

Fin-ancialisation

England's water is highly financialised and what does it mean?

A brief history of ownership of water companies

From the late nineteenth century onwards, water services were similar to most European countries. Water services were run by **authorities**, with some individual authorities running water supply operators, and a surviving handful of private water-supply companies regulated by a simple cap on their profits at a maximum of 4%.

In 1974 the service was reorganised. 10 unitary **regional water authorities** were created, each covering a river basin area, each responsible for water supply and sewage treatment. These authorities were appointed by the government so were not accountable to local government any more. The number of employees fell from 80,000 to 50,000 between 1974 and 1984.



The **Thatcher government** originally proposed water privatisation in England and Wales in 1984, but due to strong public opposition the proposals were abandoned before the issue could influence the 1987 election. Once this was won, the privatisation plan was resurrected and implemented rapidly.

Under the **Water Act 1988**, the newly formed water companies became owners of the entire water system and all assets of the RWAs in England and Wales. The RWAs were sold by issuing shares on the stock market. In Scotland and Northern Ireland however water remains controlled and operated by public authorities.

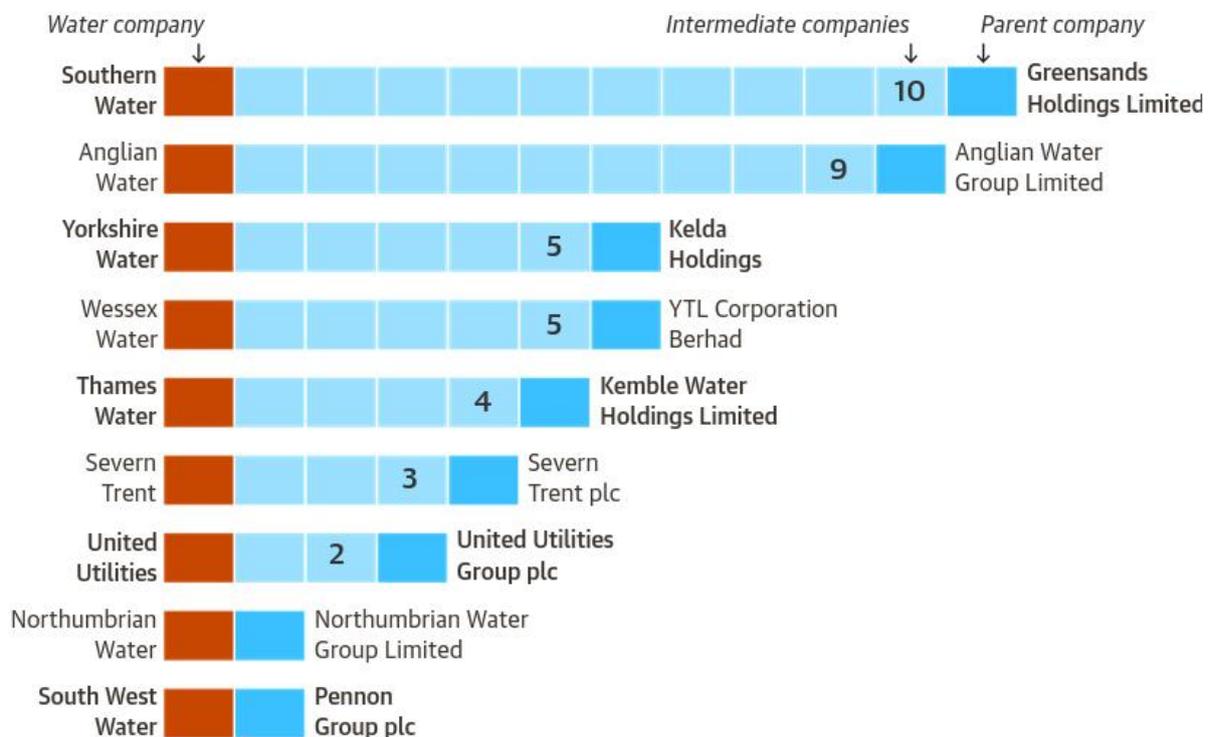
Privatisation did not create any competition. The companies were given monopolies in their regions for 25 years, without having to compete even once for the business. The government was desperate to mark the sale of common assets to private owners a success. It **wrote off all the debts** of the water companies before privatisation, worth over £5 billion pounds and gave the companies an **additional 'green dowry'** of £1.6 billion from the public purse.

The initial water pricing regime, set by the government, resulted in pre-tax profits of the ten water companies to rise by 147% between 1990/91 to 1997/98 with sewerage and water prices rising respectively by 42% and 36%. The companies were also given special exemption from paying profits taxes.

OFWAT, the financial regulator for private water companies is statutorily responsible for ensuring that the companies were profitable, a task which it performed very well, and for encouraging efficiency. As there is no competition, OFWAT compares the companies performance with each other.

The water companies were protected from takeover for 5 years by the government's 'golden share'. Once the 5 year period was up, many were bought off the stock market by giant multinationals, restructured, stripped and mortgaged and then resold for huge profit, a process commonly known as '**financialisation**'. A process in which making profits from financial constructs, becomes more profitable than trading real products and services.

The increasing **financial engineering** for shareholder profits leads to more and more complex ownership structures. Here is a Guardian graphic showing the structures for English water companies:



Guardian graphic. Source: company financial reports

The result of financialisation is best demonstrated by looking at a specific example: Thames Water Ltd - Europe's largest Water and Sewerage company.

Thames Water

- **1974** - The Thames Water Authority was formed as the largest regional water authority in the UK.
- **1989** - Thatcher's privatisation handed all water system and assets of the region to Thames Water Ltd, **free of debt** and a 'green dowry' gift of more than £100 million.
- **2001** - RWE, a German energy giant bought Thames Water off the stock market and burdens the company with a **£3.4 billion** 'mortgage' debt

- **2006** - Macquarie Group, an Australian global financial services group buys Thames Water for **£8 billion**
 - In the next eleven years Macquarie Group adds another **£7.1 billion** 'mortgage' debt to the company while paying themselves **£2.8 billion** in dividends. Over this time Macquarie sells off Thames Water in chunks to the highest bidder
 - **2017** - Macquarie successfully sold all Thames Water shares at healthy profit for themselves. Two thirds of Thames water is now owned by pension funds in different parts of the world.
 - Over the last 35 years in private ownership Thames Water has paid out **over £7 billion** in dividends to shareholders and accumulated a debt of **over £15 billion**. Every month Thames Water customers pay approx. 20% of their water bill just to pay the interest on this debt.
 - **2024** - Thames Water is now in **existential crisis** and may soon collapse under its burden of debt
 - The company has asked to be allowed to rise bills by 50% and begged OFWAT to be lenient with future fines for illegal behaviour
 - Thames water demonstrates how **privatisation turned water, the essence of life, into cash machines for globally capitalised cooperations**
 - Thames Water's ruin is but one example of the terrible consequences of the financialisation of water while underinvesting in real and badly needed infrastructure.
 - The resulting broken sewage systems are intolerable for all life in our land and coastal waters.
 - We must correct this mess now. Different models and ways of funding are available. It's time for the people to have their say.
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Sources and further reading:

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To [search for a financial term or acronym](#) with explanation from Investopedia
