UNISON
the public service union

Clean water

A case for public ownership

Clean water: A case for public ownership
A report on water and sewerage services in England and Wales prepared for UNISON by Public Services International Research Unit (PSIRU), Greenwich Business School, University of Greenwich.

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Contents

Foreword by Christina McAnea, UNISON General Secretary

UNISON is the UK's biggest and best campaigning union, leading the debate on water industry reform. It's an issue at the forefront of our conference debates because we all need water to sustain our lives. UNISON cares about the health and safety of our members and all citizens because everyone deserves access to clean water and affordable water bills.

Right now, our broken water industry needs urgent repair. Privatised water companies are more interested in making money than investing to improve infrastructure. They've prioritised profit over people and our environment. Their failures have led to harmful substances polluting our coastlines, streams and rivers.

And although water services have been drained of investment, and some owe billions of pounds because of reckless financial mismanagement, this hasn't deterred them from paying huge dividends to shareholders.

This scandalous model of profiteering is a clear indication that privatisation isn't working. It serves company bosses and shareholders at the expense of everyone's health. Clean water shouldn't be a luxury, or a preserve of the rich, it's a fundamental human right.

All this is happening at a time when families are struggling to make ends meet. The strain caused by rising living costs, council tax, mortgage rates and rents, will be compounded by soaring water bills when they rise by over 40% in the next five years.

Having a vision of clean water services fit for the 21st century, shouldn't be a radical idea. Without urgent action, the water industry will continue to create major problems for our health and environment. Doing nothing is not an option.

UNISON is demanding change, and our members must be part of it, with good quality, unionised jobs. UNISON is calling on the government, and any future government, to conduct a comprehensive review of the water industry and identify what needs to be done to ensure it is run in the public interest.

We need a national debate and as the biggest public service union, championing positive change, this report will help ensure that debate gets underway.

Introduction

Water is a basic human right. We all depend on it to sustain our lives. Our members and citizens – working across all sectors of public services and the economy – demand change in our water system. They want access to clean water and are calling for solutions to fix our broken water system, which has allowed water companies to put profit over people and the environment, to the detriment of society.

Against this background, UNISON commissioned PSIRU to carry out this research, which examines the key issues in the Water Industry and the solutions to address them. This research reveals that the structures and current model of the Water Industry is no longer fit for purpose and calls for a reform of the industry. The report warns that so many things are wrong with the current business model that society have endured since privatisation in 1989, which was supposedly aimed to drive efficiency. Rather, in the last thirty-three years, the industry is debt-ridden, largely to pay for the greed of shareholders, and has failed to adequately reinvest in – and manage – operations effectively. This has resulted in the most shocking scale of raw sewage dumping into rivers; that is the privatised English Water Industry in 2024. This democratic deficit and poor performance have led to a loss of confidence in the Water Industry, given the scale of the problem.

Indeed, the constant releases of illegal sewage discharges and public health concerns made this issue an emergency which has drawn attention from several campaigns in the last three years. For example, data from the Environment Agency revealed that raw sewage has been pumped into rivers and seas at least 464,056 times in 2023 an average of 1,271 times a day – a 50% increase over 2022.[i]

The report makes the case that solving the crisis in our water system will require the democratisation of the Water Industry, and outlines a number of approaches to achieving this. It also highlights the benefits of public ownership, which will reduce borrowing costs; and outlaw commercial gains, and dividends payments to private shareholders, ensuring that the water system works for the people not for profits.

Natalie Mladenovich-Haigh
Chair of UNISON's Water Industry Sector Committee

i https://www.gov.uk/government/news/environment-agency-publishes-storm-overflow-spill-data-for-2023

1 History and context of privatisation

While some private water supply companies were started by investors looking to sell to urban elites prior to 1800, the provision of water and sewerage for the public as a whole was developed in the 19th century by municipalities in the US and nearly all European countries, including the UK. Municipalisation was seen as a way to overcome the systemic inefficiencies of the private contractors, while fostering economic development and public health, and improving social conditions for the urban poor. Public finance mechanisms, backed by taxation and based on city councils' new rights to borrow money, became central to the development of municipal water systems.[1]

In England and Wales, water municipalisation and the development of sewerage systems took off after the cholera epidemics of 1832 and 1849. By 1914, all but 28 utilities were municipally-owned. Universal coverage in urban areas was achieved in the 1960s mainly thanks to the operational and financial contribution of the public sector. However, during the postwar economic crisis there was underinvestment in wastewater treatment, which was seen as less strategically important than water supply. This led to water pollution and public disquiet.[2]

The 1973 Water Act restructured hundreds of municipal water utilities and sewage and river authorities into 10 publicly owned Regional Water Authorities (nine in England and one in Wales). These operated at river basin level, enabling integrated environmental management of water and sewerage systems for the first time, as well as constant democratic monitoring by boards made up of elected councillors, whose board meetings were open to the public. The boards were responsible for ensuring that the RWAs met public economic and environmental objectives, and there were no separate regulators. However, from 1975 the RWAs were constrained from increasing prices and accessing governmental funding because the UK was under IMF conditionality, resulting in underinvestment and service degradation. [3]

The Thatcher government started soon preparing for privatisation, which was claimed to bring greater efficiency (thanks to profit incentives) and financing to meet the expenditure required by EU law. The 1983 Water Act completed nationalisation by cutting all remaining links between local authorities and RWAs, removing the right of ordinary citizens to attend RWA meetings, and furthering commercialisation. In November 1989, the RWAs were privatised when their shares were floated on the stock exchange.[4]

Three aspects of privatisation are worth noting. First, the Thatcher government actually argued that privatisation would help deal with problems of water pollution.[5] Second, to ensure the commercial success of the companies, the government wrote off all the existing debts of the RWAs (£6.5 billion in total) and gave the private companies £7.7 billion of public subsidies in tax relief on profits.[6] Third, the privatised regional utilities did not improve efficiency in the first 5-10 years of privatisation relative to that of their governmentally-owned predecessors in 1985-1989.[7]

2 Private companies: ownership etc

The privatisation process transferred ownership of the water and sewerage operators to ten new companies, listed on the stock exchange. Some shares were offered to individual consumers and workers at significant discounts, justified by the Conservative ideology of 'popular capitalism', [8] but these shares were soon sold to cash in on the discount. The government held 'golden shares' to deter unwanted takeovers, but these expired after 5 years.

The great majority of the shares of the water and sewerage companies (WASCs) – and of the smaller water-only companies (WOCs), which were already private – were bought on the open market by financial investors, or multinational companies. Most of the companies were taken over and taken off the stock market altogether, and the multinational water companies gradually withdrew.

The companies are now owned – sometimes directly, sometimes through stock market listed groups – by international financial investors. They manage the companies as financial assets, to maximise returns, relying on the security of statutory monopolies for essential services underpinned by friendly regulation. Some of the major shareholders are owned by governments elsewhere – e g Canada, Singapore, Australia, Abu Dhabi, China – but none are accountable to the UK public. The current owners, as at March 2024, are as follows:

- Three of the WASCs are owned by groups listed on the London stock exchange: United Utilities is owned by United Utilities Group plc; Severn Trent by Severn Trent plc; and South West Water by Pennon Group plc. As with other stock exchange companies, the dominant shareholders of all three companies are financial groups: e.g. in January 2024 31.5% of the UU group's shares were owned by just 10 international financial groups.9 UK pension funds own only about 1% of listed water company shares.10
- Two are owned by multinationals based overseas: Northumbrian Water is owned by the Cheung Kong Infrastructure Group, a large and powerful Hong Kong based group; and Wessex Water is owned by YTL, a Malaysian utility company.
- Four are owned by consortia of diverse private equity firms, international pension funds, sovereign wealth funds: Anglian Water is currently owned by investors from Canada, Australia, Abu Dhabi and a UK pension fund; Southern is now majority owned by the Australian finance group Macquarie – which had previously owned majority shares of Thames, and South East Water; Thames is predominantly owned by Canadian and UK pension funds, as well as state funds from Abu Dhabi and China; and Yorkshire by funds from Singapore, USA, Germany and Australia.
- Dwr Cymru (Welsh Water), is owned by a not-for-profit company with a self-appointing board.
- The four remaining WOCs – Affinity, Portsmouth, South East Water, South Staffs – are each owned by private equity funds. The others have been absorbed by the larger WASCs – most recently, SES Water was bought by Pennon Group.

Current private owners of English and Welsh water companies as at May 2024

Company	Type	Owner- type	Owners, home country, % of shares
Anglian Water	WASC	Private	CPP, CA, 32.9%; IFM, Aus, 19.8%; Infinity Inv, Abu Dhabi, 16.7%; Igneo, Aus, 15.6%; GLIL, UK, 15%
Dŵr Cymru	WASC	NFP	Glas Cymru, UK, 100%
Hafren Dyfrdwy	WASC	Listed	ST plc, UK, 100%
Northumbrian Water	WASC	MNC	Cheung Kong Infra, HK-China, 100%
Severn Trent Water	WASC	Listed	ST plc, UK, 100%
South West Water	WASC	Listed	Pennon Group plc
Southern Water	WASC	Private	Macquarie, Aus, 61.9%; JP Morgan, USA, 15%; UBS Asset Mangt, Switz, 8%; Hermes, UK, 8%; other, 7%.
Thames Water	WASC	Private	OMERS, CA, 31.8%; Univ Superann, UK, 19.7%; Infinity Inv, Abu Dhabi, 9.9%; Brit Colombia Inv, CA, 8.7%; Hermes, UK, 8.7%; CIC, China, 8.7%; others 12.6%
United Utilities	WASC	Listed	UU plc 100%
Wessex Water	WASC	MNC	YTL Corporation, MY, 100%
Yorkshire Water	WASC	Private	GIC, SI, 36.6%; Corsair, USA, 30.3%; Deutsche Ass Man, DE, 23.4%; SAS, Aus 12.8%
Affinity Water	WOC	Private	Allianz, DE, 36.6%; HICL, UK, 33.2%; CVC-DIF, Lux, 26.8%.
Portsmouth Water	WOC	Private	Ancala, UK, 100%
South East Water	WOC	Private	UTA, Aus, 50%; Desjardins, CA, 25%; Natwest PF, UK, 25%
South Staffs Water	WOC	Private	Arjun Infrastructure, UK, 100%

3 Ineffective regulation: OFWAT, Environment Agency, Natural Resources Wales

Privatisation abolished the public authorities, and so to provide some control over the new private monopolies, the legislation created the economic regulator, OFWAT, and, later, the Environment Agency (EA) and Natural Resources Wales (NRW), which were expected to ensure that the system runs efficiently and sustainably. Their powers and accountability were weakened by the economic and political ideology that private companies would be more efficient with minimal political or democratic interference. The regulators were made 'independent', so they were "given the power to make decisions which have little or no ministerial oversight" [11], and they have no accountability to local councils. OFWAT's original responsibility was not to protect consumers, but to ensure that companies had sufficient profits to meet their investment needs. This democratic deficit is a core reason why, after 33 years, the regulators have failed to meet public expectations on costs or environmental impact, as discussed in the following sections.

As a result, they are vulnerable to corporate pressures. Companies can 'capture' regulators and make them more lenient by providing lucrative career opportunities, so that staff of regulators are much less likely to hurt the interests of companies. Senior staff move freely through a 'revolving door' between OFWAT and the companies: e.g. Cathryn Ross , who was CEO of OFWAT from 2013-2017, became a director of Thames Water from 2021; and in the other direction, the CEO of Anglian Water, Johnson Cox, became chairman of OFWAT from 2012 to 2022.[12] The weakness of OFWAT was shown when it agreed in 2002 to give companies the right to 25 years notice before their licenses could be terminated, effectively giving them eternal monopoly concessions. [13]

Government action has also deliberately weakened regulation. The Environment Agency has attempted in the past to enforce stricter regulation, but government cut its funding by half between 2010 and 2020 [14], weakening capacity and provoking disputes over pay and workloads.[15] Long-term planning is also weakened by the dominance of company plans in fixing prices and investment, and the lack of local accountability and public participation. For example, the water resources plans for England create 5 new regions crossing company boundaries, and so does not assign direct responsibilities to any of the water companies. This contrasts with the plans in Scotland, which assign very specific responsibilities to Scottish Water as well as SEPA.[16]

The democratic deficit and the bad performance have led to a great loss of confidence in the system. In April 2024, only 23% of people said they trust the companies to be environmentally responsible – which also means a lack of confidence in regulation. [17] The increased powers of EA and OFWAT to impose much larger fines on the companies without the need for court cases represents a response to public pressure, but OFWAT rapidly reduced its initial announcement of £114m. in fines to just £70m.[18]; and companies are already seeking protection from fines as a condition of investment. [19]

Revolving doors: job moves between OFWAT and water companies

from **OFWAT**	to **Company**	**Job**
Giles Stevens	THAMES	Director of Regulatory Strategy & Innovation
Jonathan Read	THAMES	Director of Regulatory Policy & Investigations
Cathryn Ross	THAMES	Director of Strategy & Regulatory Affairs
Rob Cunningham	ANGLIAN	Environmental Regulation & Engagement Manager
Chris Esslin-Peard	SOUTHERN	Head of Corporate Strategy
Andrew Beaver	NORTHUMBRIAN	Director of Regulation & Assurance

from **Company**	to **OFWAT**	**Job**
THAMES	Philip Dixon	Market Development Manager
THAMES	Matthew Greetham	Asset manager
THAMES	Kate Haycock	Regulatory Compliance Manager
ANGLIAN	Johnson Cox	Chair
NORTHUMBRIAN	Jonathan Dennis	Principal

Source: Daily Telegraph 3 Sept 2002[20]

4 Regulation: perverse incentives plans, prices, system

A central problem of the system is the arrangement for setting prices, which is done by OFWAT every 5 years on the basis of the companies submitting investment plans, and then – the incentive – being allowed to increase prices. The problems are visible in the current cycle, and highlighted by the comments of the consumer body, CC Water.

The companies are proposing, on average, a 26% real increase in water bills, over and above inflation, in the 5 years from 2025-2030. To meet increased government targets, some companies have reduced other existing plans for capital expenditure. To justify the price increases, companies have submitted plans promising big investments, but CC Water warns that the credibility of companies such as Thames and Southern is so poor that ambitious plans may not be seen as achievable: the ambition of Severn Trent's plans is also undermined by their statement that 94% is to cover statutory duties and yet the company seeks a 37% price increase.

Thames and other companies have also asked for higher returns to shareholders, special allowance for financial problems, and guaranteed limits to the fines that might be imposed on them but CC Water responded sharply: "Ofwat should not be held to ransom by companies saying that they cannot deliver improvements for customers and the environment without exceptional costs being allowed that may be inefficient or unjustified". Companies also had varying records on responding to local stakeholder bodies, and "in one extreme case, the relationship between the company and its stakeholders broke down completely – South East Water". [21]

After the level of charges has been set in the 5-year plan, companies have an incentive to try and reduce actual capital expenditure below the notional level agreed with OFWAT: this increases profit margins, but at the expense of investments. OFWAT noted that: "Over 2020-23, twelve companies underspent their water enhancement allowances and nine underspent their wastewater enhancement allowances. The underspend means companies are behind on their investment programmes." [22] The companies have done this ever since privatisation, as reported by PSIRU in 2008: "companies 'discovered' that they had made 'capital efficiency' savings, or that they did not need to spend so much on capital expenditure in future. The companies then made use of this to justify paying extra dividends".[23]

Corporate price bids for 2025-2030

Water price proposals by companies for 2025-30		Current average bill	Proposed average bill	Proposed real increase – on top of general inflation
		2024-25	2029-30	2029-30 vs 2024-25
Anglian Water	WASC	£496	£571	15.1%
Dŵr Cymru	WASC	£463	£581	25.5%
Hafren Dyfrdwy	WASC	£412	£560	36.0%
Northumbrian Water	WASC	£404	£478	18.5%
Severn Trent Water	WASC	£398	£546	37.2%
South West Water	WASC	£410	£681	66.0%
Southern Water	WASC	£504	£621	23.1%
Thames Water	WASC	£436	£609	39.6%
United Utilities	WASC	£447	£556	24.5%
Wessex Water	WASC	£517	£668	29.2%
Yorkshire Water	WASC	£438	£585	33.4%
Total WASCs (weighted ave)		£441	£580	31.4%
Affinity Water	WOC	£192	£217	13.2%
Portsmouth Water	WOC	£114	£135	17.8%
South East Water	WOC	£232	£277	19.6%
South Staffs Water	WOC	£160	£182	13.5%
SES Water	WOC	£237	£262	10.6%
Total WOCs (weighted ave)		£193	£222	15.1%

Source: OFWAT
https://www.ofwat.gov.uk/regulated-companies/price-review/2024-price-review/business-plans/key-facts-and-data-from-water-company-plans

5 Extracting dividends

The shareholders of the companies are extracting large amounts for themselves out of the companies' revenues, primarily by dividends. The WASCs and the WOCs of England and Wales paid out a total of £1.446 billion in dividends in 2022-23.

- This represented nearly 11% of the companies' total revenues – the equivalent of over £53 per customer, or £1 per week, for every household in England and Wales.
- The dividends equal about 22% of the £6.5bn capital investment in 2022-23. Capex could have been 22% higher – an extra £1.4bn – if dividends were not extracted.
- The £1.4bn. dividend payout was equivalent to 69% of the £2.1billion pay bill for the 47,000 employees of the entire industry – over £30,000 per worker.
- By contrast, the companies themselves pay very little tax on their profits: a total of just £45m. in 2022-23; equivalent to just 3% of the money paid to shareholders.

The largest dividend payments were by Severn Trent (ST), £428m., and United Utilities (UU), £454m. These payments represented 22% and 25% of their entire revenues respectively – equivalent to about £2 and £2.50per week or more for every customer. Both companies are owned by groups listed on the London stock exchange, which promise to increase dividends in line with inflation every year e.g. UU Group "maintains a dividend policy to target a growth rate of CPIH [Consumer Price Index: Housing] inflation each year through to 2025."

The shareholders gain from the profits that are retained, too, as well as those paid out in dividends. The 'total shareholder value' of the companies increased by £4.2bn. in 22-23, so even the companies which paid no dividends generated good returns for their shareholders e.g. Thames Water reported total shareholder returns of £499.2m. Companies can decide to pay these retained profits out as dividends at a later date, e.g. Yorkshire Water states that £408.2m of their retained earnings can be distributed to shareholders in dividends whenever the company chooses.

Companies have also borrowed money to pay for these dividends (see next section) and the cost of servicing these debts is additional to the cost of paying the dividends themselves. Academic estimates of the annual cost of this debt interest have been published by the Guardian, and when these costs are added to the dividends the total represents about 29% of total annual revenues.

Dividends and ratios 2022-23

Company	Type	Dividends £m	Dividends as % of revenue	Dividends £ per customer	Dividends as % of Capex	Dividends as % of wages and salaries	Dividends £ per employee	Dividends + debt as % of revenues
Anglian Water	WASC	169	11%	£57	25%	72%	£31,917	35%
Dŵr Cymru	WASC	–	0%	£0	0%	0%	£0	*n/a*
Hafren Dyfrdwy	WASC	–	0%	£0	0%	0%	£0	*n/a*
Northumbrian Water	WASC	111	13%	£56	39%	93%	£35,707	32%
Severn Trent Water	WASC	428	22%	£103	60%	151%	£61,160	33%
South West Water	WASC	12	2%	£12	4%	14%	£6,522	16%
Southern Water	WASC	–	0%	£0	0%	0%	£0	27%
Thames Water	WASC	45	2%	£8	3%	12%	£6,241	30%
United Utilities	WASC	454	25%	£142	66%	144%	£78,055	36%
Wessex Water	WASC	70	13%	£56	27%	63%	£26,348	32%
Yorkshire Water	WASC	62	5%	£27	12%	40%	£16,377	21%
Total WASCs		1352	11%	£50	22%	69%	£31,425	28%
Bristol Water	WOC	64	49%	£125	130%	339%	£140,194	*n/a*
Affinity Water	WOC	–	0%	£0	0%	0%	£0	25%
Portsmouth Water	WOC	3	8%	£11	7%	33%	£12,734	25%
South East Water	WOC	9	4%	£10	10%	24%	£8,902	29%
South Staffs Water	WOC	9	6%	£14	10%	51%	£21,801	20%
SES Water	WOC	8	12%	£28	34%	68%	£23,410	34%
Total WOCs		94	10%	£188	22%	58%	£24,233	29%
TOTAL WASCs+WOCs		1446	11%	£54	22%	69%	£30,830	29%

6 Capital investment: financed by consumers

The original justification for privatisation was to get private finance to pay for the capital investment needed to upgrade and maintain the water and sewerage systems. OFWAT and the water companies claim that shareholders have invested large amounts of money in capital expenditure in the 33 years since privatisation, and that dividends and interest reward this injection of capital.

However, analysis of the long-term data does not support this.

Capital expenditure (capex): The cumulative total of capital investment ('capex') made from 1990-2023 is now £191.1 billion (at current 2023 prices, revalued using CPIH). But this leaves open the question of how that spending was financed: was it money from the shareholders of the private companies, or just paid for by consumers?

Shareholder equity: in March 2023, total shareholder equity and premium in the WASCs was £3.4billion. This is less than the £3.6billion originally injected by shareholders in 1989-90 (£8.2billion in 2023 prices): so in real terms, the shareholders have actually withdrawn the equivalent of £4.8billion, almost 60% of the original shareholder capital, in the last 33 years. United Utilities shareholders, for example, injected £1.1billion in 1990, equivalent to £2.4billion at current 2023 prices – but by 2023 only £230million remained – about 9% of the real value of the original equity.

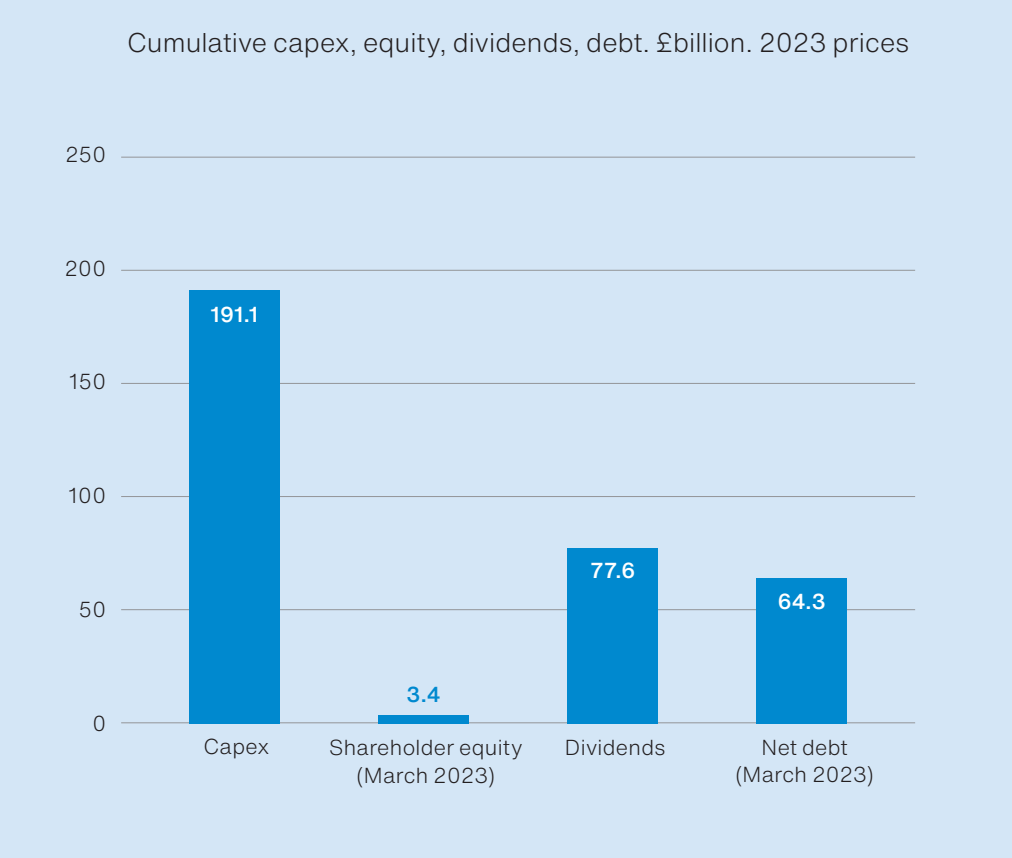
So since privatisation, shareholders have literally invested less than nothing.

Dividends: in the last 33 years the companies have also effectively extracted all of the profits by taking dividends worth £77.6billion (in 2023 prices). This absorbed all the profits made during that period: the companies inherited retained earnings of £3.2billion (equivalent to £7.2billion at 2023 prices) from the former public sector regional water authorities, and by 2023 this had actually fallen slightly in real terms to £6.9 billion. Effectively, nothing has been left in the companies, except the original inheritance from the public authorities. When the £77.6bn of dividends is added to the withdrawal of £4.8bn of equity, shareholders have extracted £82.4billion since privatisation.

Consumer charges: so the capital expenditure which has happened since 1990 has not been paid for at all by shareholders. It has rather been financed by consumers. Detailed analysis by Yearwood (2018) found that in almost every year since privatisation, consumers' bills directly covered the capex of the water companies, as well as the day-to-day operational expenditure – with a small surplus.

Debt: despite this, the companies borrowed money, year after year, building up a total debt of £64.4bn in 2023. This was not however needed to finance capital expenditure, but used to pay out much larger dividends. We have thus paid for all investment ourselves.

Capital spending and the burden of dividends and debt



7 Customer bills: real increase, water poverty

The universal experience of water privatisation in England and Wales was a sharp increase in the cost of water, followed by problematic levels of water poverty. In the first 5 years of privatisation, water consumers were hit by a 29% real increase over and above the rate of inflation. This led to a trebling of the number of households being disconnected for non-payment: 18,636 households in 1994 alone. But there was widespread opposition to this practice on social and health grounds and the Labour government banned disconnections in 1999, when it also pressured OFWAT to impose a one-off 12% price cut in 2000.[24]

After the price review for the period 2000-2004, OFWAT allowed prices to increase again and with a vengeance: by 2014, average annual bills for water and sewerage had increased by 40% in real terms since privatisation.[25] According to the Office for National Statistics water supply prices increased by 360% between 1989 and April 2023, more than twice the inflation rate for all items (145%).[26]

As prices kept increasing, water poverty also went up. This is considered as the percentage of households who are paying more than 3% of their disposable income for water and sewerage bills and is a contributing factor of destitution. Water poverty levels have fluctuated across the years. By 2014, water poverty was estimated to affect an alarming 34% of households in England alone.[27] The companies claim that in 2019 this was below 24%,[28] but there is no guarantee that water poverty will keep decreasing.

The companies' have now committed to reducing water poverty to 17% in England and 27% in Wales by 2030,[29] after 40 years since privatisation. However, the officially-recognised consumer representative CCW finds that the price increases proposed for 2025-2030 average 40% after inflation, while only 16% of customers on average say they can afford these increases.[30] Water poverty may soon once again increase.

Looking back, OFWAT appears to be more part of the problem than the solution to water poverty. OFWAT has allowed the companies to put shareholders' interests before those of vulnerable consumers by, for example, failing to curb the practice of "gaming" and stop the unsustainable extraction of dividends (see section 3). It has demanded that governmental agencies should intervene to alleviate water poverty despite its remit to protect the interest of all consumers, vulnerable alike.[31]

8 Environment: poor water resources management, leaks

Water rationing and cutoffs have been common in recent years, especially in the south-east, where there were widespread repeated cutoffs in May 2023. This was not the result of unforeseen extreme dry weather conditions. The problems of water stress in south-east England have been known for a long time: the Environment Agency reported in 2002 on the long-term problems of inadequate water supplies in England, especially the south-east.[32] And the weather had been favourable for the year up to May 2023: rainfall in Kent and South London was above average over the previous 12 months, and river flows, groundwater levels and reservoir stocks were above or near long-term average.[33]

The key problem has rather been underinvestment, either in water resources or in leakage reduction. South East Water, at the centre of the problems in Kent and Sussex in 2023, invested only £180m in 2 years from 2021 to 2023, while paying out £232m in dividends and interest over the same period.[34] SE Water's water resource plans include the now familiar feature of meaningless targets in the far distant future, e.g. reducing the level of leakage by 36% by 2040, by 50% by 2050, then by 75% by 2075.[35] OFWAT uses leakage reduction as a metric for allowing more profits, but companies choose to lie rather than make investments: Welsh Water has been fined £40m. by OFWAT because for 5 years it claimed its leakage was falling, when in reality it was rising.[36]

Leakage is a problem for any water supply companies with ageing pipes, but can be addressed through planned, regular maintenance and investment programme. Along with improved reservoir storage, it is especially important to minimize the wasteful leaking of treated water in areas of water stress, such as the south and east of England. High leakage and inadequate storage also weaken our ability to cope with climate change, such as the 2022 drought which led to water rationing in Yorkshire, Oxfordshire, Hampshire, Kent, Sussex and London.[37] Overall, reducing leakage makes a significant contribution to improving the productivity of water companies.

The privatised English and Welsh system has made little improvement, however. Public sector water companies, by contrast, can perform much better – even in much poorer countries. The public water utility of Phnom Penh, Cambodia, reduced its leakage rate from 72% to 8% in 12 years, whereas even Thames' reported leakage rate remains at 24%.[38]

Even fines have made little difference. In 2018 Thames Water – which leaks more water than any other company – was fined £120million by OFWAT because it "did not pay enough attention to solving leakage issues and underestimated the significance of its underperformance".[39] In 2023, 5 years later, the Environment Agency said that Thames still "struggled" to control the problem, and was highly sceptical about the firm's 2024 plan which promised future improvements, noting that Thames Water's 2019 scheme had "set out similar ambitions but had not delivered", adding: "a plan is nothing without delivery." It also reported that Thames desalination plant had been so neglected that it was useless as an additional resource.[40]

9 Environment: sewage overspills, caused by under-investment

The worst environmental issue in the water system is the problem of sewage pollution. The EA has published data showing that sewage overspills in England more than doubled in 2023, with 3.6 million hours of spills compared to 1.75 million hours in 2022.[41] The overspills come from combined sewage and rainwater sewers, whose capacity has not been great enough to cope with the growth in population and the more frequent rainstorms due to climate change.

The companies claim that they are due to abnormal rainfall, but the principal reason for the overspills is the failure of the companies to increase the capacity of sewage treatment plants to deal with the great volume of sewage produced by a growing population. A major study by Imperial College London in 2023 [42] found that over 80% of sewage overspills happened at sewage treatment plants with insufficient capacity, even in dry weather, showing: "the chronic under capacity of the English wastewater systems as a fundamental cause behind the increased frequency and duration of CSO spills". The private companies have a simple economic incentive to increase profit margins by avoiding expenditure on increased capacity (see above).

BBC surveys found similar results with 3 English companies' which had been repeatedly and illegally releasing sewage even in dry weather [43], and with Welsh Water, which admitted "illegally spilling untreated sewage at dozens of treatment plants for years." [44]

Even the one big sewerage investment project, the Thames Tideway Tunnel, shows how the companies avoid paying for it. In 2012 Thames Water shareholders simply refused to invest in the tunnel, which a former OFWAT CEO argued was a breach of statutory duty, for which Thames should be taken into public ownership by special administration [45] (see below). A separate project company was created, structured to be profitable, by making consumers pay £540million upfront, and then borrowing over £4billion – which consumers will also have to pay off for decades to come. [46]

Elsewhere, public systems can use democratic processes to deal with sewage overspills more effectively. The city of South Bend, Indiana, USA had major problems with CSOs, which consultants advised would cost $700 million to fix. A process of intense public debate led by a reassessment team used the data from monitoring to analyse all possible solutions, devised a much greener solution, dealing with nearly all the CSOs without damaging the urban environment, and costing just $276 million – saving over $400 million. [47] Peoria, USA is planning to use green solutions in response to CSOs, which cost two-thirds less than traditional infrastructure.[48]

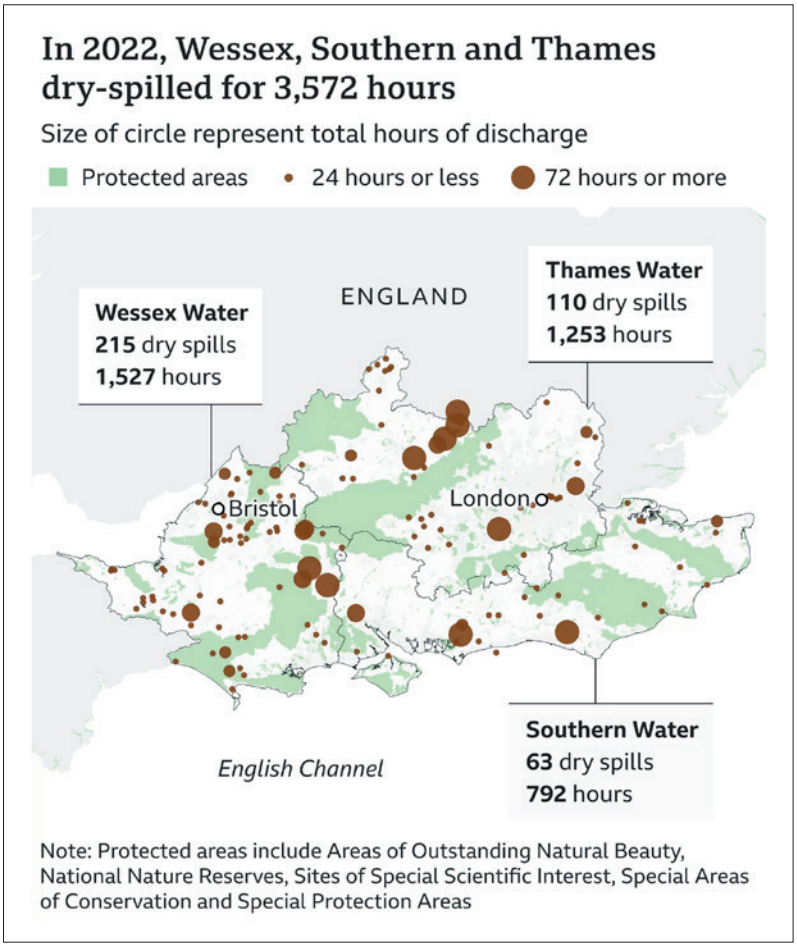
Public authorities also benefit from making efficient use of public finance. The city of Stockholm decided 10 years ago to double the capacity of the Hendrikstahl sewage treatment plant, making it the largest in Europe, using low interest loans from the Nordic Investment Bank.[49] In the USA, president Biden's infrastructure programme provided $50 billion for investment in water and sanitation structure, of which $11.7 bn is for sewerage systems. [50]

Sewage overspills in England in 2023

Storm overflows in England 2023 Environment Agency	Number of spills	Spills per overflow	Hours of spills	Ave hours per spill	% overflows spilled ≤10 times
Anglian Water (AWS)	31,623	22.2	273,163	8.6	51.7%
Dwr Cymru (DC/WW) (in England)	4,204	35.0	23,354	5.6	35.0%
Northumbrian Water (NW)	46,492	30.1	280,029	6.0	37.7%
Severn Trent Water (SvT)	60,253	24.9	440,446	7.3	48.2%
South West Water (SWW)	58,249	43.4	530,737	9.1	37.6%
Southern Water (SW)	29,494	30.7	317,285	10.8	42.7%
Thames Water (TW)	16,990	27.9	196,414	11.6	48.2%
United Utilities (UU)	97,537	45.4	656,014	6.7	30.7%
Wessex Water (WSSX)	41,453	32.0	372,341	9.0	37.8%
Yorkshire Water (YWS)	77,761	35.9	516,386	6.6	37.1%
All companies	464,056	33.1	3,606,170	7.8	40.5%

Source: Environment Agency https://www.gov.uk/government/news/environment-agency-publishes-storm-overflow-spill-data-for-2023

Dry sewage overflow sites in three regions, 2022



Source: https://www.bbc.co.uk/news/science-environment-66670132

10 Politics: public opinion, party policies, campaigns, consumers

There has always been strong public opposition to water privatisation, and it remains strong across different political groups, regions, class and age.

The first proposals by the Thatcher government in 1985 were opposed by a powerful campaign involving a wide range of different interest groups including unions, farmers, pensioners, Greenpeace and the RSPB [51] , leading to Thatcher dropping the plan before the 1987 election: a 1986 poll showed that 71% opposed water privatisation, with only 21% in favour. [52] After the election, Thatcher introduced it anyway.

The experience of water privatization has only strengthened public opposition to the system, confirmed by a stream of opinion polls. A large and detailed poll in 2022 found only 8% of people supported privatised water, whereas 63% wanted public ownership – even amongst Conservative voters, 58% wanted public ownership, with only 12% supporting the privatised system. The stated reasons in another poll in 2023 were very clear and specific: "public ownership would mean more investment, better service and lower charges, and the principle that important services should belong to the people not private companies." [53] This is reflected in the many campaigns against the environmental damage and inadequate services delivered by the companies and the failure of regulators to prevent it.

This widespread public position is not however currently reflected in the policies of political parties. The Conservatives and Lib Dems have consistently supported or tolerated privatisation, while consciously articulating some criticisms. The Labour Party initially opposed the system; the Blair government introduced a windfall tax on company profits, but did not reverse privatisation. From 2016-2019 Labour did support a return to public ownership, with detailed plans, but has now returned to a policy of leaving the system unchanged. Campaign groups such as *We Own It* are now starting to press more explicitly for a return to public ownership.

Public for public: opinion polls, including by party, on preferred ownership of public services

	Priv	Pub	Combo	Don't know
All	8	63	14	15
Con	12	58	18	12
Lab	3	80	9	8
Lib Dem	10	70	12	9

Source: Yougov, 19 Oct 2022 https://yougov.co.uk/politics/articles/44086-most-britons-believe-trains-water-and-energy-shoul
Sample Size: 1713 adults in GB Fieldwork: 21st – 22nd September 2022

11 International lessons: 90% public, remunicipalisation, Scotland/N. Ireland, democracy

The English form of privatisation has not been adopted by any other country, and the internationally prevalent model is the French system of fix-term lease and concession contracts.[54] Importantly, only a small minority of water services around the world are privatised; that proportion is shrinking, as there is a continuing trend to reverse privatisation, particularly in France. The English privatised system is thus uniquely out of line with the global norms.

A systematic global survey of cities over 1 million people carried out in 2004 by PSIRU found that the water service of 89% of these cities was public.[55] In the USA, a recent survey of the largest 500 water systems found that 89% were public, and that 97% of sewerage systems were publicly owned and run.[56] In the Netherlands, water privatisation has been illegal since the early 2000s.[57] And there has been continued strong resistance to water privatization across Europe.[58]

Globally, there has been a strong shift away from privatisation, and towards public ownership, for the last 20 years, in water and other sectors. The trend of water remunicipalisation has been especially marked in France, where there has been a great backlash against privatisation: for example, water has been remunicipalised in Paris, Lyon, Nice, Montpelier, Bordeaux, Renne and Grenoble (see Annex F).[59] Other notable cases include Berlin, Germany and Atlanta, USA.[60]

Comparisons of public and private performance in the same country can be made on a like-for-like basis because national legislation and other conditions apply across utilities. In the USA, a recent study comparing public and private performance in terms of prices has found that “Privately owned water systems have higher water prices and are less affordable.”[61] A previous comparative analysis of 5000 French water utilities also found evidence of superior public sector performance.[62]

The triggers of remunicipalisation change from city to city: in Berlin the private companies withdrew from a difficult situation, whereas the mayor of Paris made a clear political decision to remunicipalise. The drivers of remunicipalisation, however, tend to be same and include: the private sector’s unwillingness to deprioritise commercial gains; the public sector’s ability to reinvest all profits for service developments, while allowing for transparency, participation, accountability and democratic control.[63]

12 The advantages of publicly owned water in England and Wales

The international experience helps us see how water and sewerage services in England and Wales could function much better under public ownership and democratic oversight. There are 5 key advantages:

Lower cost to consumers

Since 2010, water remunicipalisation in Paris has shown how public ownership can reduce costs to consumers and perform better. The municipal utility Eau de Paris, reduced prices by 2.6% from 2010 to 2017, in contrast with a 174% increase in 25 years of privatisation. It has few debts and, from 2010 to 2017, has invested increasing amounts into the system, meeting high international standards for asset renewal and leakage. It also trebled expenditure on improving affordability and was awarded the 2017 UN Public Service Award for its "efforts to promote transparency, accountability and integrity in public service."[64]

Effective public planning

Democratised systems are capable of effective planning and mobilising public participation to deal with major problems, including dealing with sewage overspills, as discussed above. The democratic efficiency of public plans is greater than company 'plans' constructed to justify claims for price increases.[65]

In South Africa, Cape Town has managed to cope with a historic drought by reducing total consumption by 55% without any cuts thanks to accurate data and transparent information.[66] Porto Alegre, Brazil used public participation in the form of participatory budgeting to build consumers' trust in support for tariff increases of over 25% to finance sewage treatment plants.[67]

Much lower cost of capital

Public utilities do not need to pay dividends to private shareholders, and public sector bodies can always borrow at lower interest rates than private companies. Municipal utilities like those of Paris and Stockholm are virtually entirely self-financing and yet manage to keep tariffs affordable.[68] The Netherlands created a special public sector water bank, Nederlandse Waterschapsbank, which is now the 5th largest bank in the country and provides finance for public investments in other sectors too, as noted approvingly in the FT recently.[69] Across Europe, 30% of investment is sustained by public finance.

Efficiency of public, shared knowledge

Because public utilities do not need to make commercial gains, knowledge exchange becomes a learning opportunity rather than the loss of a commercial secret. Stockholm's municipal utility participated in not-for-profit partnerships for capacity development that modernised Latvian and Lithuanian municipal utilities, raising investment finance to clean up the Baltic Sea.[70] The publicly-owned Dutch water utilities share and disseminate information as a form of benchmarking and devolved, "sunshine" regulation.[71] Their average leakage is 4%.[72]

13 Transition: special admin, legislation

The international experience, including the experience of Scottish Water, shows how public ownership can create a more efficient, responsive, transparent and environmentally responsible system, and end the draining of billions of pounds out of the system by financial institutions. Some commentators and groups, including the Lib Dems, advocate transfers to 'not-for-profit' companies using the example of Welsh Water; but they ignore the fact that any such companies would require 100% government guarantees to raise any funds, and so – like Network Rail – would be rapidly reclassified as public sector companies anyway, as well as the fact that the private companies' shareholders would expect just as much compensation for this as for transfer to public ownership.

There are two mechanisms that can be used to make the transition to public ownership. The first is through the process of Special Administration (SA), which exists to protect the provision of essential services for various sectors, including water, energy, and railways. The government can take a company into SA if it is either insolvent, or failing to carry out its statutory duties, and then restructure it and transfer it to new owners, who can be public sector. The procedure has not previously been used for water, but was used in 2001-2002 by the Blair government to take over the failing network company Railtrack, and transfer it to a new company, Network Rail; and subsequently for rescuing failed banks after the financial crisis. As of March 2024, the government is amending the SA rules for insolvency in water to require an attempt at rescue before transfer – but no such rescue process is required for failure to perform statutory duties. SA could be used on the companies in a series of one-off transfers, on the grounds of failure to deliver their statutory duties – which applies to virtually all the companies.

The other way of taking the companies back into public ownership is by legislation which includes their nationalisation. The Energy Act 2023 is a recent example, which makes various changes to the energy system, including the nationalisation of part of National Grid. Some legislation would be necessary in any case to restructure responsibilities for regulation and environment, lay down the role of local authorities and others, and to remove the companies' right to 25 years notice. This would be more time-consuming than a series of special admin transfers, but that time can be used to prepare local councils and others for a new system.

14 Transition: compensation

The cost of compensation is often cited as the main reason why water companies cannot be taken back into public ownership, claiming that the companies are legally entitled to compensation at market value, and that this could be as high as £90billion. The argument is however based on major legal and economic errors.

It is wrong about English law, which does not have any general requirement for compensation – it has to be specifically provided for every time. Nor is there any requirement that it should be based on market value. The legal position was clearly and correctly expressed by the international credit ratings agency Moodys, with reference to repeated decisions by UK and European appeal courts: 'the level of compensation would fall within the wide discretion of parliament.... the European Court of Human Rights (ECHR) found that "legitimate objectives in the 'public interest', such as those pursued in measures of economic reform or measures designed to achieve greater social justice, may call for less than reimbursement of the full market value."[73]

This has been the practice of both Labour and Conservative governments in recent years.

- Most recently, the 2023 Energy Act of the current Conservative government provides for the nationalisation of part of National Grid, and states that compensation may be agreed by negotiation, or by an arbitrator following criteria laid down by the government. There is no reference to any right to compensation, still less to any formula based on 'market value'.[74]
- in 2011 the government expropriated all privately-owned off-grid sewers in the country, with no compensation, and transferred ownership to the water and sewerage companies.
- in 2008 the Labour government rescued Northern Rock by nationalising it, and paid zero compensation: the UK Court of Appeal, and the European Court of Human Rights, supported the government's right to make any reasonable assessment.
- In 2002 the Labour government used special administration to nationalise Railtrack as National Grid, paying shareholders compensation of just £500m for the entire UK railway network. Again, this was upheld by the courts as perfectly reasonable.

The estimate of £90 or £100 billion as potential compensation has no credibility. It comes from a 2018 paper commissioned by the water companies, and was savagely dismissed by Prof. Dieter Helm – a supporter of privatisation – as 'a very poor and superficial paper' and 'economically illiterate', adding that 'Neither of these numbers should be taken seriously'.[75] In Wales, Glas Cymru can be nationalised without compensation, as it has no shareholders to compensate.

Any estimate can only be a forecast of the expected outcome of negotiations. As shown above, the amount of shareholders' capital in the water companies totals no more than £3.4bn., less than in 1990 – and less than the initial state subsidy of £6.7billion in debt relief. If a future government makes proper use of this evidence, then compensation could well end up close to zero.

Compensation in cases of government expropriation of companies since 2000

Case	Year	Government	Type of transition	Compensation	Comment
Railtrack-Network Rail	2002	Labour (Blair)	SA	£500m	Entire UK rail network
Northern Rock	2008	Labour (Blair)	SA	£0	Bank rescue, court approves zero comp
Private sewers and drains	2011	Conservative (Cameron)	Leg	£0	Transfers 154000km of off-grid sewers from 10m. households to WASCs
Energy Act	2023	Conservative (Sunak)	Leg	Tbc	Classic: may agree compensation, or govt sets criteria for arbitration

15 Conclusion: reforming the system, including regulation and possible public ownership

Policies should be framed in terms of dealing with the consumer, environmental and governance realities of the 9 English regions (and Wales). The bills of each household are the bills issued by a specific company, whether it's Yorkshire Water, or South-East Water. The environmental problems to be dealt with are the sewage pollution in actual rivers e.g. the River Kent in the region covered by United Utilities company; or in the Thames and Windrush Valleys, in the region covered by Thames Water. There are a host of organisations and campaigns, most of them focussed on a region or locality, some with a national network: the unions, campaigners such as Surfers against Sewage, and these are currently the strongest public voices. And as the 2023 local elections showed, local councils and councillors are increasingly expected to engage on water issues.

There is a 100% democratic deficit. Although the key issues are economic and environmental, the solutions require, above all, the democratisation of English water.

Future regional English Water Authorities (EWAs), and Welsh Water, need to consist of representatives of local councils in the regions, plus some stakeholders. But building such structures need not wait for the passage of a future bill by some future government.

'Shadow' democratic EWAs can be created in each region, starting now, by bringing together councils and councillors – of all parties – together with consumer and environmental groups, trade union representatives. This coordination mechanism should strengthen the existing campaigns, as well as demonstrating support and readiness for a future democratic structure.

An important role for such 'shadow' EWAs would be to publicly challenge OFWAT on the big current issue of the 2025-2030 5-year price/investment plan. The process started in October 2023, with the companies submitting their bids for price increases averaging 34%,[76] based on investment 'plans' to justify these increases.

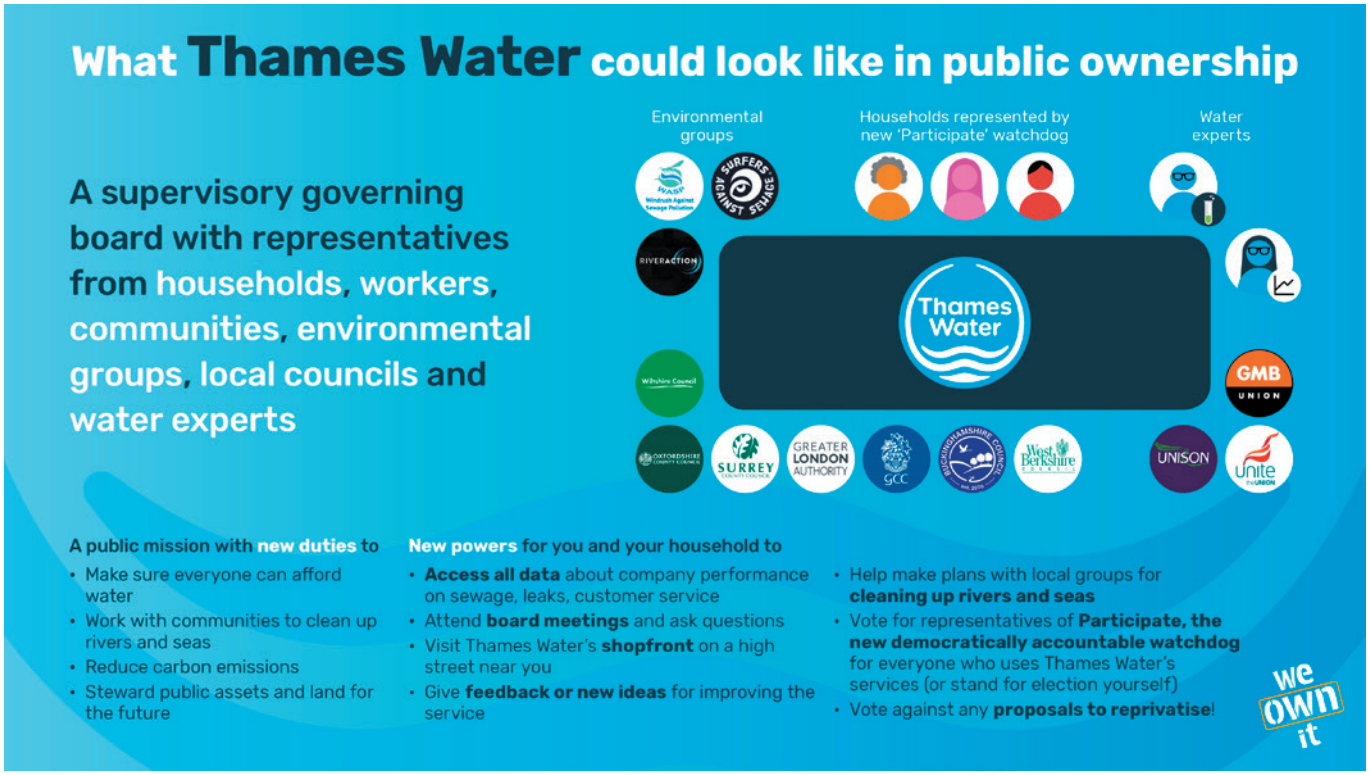
The shadow EWAs could also put pressure on both companies and government for changes in the law, such as the removal of the companies' entitlement to 25 years notice, and the change to a system of cost-plus regulation, which would enable caps on dividend payments.

The next stage would be legislation to create the regional EWAs with new responsibilities, and enabling the transition of each water company by transferring ownership to the EWA. The law should also scrap OFWAT and transfer responsibility for regulating each company to the new EWAs – so that the EWAs would be responsible for setting prices and supervising the water company, as is normal practice across the world where water is in public ownership. This would give the EWAs some resources, in terms of staff – OFWAT employs about 250 people, so about 25 per regional EWA – to support its supervisory role, thus reducing costs of the new democratic system.

There can also be a much smaller national coordinating agency, responsible for coordinating and sharing info and generating public debate ('sunshine regulation' as it's called in the Netherlands). The Environment Agency (EA) can be dealt with in a similar way.

The transfer of ownership could happen by special admin on a case by case basis (which doesn't require bankruptcy – 'breach of duty' will do, and they have all breached multiple duties). Government can then restructure the company and transfer it to the EWA, and in the process negotiate what compensation may be payable. So public ownership could happen as a series of responses to local conditions and public demands. Or it could be done across the sector by government legislation. Owners of the companies will seek compensation, and if government follows the Blair-Sunak-Moodys-Appeal Court rules, this will involve negotiation.

Possible future public ownership structure: Thames water as an example



UNISON's Response

A decade since the publication of UNISON's report: **'A case to answer'**, some of the key issues around the performance of water companies – including the business model of operation, water prices, environmental pollution, ageing infrastructure, and the reluctance of water companies to reinvest profits for service developments – still persist.

This new report could not have come at a better time. There is increased media and public interest in the Water Industry due to concerns about the level of environmental pollution from sewage discharges in our water bodies, which endangers lives and the species they sustain. This means that swimmers can no longer swim in our rivers and seas. In February 2024, there was an article in Southern Daily Echo that Southern Water was fined £330,000 due to pollution that killed 2000 fish[ii] – the incident happened because of the failure to respond to an alarm that was set-off by faulty equipment.

We are the only country in the European region that sold all our water assets outright. Before privatisation, all the water companies were debt free. Now the water companies have accumulated debts of £64.4billion, according to Ofwat, the industry regulator. Thames Water alone has debts of £14.7billion. The debts have not deterred companies from paying dividends to shareholders. In 2022-2023 alone a total of £1.446billion was paid out in dividends. This is an equivalent of over £53 per customer for every household on the revenue made through bill payment.

Water is a basic human need, which sustains lives. Sadly, private water companies have turned the provision of water into a lucrative business. They have prioritised profit over people and the environment. Rather than reinvesting the profits made from revenue back into running water systems, fixing and replacing pipes, building new reservoirs and on maintenance, they are recklessly using profits in dividend payments to shareholders. For instance, more than a quarter of water bills in London and parts of the south of England have been spent on paying interest on debt held by water companies, according to the Guardian.

In England and Wales – the only countries in the world with a fully privatised water industry – each country is granted a licence to operate by Ofwat, and holds a regional monopoly making them responsible for providing water for a particular geographical area. Competition is so limited within this model that consumers are unable to switch providers, unlike the other main utility privatisations, particularly electricity and gas.

ii https://www.dailyecho.co.uk/news/24148202.southern-water-fined-pollution-killed-2-000-fish/

Ofwat is not the only regulatory body, the environment agency also has a regulatory responsibility. The Environment Agency has a critical role in issuing permits for water discharge activities and groundwater activities referred to as water quality permits to manage the risk of certain activities. UNISON represents over 3000 workers in the Agency, more than any other union, and values the work that our members do in the Environment Agency. At the time of this report, there is a transformation programme by the Business which is funded from new money by Defra. As part of the Agency's review, they are planning for water company regulation and the recruitment of new inspectors. In our engagement with the Agency, the reform would mean more detailed inspections of water companies to identify issues and put improvement actions in place. We are pleased that the Agency have identified the need for a different approach and welcome the extra funding, but whether this measure will go far enough is yet to be proven.

UNISON, alongside other trade unions, regularly engages with the regulator Ofwat and Shadow Ministers on water issues. The main aim of this engagement is to explore a different approach from the current water system which is broken and needs fixing.

Given the scale of the water crisis, it is not surprising that a YouGov poll in June 2023, revealed that 69% of the public want water companies back in public ownership. But what is unacceptable is that in spite of the Water Industry's continual failure to service society's needs – and the human cost of this – neither Labour nor the Conservatives are calling for renationalisation.

To ensure the industry is sustainable and equipped to deal with future challenges, our report examines what has gone wrong and outlines options on how it can be fixed. It highlights the importance and benefits of public ownership – comparing UK's privatised Water Industry with other international public utilities – and makes a strong case for the renationalisation of the industry.

Key Recommendations

The Government should take action to:

- Suspend OFWAT's decision-making process into price rises for 2025-2030 until a comprehensive review has been carried out by the government following the election due at the end of 2024.
- Carry out a thorough national inquiry into the state of the Water Industry. The inquiry should review all the key issues identified in this report, including poor financial and operational performance, the lack of maintenance and underinvestment in water services, and water pollution; and come forward with a range of options to address them.
- Renationalise water services, by creating regional public water companies to be owned and run through partnerships of local authorities with representatives from local communities. This should also include taking away the functions of the Ofwat as economic regulator and replacing it with a government agency with accountability to parliament. The Energy Act 2023 is an example, which makes various changes to the energy system, including the nationalisation of part of National Grid.
- Strengthen regulatory bodies or a new government agency with more powers, to impose larger fines and stronger powers to take legal action against company bosses to hold them accountable.
- Ensure that the Water Industry prioritises planned regular maintenance and investment programmes to renew and replace ageing pipes and water systems to address issues such as leakages and other disrepair issues.

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Endnotes

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About PSIRU

Established in 2000 by agreement between Public Services International and the University of Greenwich, the Public Services International Research Unit (PSIRU) is based in the Greenwich Business School, University of Greenwich. PSIRU investigates the impact of privatisation and liberalisation on public services, with a specific focus on the water, energy, waste management, health and social care sectors. Other research topics include the function and structure of public services, the strategies of multinational companies and influence of international finance institutions on public services, narratives on public services spending and provision, not-for-profit partnerships for capacity development, and public sector alternatives to privatisation and Public-Private Partnerships.

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Published by UNISON, UNISON Centre, 130 Euston Road, London NW1 2AY • www.unison.org.uk

CU/June 2024/385/4599