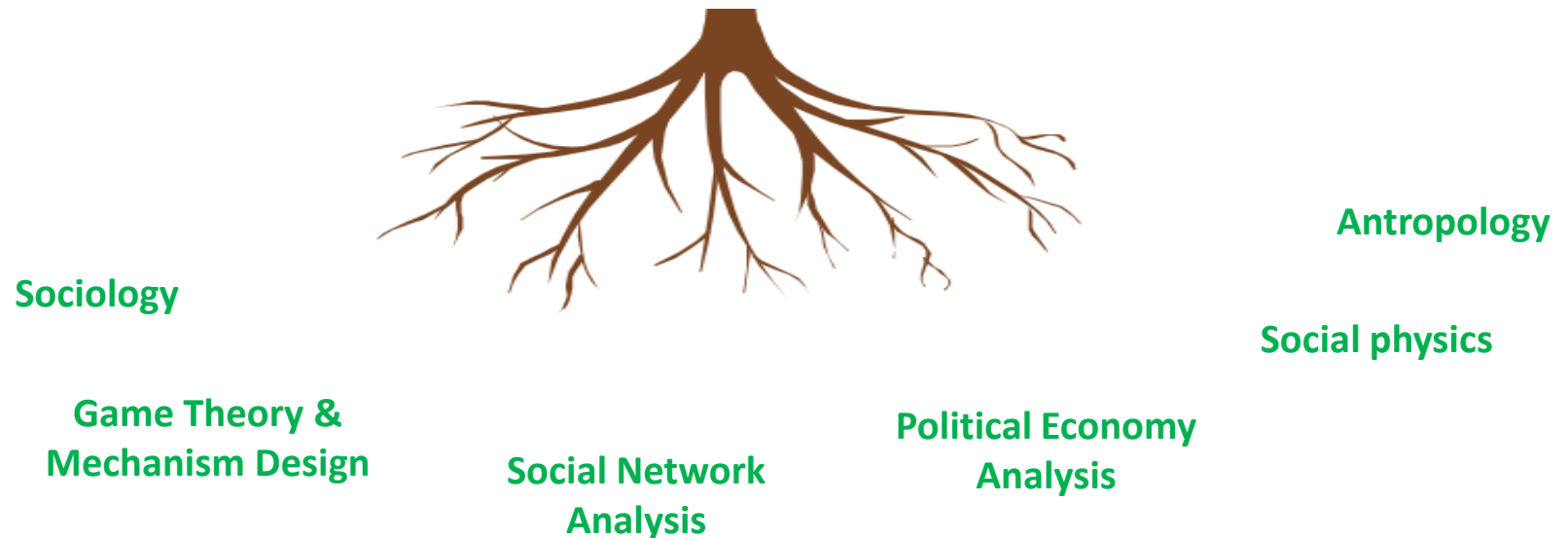
Players and stakeholders of the game





Framework of Incentives to Empower Local Decision-makers

A multidisciplinary methodology for the analysis of local actors, incentives and information endowment that surround and lie behind the success or the failure of local services, infrastructures and projects, defining the playing field where their implementation and regulation takes place.



The matrix - fields

Categories of players

- Politicians
- Public officials
- Market actors (non-financial)
- Market actors (financial – local or national/international)
- Lobbies
- Consumer organizations
- Administrative tribunals (administrative, procedural, budget conflicts)
- Consumers / final users

Players' incentives

- Efficiency in provision of the service (I)
- Profit (I)
- Market share (I)
- Effectiveness and quality (I)
- Equity / redistribution / accessibility (I)
- Electoral consensus (S)
- Consensus (S)
- Political control (S)
- Religious control (S)
- Ethnic control (S)
- Maintaining / increasing own budget (S)
- Financial public budget constraints (S)
- Legacy (S)

Information endowment

Information on:

- Operational costs
- Investment costs
- Physical assets
- Revenues
- Demand side

Direct ownership (resident) vs indirect ownership (non-resident, through transmission) of information?
In case of indirect ownership, what are the costs to obtain information?

Types of relations

- Appointment
- Election
- Lobby pressure
- Strong political influence
- Corruption
- Command
- Control
- Regulation: price, quantity, quality, accessibility, distributional
- Sentences / rule of law / judicial enforcement
- Assignment
- Business relationship
- Market power

Information exchange

Nature:

- mandatory (check, sanctions)
- control
- voluntary
- uses

Truth revealing incentive compatibility (Yes / No)
Truth revelation mechanisms?

Thanks for your attention, come to Livorno and enjoy your visit!



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