Lord Moynihan – The UK Water Industry 25 Years After Privitisation

London, UK, 13th March 2015; in a recent edition of The House Magazine, Buckthorn Partners LLP’s (“Buckthorn”) Chairman Lord Colin Moynihan gave his assessment on how the UK water industry has performed during the 25 years since its privitisation. Lord Moynihan was one of the key architects of the privitisation, serving as a Minister in the Conservative Government in the late 1980s.

In The House Magazine article Lord Moynihan points out that prior to privitisation the backlog of work that was required to be performed on the systems was growing exponentially and that without access to capital markets, the £110bn that has been invested over the last 26 years would have been a pipe dream.

Lord Moynihan concludes that the investment generated by privatisation transformed the industry, with improved customer service delivering substantially improved water standards across the board. He further notes that the tasks ahead over the next 26 years are as great as those faced in 1990 but that the privatised structure is tried and tested and fit for purpose.

The full article is appended to this release with the kind permission of The House Magazine.

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Notes to Editors

Buckthorn is an investment firm that makes private equity investments exclusively in suppliers of products and services to the mining, oil and gas and water sectors. Based in London, Buckthorn works closely with its portfolio companies helping them expand; not least through a broadening of their product portfolio and geographic reach both organically and through acquisitions.

For more information about Buckthorn, please visit http://buckthornpartners.com.

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Pipe dreams

The Thatcher government claimed moving the water authorities into the private sector would increase efficiency to the benefit of the public and the industry alike. 26 years on, one of the architects of the privatisation and a Labour MP debate its success.

Privatisation has seen improved water quality and customer service, although problems remain, says Lord Moynihan

"It had never been done before – and hasn’t been done since."
So said Ellen Bennett, editor of Utility Week, who last year hosted events reflecting on the eventful 25 years since water privatisation. As a young minister in the 1980s, one could not have asked to be in a more formidable ministerial bill team, with Nick Ridley and Michael Howard supplemented ably by the soon-to-be-appointed Nick Edwards – now Lord Crickhowell – as chair of the National Rivers Authority, and Le Petit General, Sir Ian Byatt, the first director general of Ofwat.

My principal task was to pilot this, the most unpopular of privatisations, through over 100 hours in committee – from labouring through volumes of complex detail defending the concept of ‘comparative competition’ to site visits with police protection as we sought to roll out the first unpopular water meter trials in Normanton and the Isle of Wight.

An unwieldy 100 organisations responsible for water and sewerage assets had morphed into 10 supply areas with the 1973 Water Act. As privatisation approached, many beaches along our coastline were polluted with sewage. Leakage was commonplace. Customer complaints were rife and water quality was well below European standards.

I remember Christmas Eve in 1988 being dominated by a depressing file covering the full gamut of problems relating to the quality of drinking water, from the prevalence of pesticides to lead; nitrate to aluminium; chlorinated solvents to microbiological contamination and fluoridation. We needed medical advice from the Chief Medical Officer, the Committee on the Medical Aspects of the Contamination of Air, Soil and Water, the Royal Commission of Environmental Pollution and the Medical Research Council. Many traditional materials used by the water industry appeared never to have been approved for use. The requirement for statutory consent embodied in the privatisation process was to transform the industry.

None of the upgrading could be done without capital, and capital in public sector hands was in short supply for the water sector when faced with the competing claims of health, roads and defence. The pre-privatisation backlog was growing exponentially, and without access to the capital markets the £110bn invested over
the last 26 years would have been a pipe
dream. The challenge of how this could be
transferred from public sector liability to
capital market access was the driving force
behind privatisation; the need to meet the
growing environmental demands from
Brussels the major
catalyst.

The successes
have been
significant. From
the oversubscription
at flotation (which
wrote off the debt), the rapid growth
in metering, the major environmental
amelioration and far-reaching
improvements in customer service have been
transformational. The role of the National
Rivers Authority, which broke the historic
link between poacher and gamekeeper, paved
the way for the Environment Agency’s work
of today.

Current levels of investment, at £4bn a
year, are running at double the level before
privatisation in real terms. While only three
of the original 10 companies are publicly
quoted, Ofwat continues to aim to balance
the interests of shareholders and customers.

But the road to the present has not been
without challenges and lost opportunities.
Water charges have risen sharply – by
over 50% in real terms since privatisation.
Too many anomalies remain. In 2012-13,
Thames Water reported an operating profit
of £549m yet paid no corporation tax. Retail
competition has been slower to develop
than in Scotland, where public ownership
continues, and on balance it would take a
brave person to conclude that consumers
have benefited over shareholders.

Too many opportunities to pursue non-
core business commercial activities and build
significant footprints in international markets
have been lost. The collapse of Hyder under a
combination of high debt, adverse regulatory
rulings and a utility tax which destroyed the
share price hangs like a cloud.

Ofwat will have to safeguard their purpose
to ensure there is no anti-competitive

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behaviour in the sector and resist politicians’
instincts to impose too many primary duties
which risk endangering investment and
opening the door to a disastrous and costly
nationalisation by the back door.

Price increases of over 50% in real terms
since 1989 have been high; leakages
also remain at
an unacceptable
level; competition
in the form of
retail services
has been slow to materialise; an archaic
abstraction regime is in need of reform; and
a water strategy for the UK capable of fully
addressing the challenges of supply and
demand is far from sufficiently developed.

There can be no denying, however, that the
investment levels generated by privatisation
have transformed the industry and customer
service delivering substantially improved
water standards across the board. The tasks
ahead over the next 26 years are as great as
they were in 1990. Fortunately, the structure
is tried and tested and fit for purpose.

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Lord Moynihan is a Conservative peer and was a

Water privatisation has
been another example
of a Great British rip-off,
says Labour’s John
McDonnell

There is a reason why opinion polls
and focus groups are consistently
showing that privatisation has
become a dirty word and why
governments and political parties
shy away from it. It’s because example after
everything has emerged of privatisation being
simply a euphemism for rip-off.

Water privatisation is just one of the latest
privatisations that has been exposed in recent
years for the swindle of both taxpayers and
consumers that it was and still is.
Water privatisation has been a deplorable exercise in profiteering at the expense of us all. In the first 25 years since privatisation, water bills soared by 313%. Where did the money go? It went mostly in profits paid out to shareholders in dividends.

In 2013, the 19 private water companies made over £2bn in profits. £1.86bn was paid out in dividends to shareholders. From the start of the recent economic crisis in 2008 until 2013 when most of my constituents were struggling to get by, the water company serving us, Thames Water, made more than £1.8bn in profits and shelled out more than £1.4bn of them to its shareholders.

Interestingly, despite making these huge profits and paying out such amazingly attractive dividends to their shareholders, in 2013 the water companies only paid a total of £74m in taxes and Thames Water paid only £2.3m throughout the five years from 2008 to 2013.

The tax affairs of the water companies have aroused the interest of the thinktank Corporate Watch. What Corporate Watch has revealed is what many have described as a lucrative tax scam employed within the water industry. This involved water companies taking out high-interest loans from their owners through the Channel Islands and then converting them into euro bonds. They then lent them back to the companies and paid virtually no tax on them whatsoever.

Corporate Watch found that the six companies it looked at – Northumbrian, Yorkshire, Anglian, Thames, South Staffs and Sutton and East Surrey – had borrowed £3.4bn using this vehicle.

Northumbrian Water takes the biscuit for its use of this mechanism. It paid 11% on just over £1bn of loans it had taken from its owner, the Cheung Kong Group, based in Hong Kong and owned by the ninth richest man in the world.

In December, mounting media coverage of the scandal of high bills being converted directly into high profits forced Ofwat to move and demand cuts in water bills. The reality is that regulation has largely failed and Ofwat’s recent engagement with this issue is simply too little, too late.

Without significant and radical reform of the water companies, when the media furore dies down they will slip back into being the spivs they have been for the last 26 years. When natural monopolies are placed in private hands, short-term profiteering will always override long-term investment, service delivery and care for the consumer.

That’s why many are now calling for water to be taken out of the clutches of the private profiteers and entrusted to non-profit making companies dedicated to public service rather than profiteering.

John McDonnell is Labour MP for Hayes and Harlington