

# Will Scottish Water stay public?

As neoliberal doctrine has been adopted at the highest levels of government policy, the UK is one of many states that have sold much of their public infrastructure to the private sector. Whether owing to ideological commitment or cruder expressions of self-interest, national assets ranging from the electricity infrastructure to, of course, the railways, have, over the last 30 years, been sold at a considerable discount into private hands (i). While Scotland has so far been relatively unscathed by water privatisation – although the situation is far from unproblematic – the English and Welsh experience has been typically poor, with falling standards and prices which continue to rise.

## How public is Scottish Water?

In recent years, both Labour and SNP governments have been quietly pushing an agenda of water privatisation, or, at the very least, making the 'market' more 'competitive'. In the late 1990s Scottish Water was party to a PFI (private-finance initiative) project to build and operate 21 Waste Water Treatment Works. As won't surprise any seasoned PFI watcher, these have struggled to meet quality requirements and pass on the majority of their costs to the Scottish government. Moreover, many of Scottish Water's operations have been outsourced to Scottish Water Solutions, a private entity.

In 2008 the SNP created a private market in water 'services' - as in billing, metering and customer services, etc - which is subject to competition between Business Stream (Scottish Water's private arm) and its competition. This competition was until recently confined to three smaller companies based in England but, in the last six months, companies including Severn Trent, Veolia, Thames Water and United Utilities have applied for licenses, suggesting that more change is to come. Moreover, 2012 will see the SNP change the Law to allow Ministers to give out licenses and stipulate the amount that can be extracted. In Mel Kelly's words:

"This new SNP Water Resources (Scotland) Bill 2012 bill is designed to not only ensure Scottish Water and the Scottish people getting absolutely no revenues from non-domestic customers for the water Scottish Water provides – with all non-domestic Scottish revenues going to English companies instead – but to ensure it ties in with the SNP Hydro Nation plan to 'commercialise' Scotland's water to be sold to other countries via English private water companies ..." (ii)

This coincides with a marked shift in the governing agencies and regulatory bodies in favour of further commercialisation. As Tommy Kane and Kyle Mithcell have described in the *Scottish Left Review* (iii), influential bodies such as the Water Commission for Scotland, the Scottish Future's Trust and the Independent Budget Review have recommended Scottish Water be replaced by a Company Limited by Guarantee. This move would not only give discretion to a private entity as to the future of the Scotland's water supply, but would effectively give control of the water to supply to what Kane and Mithcell write would: "...be free of public control and involvement, be fully funded by private markets and user charges, and have directors' pay increase beyond what are already exorbitant levels."

In keeping with the practice of state asset privatisation, the private sector would also be getting a knockdown bargain on their purchase. Despite the apparent rationale being cost-cutting and improved efficiency, the asset base of £36-42 billion may well be sold for under £3.5 billion if the Scottish Futures Trust's costings are accepted. Indeed, all this makes Alex Salmond's claim that "privatisation was an ideological red-herring" seem a little tenuous.

## Why public is better

To understand the importance of retaining public

ownership of water, it's worth considering the fate of the English and Welsh water supply system, which has deteriorated since it was privatised in 1989. It's also important to understand that water privatisation is a global phenomenon, even being responsible for the overthrow of governments as in Bolivia in 2002 when water prices became prohibitively high and the private company in question began charging people for the water run-off from their makeshift homes (iv).

The first observation is the obvious one: despite the governing argument being that increasing competition in the provision of services will improve efficiency and benefit the customer, water prices have continued to rise in England, and to a lesser extent Wales, since 1989. The providers were given virtual monopolies in their regions for the subsequent 25 years. In keeping with the proposed valuations mentioned above, the assets were sold with a 22 per cent discount, in addition to a £5 billion debt write off for the assets and a 'green dowry' of £1.6 billion. Unsurprisingly, large profits followed (v).

As it stands, the pricing model is regulated in such a way as to guarantee considerable profits for the owners. Research by Jim Cuthbert for the Reid Foundation has shown that OFWAT, the government body that calculates funds for new water infrastructure and thus calculates the appropriate charges to customers, does so in a manner that overestimates the cost of infrastructure considerably. The results are a windfall profit for the companies, which is pocketed while the inflated costs paid for infrastructure are passed on to the general public in the form of spiralling charges. As Cuthbert writes:

"The road to profit for a utility is to undertake capital expenditure reimbursed through the current cost pricing mechanism. In other words, there is an incentive for the utility to seek out projects for which it can get regulatory approval – and then to get the most expensive and capital intensive versions of these projects past the regulator's scrutiny." (vi)

According to OFWAT's own figures, as reported in the Daily Telegraph, the water bill has increased higher than inflation in the last ten years, despite a total of 22 companies providing services. This

is in keeping with the prices rises that followed privatisation, calculated by Emanuele Lobina at the University of Greenwich to have been an increase of 46 per cent, adjusted for inflation, in the first nine years (vii). This year alone, prices in England are set to rise by as much as 8.2 per cent above the rate of inflation, as compared to the price freeze that has been in effect in Scotland since 2008.

Naturally, the real rewards are the preserve of the international financial institutes which own the private utility providers. As Neil Clark, of the Campaign for Public Ownership, notes, the leader of the consortium running Southern Water Capital Ltd, a major English supplier, is US bank JP Morgan Chase, who profits are in the billions (viii). This dimension makes the possibility that Scotland will change its arrangements to allow other entities than the Scottish Government to lend money to Scottish Water, as this will potentially allow large financial institutions to enter the picture.

These are far from the only concerns of the model found in England and Wales. International comparisons of their profits and efficiency, provided by Lobina, find both high profits and low efficiency, alongside excessive remuneration for directors among the industry's key features, along with a tradition of poor quality, bad service and poor infrastructure maintenance.

As privatisation emerges on the Scottish political agenda, we should make sure we do not lose the debate or, indeed, allow privatisation to happen under our collective noses.

#### References

- (i) For the discerning reader, I cannot recommend a better short introduction to the politics and ideology of 'neoliberalism' than David Harvey's "A Brief History of Neoliberalism" published by Oxford University Press
- (ii) Mel Kelly SNP Water Shocker – English Companies Flooding into Scotland to Profit From Our Water
- (iii) See Kane and Mitchell, A Steady Flow of Venality, SLR Issue 72, linked above.
- (iv) There are numerous accounts of this struggle in the literature, but probably the standard text on water conflicts and privatisation is Vandana Shiva's Water Wars: Privatisation, Pollution and Profit (2002) South End Books
- (v) Jim Cuthbert Excessive Profits and Overcharging: Multiple Errors in the UK's model for setting utility prices (2012) Jimmy Reid Foundation, linked above.
- (vi) Ibid. n. v
- (vii) Neil Clark Renationalise English water (Tuesday 31st January 2012) The Guardian: <http://www.guardian.co.uk/commentisfree/2012/jan/31/renationalise-english-water>