

CLEAR WATER

LABOUR'S VISION FOR A
MODERN AND TRANSPARENT
PUBLICLY-OWNED WATER SYSTEM

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Our utilities have been sold off and run for private profit, not public good, meaning we're paying rip-off prices for worse services.

Water bills increased 40% in the 25 years after privatisation. Over the last ten years, the English water companies have paid out more than £18 billion in dividends to shareholders. This is money that could have been invested instead, or used to reduce bills by around £100 a year per household, the equivalent of a 25% reduction.

At the last election, Labour promised to turn off the tap that siphons billions of pounds into shareholders' pockets.

This document sets out how we will do so – by creating a network of regional publicly-owned water companies run by local councils, workers and customers, and operating with unprecedented levels of openness and transparency.

In public hands, democratically run, the new public water companies will be able to systematically reinvest any surplus in water infrastructure and staff, or use it to reduce bills – instead of using bill-payers' money to pay out dividends, executive salaries, or excessive interest payments.

In doing so, we will stop trillions of litres being lost through leakages, operate with the highest environmental standards, and ensure that everyone has ready access to clean water – without being ripped off.

Our water industry is broken, and the Government has failed to fix it:

- After privatisation water bills rose by 40 per cent by 2014 according to figures from the National Audit Office.ⁱ
- Over the last ten years, the English water companies have paid out more than £18 billion in dividends to shareholders. Since 2010 the £14.5 billion they have paid out equates to almost all of the £16 billion that these companies made in pre-tax profits.
- Three water companies have, in the eight years from 2010, paid more out in dividends than they made in pre-tax profits over that period.
- The nine regional water companies in England have between them received almost £164 million more in tax credits than they paid in tax despite pre-tax profits of over £16 billion.
- In 2018 the average level of remuneration of the CEOs of the nine regional water companies in England was over £1 million a year.
- Privatisation has not meant more investment. Investment in water supply infrastructure was lower in 2018 than in 1990.ⁱⁱ This is despite more than 20 per cent of all water currently being lost through leakages from water pipes.ⁱⁱⁱ
- The total amount lost through leakage since 2010 is over 7.5 trillion litres. This is equivalent to the total volume of Loch Ness.
- An Environment Agency report published in April 2018 stated that enough water to meet the needs of 20 million people is lost through leakage every day.^{iv}
- As of 2018 the nine regional water companies have combined net debts of £46.5 billion.
- Since 2015 the nine regional water companies have sold off assets totalling over £1.1 billion.

Our Model

On bringing water back into public ownership:

- Labour will maintain the regional structure of the water industry, with ownership of the existing water and sewerage companies transferred to new Regional Water Authorities (RWAs).
- The existing companies will be acquired through a new act of parliament that: nationalises the companies; creates the RWAs and set out their structure and responsibilities; transfers the ownership of the companies to the new RWAs and protects them from future privatisation in statute.
- We will create a new national agency, responsible to ministers, for ensuring adherence to economic and performance standards and for necessary capacity-building.
- The new RWAs will be composed of the local authorities in the regions covered by the companies, with a clear separation between their oversight and strategic policy roles. Strategic decisions will be the responsibility of the boards of the RWAs and day-to-day operational management of the RWA will be in the hands of professionals, both management and workforce.
- Our plans propose that the RWA boards will be made up of councillors from local councils in the region, plus 3 trade union representatives, and 3 representatives of community, consumer and environmental bodies. Worker representatives will come from the (three) major unions in the industry,^v and a board member each will be nominated by Citizens Advice, the Environment Agency, and the proposed public participatory Observatory. Similar models are used in the cities of Paris, Stockholm, Cordoba, and the Dutch regional authorities.
- We are simultaneously launching a wide-ranging consultation within the Labour Party, and among trade unions, campaign groups and industry experts – *Labour Party Consultation Paper: Democratic Public Ownership* – to help us design governance structures that will maximise participation and accountability. The final governance structures for the publicly owned water system may be revised in light of this consultation.
- To ensure maximum openness, transparency and scrutiny, RWA boards will have a statutory duty to make information widely available and hold monthly public meetings in different locations each month. Meetings will also be broadcast live on the internet and all papers will be made public. This follows the model of the utility of Milan, CAP, which is owned by 196 different municipalities, and uses an internet system to make publicly available online all information about the water and sewerage network. This includes real time information about the reason for and progress of all current building sites and projects of the company, including the names and owners of all sub-contractors involved.^{vi}
- Following the model of the publicly-owned water system in Paris, further public participation will be enabled by the creation of Water Observatories: participatory democratic groups that provide a place for sharing information and debate regarding

water issues. Made up of citizens and their representatives, including public and private housing management agencies, trade unions, tenants associations, environmental groups, and consumer associations, they provide a link between citizens and council representatives on RWA boards. To ensure maximum accountability and participation, Labour will help set up water observatories, give them rights to be consulted by RWA boards before decisions are made, and the right to choose a representative as a member of the board.

- Regulatory responsibility, which currently resides in Ofwat, will be absorbed into Defra, which will form a new public regulatory system in the form of a National Water Agency responsible for economic and performance standards and capacity-building. The RWAs will also form an association with regular public comparison of performance: so-called 'sunshine regulation'.
- The framework for the operation of the public water companies will be shaped by the following principles:
 - Operation will favour financial equilibrium and not profit
 - Any surplus will be systematically reinvested in water infrastructure and staff, or used to reduce bills
 - Investment and operational decisions will be guided by a long-term perspective with key functions brought back in-house wherever possible
 - Pricing will be fully transparent and reflect only the cost of providing water - not dividends, executive salaries, or excessive interest payments
 - Purchasing and works will be carried out through entirely transparent processes, with bidding procedures that guarantee ethics and best value for money, widely defined.

Compensating Shareholders

- Existing shareholders will be compensated with bonds. This is cost neutral to the public purse, according to Office for National Statistics and international accounting standards, because the public sector exchanges a liability (the bond) for a profitable asset (the water companies).
- The UK legal framework is clear that the level of compensation should be decided by Parliament. This was confirmed by the European Court of Human Rights in relation to the nationalisation of Northern Rock.^{vii}
- Parliament may seek to make deductions for compensation on the basis of: pension fund deficits; asset stripping since privatisation; and state subsidies given to the privatised water companies since privatisation.
- Existing debts of the companies will be carried over with the companies under public ownership and honoured in full. They will be refinanced over a period of time so that the costs of debt are reduced.
- The new public companies' financial management will be modelled on Transport for London (TfL). They will continue to be almost completely self-financing from user charges and debt, raised subject to an authorised limit based on recurring annual income and cash available to pay financing costs, with occasional government grants for specific projects in the public interest.^{viii}
- In March 2017, TfL had ratings of AA from Standard & Poors, and Aa3 from Moodys – much higher than any of the private water companies, and close to the rating of the UK government itself. We expect public water companies to get similarly high credit ratings because both Moodys and Standard & Poors have a standard methodology for rating 'government-related entities.' This takes account of the profile of the business itself, including, for example, de facto monopoly position, and the presence of explicit or implicit government support.

Protecting Workers

- All staff will transfer on a TUPE basis in the same roles, except for senior executives and directors, whose posts will be re-advertised on dramatically reduced salaries capped by our 20:1 pay ratio policy.
- Labour have also made the following pledges to workers:
 - No worker will be worse off
 - Pensions will be safeguarded or improved, to provide dignity and security in retirement
 - Greater investment in the industry's infrastructure and equipment
 - Increased staffing levels and insourcing of contracted workers
 - Improved health and safety, with worker involvement in establishing new safety standards
 - Collective bargaining and trade union involvement in decisions affecting workers, both before and during public ownership
- Shareholdings of employees will be dealt with under TUPE transfer, ensuring that no worker will lose out
- *Labour Party Consultation Paper: Democratic Public Ownership* will explore how to further expand the role of workers in the day-to-day operation of publicly-owned water companies.

ⁱ <https://www.nao.org.uk/wp-content/uploads/2014/07/The-economic-regulation-of-the-water-sector.pdf>

ⁱⁱ <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2018-05-08/141681/>

ⁱⁱⁱ <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2018-03-06/131199/>

^{iv} <http://www.bbc.co.uk/news/science-environment-44215418>

^v GMB, Unite and UNISON

^{vi} <https://www.gruppocap.it/attivita/servizio-idrico-integrato/qualita-dell-acqua/acqua-del-tuo-comune>

^{vii} <https://hudoc.echr.coe.int/eng#%7B%22itemid%22%3A%22001-112312%22%7D>

^{viii} <https://tfl.gov.uk/info-for/investors/funding-sources>

