

# Working for water

A briefing on the record and future plans of water companies

## Highlights

- The water sector in England and Wales moved into private ownership in 1989, with the water companies in Scotland and Northern Ireland remaining in public ownership.
- Since privatisation, water companies in England and Wales have spent around **£150 billion** on improvements to the industry, and they continue to spend around **£8 billion** a year to keep on improving.
- Compared to 30 years ago customers are **5 times less likely** to suffer from supply interruptions, **8 times less likely** to suffer from sewer flooding and **100 times less likely** to have low water pressure.
- The water industry is committed to the very highest environmental standards. Its work has seen wildlife return to rivers that had been biologically dead since the Industrial Revolution.
- The average domestic water bill is now around £1 a day. After inflation, bills have stayed pretty much the same since 1994, and they are set to fall in real terms over the next few years.
- Water companies are subject to rigorous scrutiny by customers, independent regulators and the Government.

## What the water industry does

In England, privately-owned water and sewerage companies (WASCs) and water-only companies (WOCs) collect, treat and distribute billions of litres of world-class quality water to people and businesses daily, and then dispose of a similar amount of wastewater safely and responsibly.

Providing this most essential of public services, while also improving the precious environment on which we rely on for our water and dealing with the pressures posed by climate change and population growth, calls for expert management of a wide range of short- and long-term risks, working with partners in the supply chain and many stakeholders, locally and nationally.

This is made possible by the dedication of the **58,000** people<sup>1</sup> working across the wider water sector, and who help to operate **420,000km** of distribution pipes, **565,000km** of sewers and thousands of water and sewerage treatment plants.<sup>2</sup>

Water companies play other vital roles in local communities, contributing to daily life in ways that go far beyond water services. They support economic growth, help prevent floods, create renewable energy, create apprenticeship places and provide education programmes to help schoolchildren understand the importance of water to our health, wellbeing and economy.

## About Water UK

Water UK represents and works with the major water and wastewater service providers from both the private and public sectors in England, Scotland, Wales and Northern Ireland. Our vision is of a water sector that provides

customers and communities with world-class services and enhances the UK's quality of life.

**This briefing is aimed mainly at stakeholders interested in the water sector in England.**



## Structure of the water industry in England

In the 1970s and 1980s, regional water and sewerage authorities were owned and run by the Government. Despite allowing the authorities scope to access private capital markets, they failed to deliver the investment needed to maintain infrastructure, deliver good services and protect the environment.<sup>3</sup>

In 1989, the regional water and sewerage authorities in England and Wales were privatised and, together with the privately-owned WOCs, were made subject to independent regulation. Investment increased in the years immediately afterwards to nearly double pre-privatisation levels and has been sustained at high levels since then.

### The sector has evolved significantly since then, but in essence:

- WASCs and WOCs raise money to invest in better services through borrowing [debt] and shareholders/investors [equity]. Debt is repaid through interest payments and shareholders earn a return on their investment through dividend payments [which are not guaranteed and can vary from year to year]. This enables customers to benefit from investment now, while the cost of that investment is spread over time
- By legitimately claiming capital allowances against corporation tax, water companies are

encouraged to invest in improvements while keeping bills lower than they otherwise would be. They still make a significant contribution to the Exchequer, primarily by incurring taxes directly in the form of business rates, employers' National Insurance Contributions and environmental taxes/charges such as the Carbon Reduction Commitment, abstraction licences, discharge consents, as well as paying any corporation tax that is due

- The sector has seen an increase in competition over the years with the opening up of the non-household market for water, and new companies now able to compete to supply housing developments. Competition will increase further in the near future with changes to the markets for sewage sludge and water resources
- Companies are regulated by three independent organisations [Ofwat<sup>4</sup>, the Environment Agency<sup>5</sup>, and the Drinking Water Inspectorate<sup>6</sup>] – covering issues including customer bills, environmental standards and drinking water quality – within a policy framework set by the Government
- Customer Challenge Groups<sup>7</sup> scrutinise companies' plans and what they deliver, while the Consumer Council for Water [CCWater]<sup>8</sup> also acts on water customers' behalf.

It has been suggested recently that water companies in England should be taken into

state ownership. This raises big questions about how this customers, the economy and the environment would be affected.

Two think tanks – the Centre for Policy Studies [CPS] and the Social Market Foundation [SMF] – found that nationalising the water industry would cost a government **£86.25 billion – £90 billion** upfront.<sup>9,10</sup> The SMF added that funding the purchase of water industry with borrowed money could add 5% to the national debt.

The SMF also noted that a government would also need to meet the long-term investment requirements in the water sector, which they estimated to stand at over **£100 billion** over the next 25 years in 2016/17 prices. However, given the continuing pressure for more funding for areas such as healthcare, education and transport, there would be a risk that a state-owned and run water industry in England would not be a priority for government spending. These risks need to be considered carefully against positive work which the sector has achieved to date – and how it is already addressing the challenges which lie ahead.

## What has been achieved since 1989

Since privatisation nearly thirty years ago, water companies have delivered many improvements and continue to strive to do better.

### Greater investment

- Water companies in England and Wales have spent around **£150 billion**<sup>11</sup> improving pipes, pumping stations, sewers and treatment centres, and the industry continues to spend around **£8 billion**<sup>12</sup> a year to keep on improving.

### Increased productivity

- The water industry's productivity has increased by **64%** since 1994<sup>13</sup> – better than the economy as a whole and broadly matching comparator sectors.

### Better services

- Customers are now **5 times less likely** to suffer from supply interruptions, **8 times less likely** to suffer from sewer flooding, and **100 times less likely** to have low water pressure.<sup>14</sup>

- Water companies have reduced leakage by a **third** since the 1990s, and it continues to be a top priority.<sup>15</sup> Current plans by companies in England and Wales over the five years to 2015–2020 will save the equivalent of all the water used every day by all the homes in Birmingham, Manchester and Leeds.
- Water quality has improved dramatically – companies now deliver drinking water that passes **99.9%** of quality assurance tests.<sup>16</sup> In the early 1990s, 1.5% to 2% of samples across the UK failed the tests.<sup>17</sup>

### Strong customer satisfaction and high levels of trust

- Customer satisfaction levels for water and sewerage services are around **90%**.<sup>18</sup>
- Recent research shows that **86%** of customers trust their water company overall, with **89%** trusting their water company to provide good quality water and **87%** trusting them to provide a reliable service.<sup>19</sup>

### Action on bills

- Water bills are currently just over £1 a day on average. They rose in the years immediately post-privatisation, reflecting the significant increase in investment then, but are now pretty much the same as 20 years ago when inflation is taken into account – and £120 less a year than they would have been without the combination of privatisation and tough independent regulation.<sup>20</sup>
- Bills are going down by **5%** in real terms between 2015 and 2020.<sup>21</sup> The average rise in bills in 2018 announced in February was 2%<sup>22</sup> – approximately **half** the 3.9% inflation rate at the time.
- The industry helped 260,540 customers to pay their bills in 2017 through social tariffs – up by **93%** from the previous year.<sup>23</sup> Water companies have committed to deliver financial support to a further 1 million people between 2015 and 2020, and are on track to meet that target.<sup>24</sup>

### Environmental improvements

- By 2020, water companies will have invested around **£25 billion** in environmental work since 1995. This action will mean around 10,000 miles

of UK rivers have been improved and protected since then.<sup>25</sup>

- The water industry has invested well over **£2.5 billion** since the 1990s to protect UK bathing waters.<sup>26</sup> As a result, **two thirds** of UK beaches are now classed as excellent, compared with less than a third 25 years ago.<sup>27</sup>
- There has been a big drop in the number of serious pollution incidents caused by water companies, down to 57 last year from more than 130 in 2005. Also, overall compliance levels for discharge at wastewater treatment works was **99.0%** in 2016 according to the Environment Agency.<sup>28</sup>

## Looking ahead to the future

Alongside their focus on delivering or exceeding commitments in their existing business plans, companies have prepared their next five-yearly business plans for 2020–2025 within a longer term view of the main challenges facing the sector. Once agreed with regulators, this will see companies commit to further improvements in a number of key areas.

For example, in terms of further improvements to services and the environment at affordable cost to customers:

- Water companies are putting forward proposals in response to Ofwat's ambitious challenge for them to reduce leakage (an important priority for many customers) by 15% by 2025 has set an ambitious challenge for water companies to reduce leakage (an important priority for many customers) by 15% by 2025. While companies begin from different starting points, all are looking to meet this challenge and in some cases to commit to a tougher target.
- Water companies are currently confirming details of an environmental improvement programme of up to **£5 billion** between 2020–2025 with the Environment Agency.<sup>29</sup> Among other things, this aims to protect and improve at least 6,000km of our waters, 24 bathing waters and 10 shellfish sites; and to enhance nearly 900km of rivers and 4,276 hectares through wider biodiversity improvement.
- Water companies are also supporting action to address wider Government and public priorities for the environment, such as tackling plastics pollution. Companies are working to create a network of tens of thousands of refill points by 2021, where people can top up their reusable water bottles for free: the aim is to cut the use of plastic bottles by tens of millions each year. The industry is also investing in research to understand better the issues related to the presence



of microplastics in water, and what might be done to address that.

- Following ground-breaking research funded by water companies into the risks to water resources posed by climate change and population growth, now and over the next 50 years, the National Infrastructure Commission has recently voiced concern over the resilience of water supplies, calling for ambitious measures to manage the demand for water and significant investment in water supply infrastructure. Companies are working with regulators, Government and stakeholders on what these findings mean for how water resource planning and management can be improved.
- Companies are developing the tools needed to improve delivery of wastewater services. A framework for Drainage and Wastewater Management Plans will be published in September 2018, providing a consistent, more transparent way of planning and to encourage co-operation to make drainage better. A framework for the adoption of Sustainable Drainage Systems by WASCs has also been produced and will take effect in mid-2019.
- For the 2020–2025 business plans, Ofwat are expected to set the lowest-ever cost of capital for regulated companies, creating potential financial headroom for companies to consider options regarding future levels of investment and/or future levels of bills. The precise outcome will reflect each company's circumstances and depends on the final package of commitments, supporting investment and efficiency improvements agreed between companies and Ofwat.
- Companies have also recently been challenged by Ofwat, Government and others over arrangements regarding corporate financing and governance, and what that means for the legitimacy of the sector. While the issues impact a diverse set of companies differently, all are determined to demonstrate their long-standing

commitment to work in the public interest. For example:

- There has been widespread support from companies for the direction of travel of Ofwat's reform agenda to promote greater balance between the interests of customers and investors relating to issues such as gearing levels, dividends, transparency and executive pay, followed by active engagement from companies and investors on the detailed proposals.
- A number of individual companies have already taken steps and made commitments to tackle some of the key issues, where relevant. Several of the companies which in the past legitimately set up Cayman Island entities to raise funds for investment (but not to gain any tax advantage) have recently acted to end the use of such entities by the end of this year. Not all of the companies are highly geared, but a number of those which are have already committed to change that.

**Water companies in England, working within a rigorous and independent regulatory regime and a policy framework set by Government, continue to deliver improvements which build on the progress achieved since privatisation nearly thirty years ago. Companies continue to take very seriously their responsibility to deliver services and to operate in ways consistent with the public interest. Just as the sector has evolved to date, so companies are committed to work with Government and regulators to promote further evolution where needed to meet the challenges they face in delivering high-quality services safely, affordably and to high environmental standards.**

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## Notes and references

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