

Should England nationalise water services?



Labour's 2017 manifesto proposed bringing water services back into public ownership. But is that feasible? Would it provide a better service, at a better price, for consumers in England? To answer these questions, [Sarah Hendry](#) discusses how the delivery of water services is organised across the UK's different jurisdictions.

Water services – water supply and wastewater – are essential for human health and the environment. They are also expensive, requiring high levels of investment to provide the infrastructure – treatment plant and pipes – to deliver the service to homes and businesses. [Water-UK](#) estimates that in England and Wales, the water industry has invested £150bn since privatisation in 1989. Much of that has been required by the EU, which sets mandatory standards for drinking water, and for wastewater treatment.

The delivery of water services is organised differently in the UK's different jurisdictions. In England, water services were 'privatised', by selling the assets to private companies, in 1989. In Wales this also happened, but subsequently, the provider for most of Wales was changed into a 'mutual' – a non-profit company limited by guarantee – [Glas Cymru](#), which runs Welsh Water (Dwr Cymru). In Scotland, water services were not sold off, but remained in the public sector and since 2003 have been delivered by a public corporation, [Scottish Water](#). In Northern Ireland, the service is delivered by a Government Owned Corporation, [Northern Ireland Water](#).

So what ownership model delivers the best service and the best value for money for consumers? Water services are a 'natural monopoly'. Like gas, or rail, there is only one network – only one set of water pipes. It is possible to have competition for treatment plant, but usually only for the design and building of a new plant, maybe every 25 or 30 years. The economists' preferred response to monopoly is competition, but this is hard to achieve for natural monopolies. Instead, governments regulate prices, in England and Wales through [OFWAT](#), balancing price increases with service standards and the consumer interest.

Those of us old enough to remember the nationalised industries of the post-war period will remember their inefficiency. All monopolies tend towards inefficiency, but the type of inefficiency and the reasons for it are different, depending on ownership. A public monopoly may seek to maximise employment, keeping more people in work; or to keep prices low, so that voters are not discontented. But a private monopoly may raise prices, or fail to make necessary investments, to benefit shareholders.

Across the world, since the 1980s neo-liberal reforms have given a greater role to the private sector in delivery of services – including water, but also health, and the 'classic utilities' like energy, transport and communications – where in the past, governments had taken the lead in infrastructure investment. 'Privatisation' was intended to achieve political goals, but also economic goals – to remove borrowing for the infrastructure from the public sector debt. But in water services especially, the sale of the assets is politically sensitive and very few states have taken England's route. Much more common has been the contracting out of specific parts of the service, for periods of time; and leaving the assets in the control of a public body.

In the 1980s and 1990s, economic regulation was seen as a way to control the inefficiency of the new private monopolies that resulted from privatisation policies here, and elsewhere. But strong regulation is necessary and beneficial for monopoly services whether delivered by the public or the private sector. In Scotland, a similar [system of economic regulation](#) to that in England and Wales, and within a similar policy frame, has been very effective – arguably, more effective than regulation in England. When Scottish Water is compared to the 'big 10' English and Welsh suppliers across a basket of measures, at its inception in 2002 it was at the bottom of the rankings. Now it is [consistently amongst the best](#). In many ways, regulation is more important than ownership.

So should the major undertakers in England be 'renationalised'? Currently the government and the regulator have been experimenting with attempts to increase competition by encouraging alternative suppliers, for business customers; this already happens in Scotland to a limited extent. This may be a way to improve the service, and it may in future be rolled out to private householders too. But the inherent monopoly nature will remain, so at worst it will simply replicate some of the problems we see in [the energy market](#), or in [broadband](#) provision, with a few key players and little real choice.

Nationalisation would require cash, which would probably be raised by issuing bonds (as happened with Dwr Cymru). As everyone needs water, and as most people pay their water bills, it should be a safe, predictable investment for bond-holders – but it would remove the incentive for Boards to ‘game’ the system, and the regulator, in various ways – to manipulate the tax system, to increase dividends (or debt ratios) to unsustainable levels, to seek unnecessarily high levels of investment or alternatively, to skimp on long-term investment for the benefit of shareholders. These activities are the natural behaviours of private firms; in a public entity their drivers are significantly lessened. Arguably, here in Scotland, Scottish Water is to a great extent ‘on the same page’ as its regulators and the Scottish Government, in a way that is simply not possible where the suppliers are private entities.

So does ownership matter at all? Yes – it does, but perhaps not in the way we expect. In the end, it is the effectiveness of the regulatory structure that matters – both the surrounding policy contexts, and the detail of the economic control. But the experience in Scotland is that where the context is broadly consistent, better regulation is easier to achieve when the supplier is in public hands.

About the Author



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