Financial Times article

Privatised water costs consumers £2.3bn more a year, study says Greenwich university finds renationalisation would save each household in England £100 a year

Down the drain: England is the only country to fully privatised its water and sewerage system, 2017

by: **Gill Plimmer**

Consumers in England are paying £2.3bn more a year for their water and sewerage bills under the current privatised system than if the utility companies had remained in state ownership, according to research by the University of Greenwich.
The nine English regional water and sewerage companies — three of which are listed on the stock market and six of which are owned privately — have invested no significant new shareholder equity but extracted nearly all of their post-tax profit as dividends, according to the Greenwich university report, which calculated the cost of privatisation to each household as over £100 a year.

At the same time, the companies have built up a growing pile of debt to finance investments over the 28 years since the industry was privatised.
"This is an expensive way to finance infrastructure," said Dr Kate Bayliss, a research associate at the School of Oriental and African Studies at the University of London, who co-authored the study. "It means that little extra money, in real terms, has come from shareholders while investment has largely been financed by commercial borrowing."
England is the only country to have fully privatised its water and sewerage system, with ownership transferred from the state to large regional monopolies in 1989.
Investors paid £7.6bn for the water and sewerage companies in 1989 but the UK government took on the sector's entire £4.9bn in debts and gave the new private corporations £1.5bn of public funds.

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But the Labour party, which wants to return the water and sewerage companies to state control, has put renationalisation back on the agenda as the general election looms. Many voters have voiced growing concerns over rising prices and poor performance by some companies on leakages and pollution. Thames Water received a record £20m fine in March for dumping more than 4.2bn litres of raw sewage into the river Thames.
The owners of the nine companies — many of which are overseas investors, including sovereign wealth funds — paid out £18.1bn in dividends in the 10 years to 2016, even though post-tax profits amounted to £18.8bn during the decade, according to the researchers' analysis of their financial reports.
Three companies — Anglian Water Group, Severn Trent Water and Yorkshire Water Services — have paid out more in dividends than their total pre-tax profits over the past decade, a situation Dr Bayliss said was not "economically sustainable".
Last month, Severn Trent pledged to increase its annual dividend by at least 4 percentage points above the rate of inflation until March 2020.

Greenwich researchers said the cost of maintaining and improving water and sewer infrastructure has been paid for almost entirely by an increase in debt, which has risen from almost zero at the time of privatisation to nearly £40bn in 2016. The interest payments on the debt are higher than what would be paid by the public sector, which can borrow more cheaply.

Together, the £1.8bn in dividends and the extra £500m of debt interest payments each year pushed up bills for each of England's 23m households by about £100 a year, the researchers said.
"If all we are getting is debt, while we are financing company dividends, it clearly would have been better for these utilities to be in the public sector," said Dr Bayliss.
Michael Roberts, chief executive of Water UK, which represents the industry, said the "flawed report does not do justice to the achievements of the water industry since privatisation".

He added: "In that time, the industry has invested over £130bn in better services. Today we have world-class drinking water quality and customer satisfaction levels of over 90 per cent. Importantly, the independent regulator Ofwat has said that prices in England and Wales would be 30 per cent higher without the move from public ownership."

In 2011, Ofwat estimated that prices were about £110 lower than they would have been had the utilities remained in the public sector. The average household water bill in 2011 was £356.

The average bill across England and Wales is now about £400, according to Ofwat, which declined to comment for this story.
According to a National Audit Office report in 2015, household water bills have risen by 40 per cent more than inflation since 1989.

The University of Greenwich researchers argue that public ownership would cut the companies' costs by at least £2.3bn per year by eliminating the payment of dividends and reducing the cost of interest payments. They say that if the government had to pay compensation of £20bn to investors, the annual savings would provide taxpayers with an annual return of more than 10 per cent on the investment.

Across Europe, there has been a wave of renationalisations as cities including Paris and Berlin have taken water and sewer systems back under local authority control as outsourcing contracts come to an end.

A comprehensive study of water supply services by economists at the Paris-Sorbonne University in France — where about three-quarters of water and sewage services are delivered by the private sector through concessions or lease contracts — found that the price of water provided by private companies in 2004 was 16.6 per cent higher than in areas where municipalities provide the service.