

Executive summary

Consolidation was introduced in the legal framework for water supply and sanitation in Lithuania in 2006, and reflected in the Implementation Plan of the Government Programme, with a view to ensure higher operational efficiency and to reduce the disparity in prices for water supply and sanitation services. Still, progress has been slow. In practice, concerns have emerged, from smaller municipalities, which fear their interest will not be properly represented in consolidated utilities, and from well-managed utilities, whose customers will have to pay higher water bills to absorb less cost-effective ones.

In that context, the Lithuanian Ministry of Environment and the OECD endeavoured to operationalise the national strategy to enhance the sustainability of the water supply and sanitation sector and compliance with the EU acquis. Two pilot regions - Kaunas and Marijampole - were selected by the Lithuanian Ministry of Environment to explore and test the feasibility of consolidation scenarios and accompanying measures.

Analyses and discussions in the two pilot regions emphasised that consolidation can contribute to addressing enduring challenges, and help to:

- Increase the number of inhabitants connected to the water supply and wastewater treatment networks
- Make better (efficient) investment decisions which leads to economies of scale
- Decrease operation costs
- Improve water supply efficiency and decrease leakage.

Discussions were also instrumental in stressing that merging is neither the only solution, nor the unavoidable point of arrival of the consolidation process. Building on international good practices, alternative scenarios were discussed, such as coordinating or mutualising a range of functions, which can translate into flexible governance arrangements for water utilities. Work in the two pilot regions also established that the preferred outcome may differ, reflecting regional specificities, such as the existence of a strong urban centre that can provide resources and capacities to manage select functions.

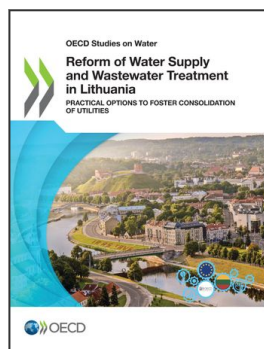
Several measures should accompany the preferred scenario for consolidation. One set of measures relates to tariff policy for water supply and sanitation services. Particular attention was devoted to the depreciation method in the tariff setting methodology. This technical issue can serve different policy objectives. The prevailing method is adjusted to the Lithuanian context. However, there seems to be benefits in supplementing it with a possibility for accelerated depreciation for utilities, which demonstrate efforts to transition towards some form of consolidation.

Moreover, international experience suggests that consolidation does not need to necessarily lead towards harmonisation to tariff across municipalities, at least in the short term: decoupling both processes can actually help address some political concerns. Another consideration suggests that there are limits to how much water bills can finance environmental policies that benefit large communities (beyond water users). This issue deserves further attention and concertation across the Lithuanian government. It resonates with similar considerations at EU level.

Another set of measures relate to benchmarking the performance of water utilities, moving beyond the comparison of costs in Lithuania. The benchmarking of costs is an important tool that is available to regulators. More sophisticated processes capture multiple dimensions of utilities' performance. International good practices emphasise that attention to performance indicators should be completed by attention to the benchmarking process itself, and how utilities are clustered for performance comparison and information sharing. Less well-known, but very appropriate in the Lithuanian context, is benchmarking of business planning, to encourage more efficiency-enhancing consolidation activity: the tool can ensure that a range of (consolidation) options have been explored and duly assessed in the context of development and investment planning.

It is noteworthy that the Ministry has the capacity to set targets and a deadline for a move towards some form of consolidation. Should such targets not be met ahead of the set deadline, a more top-down approach could be considered. Suspending or revoking licences of service providers which fail to achieve set level of performance by an agreed-upon deadline is a relevant tool in the Lithuanian context, assuming the threat is considered serious by municipalities and utilities.

On these and related issues, experience sharing among Baltic states and across Europe can be a source of inspiration. An international workshop in the course of the project revealed the breadth and depth of experience with forms of consolidation for water supply and sanitation service provision, both in terms of end point and in terms of processes for getting there. Lithuania has a lot to share, building on recent experience and the on-going reform. This confirms the distinctive value added of peer learning supported by DG Reform.



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