

# RESTATE THE CASE

## Water privatisation

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### Why is this important?

Water privatisation is the delivery of water by a private business, in place of a government body. Privatisation of the water industry in England and Wales occurred in 1989, when 10 Regional Water Authorities were created as part of a wider government strategy to transfer the ownership and management of public assets. This was followed by the creation of a new regulatory framework and government bodies such as the Drinking Water Inspectorate, the Office of the Director General of Water Services (Ofwat) and the National Rivers Authority to regulate these privatised companies and English and Welsh water standards.<sup>1</sup>

Despite there being 25 water companies in England, Scotland and Wales, the privatisation created natural monopolies with very few customers able to choose their supplier. It is for this reason that water prices and service standards are set by Ofwat. There is, however, an element of competition in commercial water supply.

### What is it?

Water companies are one of a select group of industries that have attracted strong support for renationalisation. In 2017, for example, polling showed 83 per cent of the public supported the policy.<sup>2</sup>

Proponents of water renationalisation have cited several factors to justify reversing privatisation. The first is the higher cost of water bills, which have risen by 40 per cent more than inflation (up to 2014-15) since privatisation.<sup>3</sup> The second is that water companies have reportedly paid out around £18 billion in dividends to shareholders over the past 10 years. Finally, proponents declare they would be able to stop “trillions” of litres of water lost through leakages.<sup>4</sup>

### Why has privatisation been a good thing?

Water prices have increased since privatisation in 1989, yet the rise in charges was also followed by a substantial decline in leakages.<sup>5</sup> In real terms, water prices have increased only marginally since 1999 and have fallen since a peak in 2009. According to the National Audit Office, they are projected to continue to fall up to 2049 in baseline scenarios.<sup>6</sup> In fact, England and Wales have a lower average combined tariff (combining both drinking water and wastewater tariffs) than both Germany and France.<sup>7</sup> Water supplies in both countries are managed by both public and private companies.<sup>8</sup>

Shareholders also risk their capital providing investment for many of the improvements in the system that has been witnessed since privatisation. To ensure this investment can continue, a portion of net income, via dividends, is disbursed to them. The amount paid out pales in comparison to the £8 billion each year that water companies spend on improvements and next to £150 billion they have invested since privatisation.<sup>9</sup> In fact, annually the British water industry receives more investment than any other European country, roughly €2 billion more than Germany.<sup>10</sup> This is

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<sup>1</sup> Potton E., & Adock, A., *Future of the Water Industry in England and Wales*, House of Commons Library, 21 January 2019.

<sup>2</sup> Elliot M., & Kanagasooriam J., *Public opinion in the post-Brexit era: Economic attitudes in modern Britain*, The Legatum Institute, October 2017, p.15.

<sup>3</sup> National Audit Office, *The economic regulation of the water sector*, 14 October 2015, p.23.

<sup>4</sup> Labour, *Clear Water: Labour's vision for a modern and transparent publicly-owned water system*, 2018, p.2.

<sup>5</sup> Global Water Intelligence, *International Comparisons of Water Sector Performance*, 2018, p.14.

<sup>6</sup> National Audit Office, 2015, p.24.

<sup>7</sup> Global Water Intelligence, 2018, p.17.

<sup>8</sup> Deloitte, *Water country profiles*, 2014, p.6-8.

<sup>9</sup> Water UK, *Water companies reveal additional £8 billion investment with bills kept down again*, 6 February 2019, [www.water.org.uk/news-item/water-companies-reveal-additional-8-billion-investment-with-bills-kept-down-again/](http://www.water.org.uk/news-item/water-companies-reveal-additional-8-billion-investment-with-bills-kept-down-again/), (accessed 25 October 2019).

<sup>10</sup> European Federation of National Associations of Water Services, *Europe's water in figures*, 2017, p.7.

## RESTATE THE CASE: **water privatisation**

reflected by Britain's excellent water quality, which Global Water Intelligence rated highest in a comparison of similar countries.<sup>11</sup>

Minimising leaks is a constant battle for the water industry. Despite the difficulties of this task, leakages have been reduced in England and Wales by almost 40 per cent since 1995. This has brought UK leakage in line with the rest of Europe at around 23 per cent.<sup>12</sup> By contrast, leakages in Scotland, which has a nationalised water industry, stood at about 36 per cent in 2017-18.<sup>13</sup>

Finally, although there is some evidence that water nationalisation is a popular policy, the polling on this subject is not decisive. The 83 per cent support indicated in the 2017 poll has not since been repeated. In the very same year, a YouGov poll showed just 59 per cent support for renationalisation.<sup>14</sup>

Additionally, studies have shown customers in England and Wales are generally very satisfied with their overall water service, with average satisfaction rated at 90 per cent.<sup>15</sup>

### **Why would renationalisation be a bad thing?**

By the time the water industry was privatised, British water standards had declined to scandalous levels as a result of low public sector investment. British water standards were so poor that the UK was being called the "Dirty Man of Europe" when it joined the European Economic Area in 1973.<sup>16</sup>

Even following the 2008 financial crisis and ensuing recession, Britain's privatised water industry maintained the highest overall compliance rate for drinking water quality amongst similar European nations.<sup>17</sup> Privatisation, in effect, insulated the water industry from the crisis. In Northern Ireland, by contrast, the nationalised water sector has suffered from a lack of investment over the same period and is "at a tipping point", citing lack of investment as a cause.<sup>18</sup>

### **What should be done?**

The water industry may be a natural monopoly, but this does not mean consumers cannot be given an element of choice. Both the telecommunications and energy industries suffer from the same issue, yet liberalisation of those markets has been successful, and allowed customers to switch providers when they receive a bad service or are being overcharged.

Government declared in 2015 that it wanted to bring more competition to the water market, and so introduced competition for commercial properties in 2017, but since then liberalisation for households has stalled.<sup>19</sup> This is despite an Ofwat analysis in 2016 showing that in most scenarios both consumers and the water industry would see a net benefit from more competition.<sup>20</sup>

Government should look again at introducing competition to the water industry for households, as they have done for businesses.

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<sup>11</sup> Global Water Intelligence, 2018, p.5.

<sup>12</sup> European Federation of National Associations of Water Services, 2017, p.15.

<sup>13</sup> Statistic has been created by combining leakage and distribution data from the following two sources: Water industry commission for Scotland, *Scottish Water's Performance 2017-18*, p.3; Scottish Water, *Annual Report & Accounts 2017/18*, p.3.

<sup>14</sup> Smith, M., *Nationalisation vs privatisation: the public view*, YouGov, 19 May 2017, [yougov.co.uk/topics/politics/articles-reports/2017/05/19/nationalisation-vs-privatisation-public-view](https://yougov.co.uk/topics/politics/articles-reports/2017/05/19/nationalisation-vs-privatisation-public-view), (accessed 28 October 2019).

<sup>15</sup> Consumer Council for Water, *Satisfaction by Company*, [ccwater.org.uk/households/company-performance/trackingurveyengwales/](https://ccwater.org.uk/households/company-performance/trackingurveyengwales/) (accessed 28 October 2019).

<sup>16</sup> Smith, A., Nationalising our water could make us the dirty man of Europe again, *The Guardian*, 10 October 2019.

<sup>17</sup> Global Water Intelligence, p.6.

<sup>18</sup> Northern Ireland Water, *Annual Report 2018-19*, [www.niwater.com/annual-report.aspx](http://www.niwater.com/annual-report.aspx) (accessed 31 January 2020).

<sup>19</sup> HM Treasury, *A better deal: boosting competition to bring down bills for families and firms*, November 2015, p.7.

<sup>20</sup> Ofwat, *Costs and benefits of introducing competition to residential customers in England*, September 2016, p.33-35.