It's Scotland's Water

A discussion paper from the STUC and Scottish water trade unions on the development of Scotland's public water and sewerage services

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Executive Summary

- Scottish Water is a public corporation that delivers a publicly owned water and sewerage service to the people of Scotland. In 2006 the water industry unions through the STUC commissioned a report from the Public Interest Research Network (PIRN) at the University of Strathclyde, *Scottish Water: The drift to privatisation and how democratisation could improve efficiency and lower costs*. That report highlighted the pressures to privatise Scotland's water and analysed the alternatives to the current structure. This paper takes the analysis of that report as the basis for discussion on how we can improve the Scottish public service model.

- There is a global water crisis with more than 2 million people a year dying from diseases associated with poor water and sanitary conditions. This crisis is exacerbated by attempts to commodify and privatise water services, encouraged by international institutions. The failure of private water companies in the developing world is leading to a renewed pressure on governments to privatise in more profitable water markets in the developed world. Scottish Water is an attractive target.

- The restructuring of Scottish Water has resulted in an incremental drift towards privatisation. Firstly through hugely expensive PFI schemes, followed by a broader PPP scheme Scottish Water Solutions. The regulatory structure seeks to replicate the privatised industry in England and Wales with a Water Industry Commission (WIC) committed to market principles.

- The usual vested interests are circling around the guaranteed profits that a regulated privatised industry would bring. The CBI, market think tanks and the right wing press. Of greater concern is the role of the WIC who have advocated moving away from the public model and have used public money to retain commercial lobbyists. The concern is that they are using their regulatory powers to undermine Scottish Water, laying the ground work for privatisation.

- Privatisation would result in a loss of accountability as Ministers pass the buck to a private water company. The charge payer would be forced to pay for the higher costs of borrowing in addition to the cost of dividends and the fat cat salaries of Directors. The corporate financiers, consultants, regulators and others will all gain at the charge payers' expense.

- The Trojan horse for privatisation is mutualisation. In the capital intensive water industry any mutual body would in effect be controlled by the financial institutions. They would insist that to minimise risk to their money, services and jobs would be transferred to English and European private water companies. This is what happens at the only UK mutual model, Welsh Water. Not surprisingly the Conservatives recognise the benefits of this stealth privatisation. More disappointing is that the Liberal Democrats have recently joined them.

- Fortunately the public service model still enjoys widespread public support in Scotland including Scottish Labour, Scottish Greens, the SNP and others. There is a growing understanding that not only are water and sewerage services an essential public service but that given the global water crisis, it is one of Scotland's greatest assets.

- This does not mean that we should cling to the status quo. This paper highlights other public service models, most notably in Sweden, that demonstrate that a more democratic structure can deliver a more efficient, socially responsible and accountable public water service.

- The water unions and the STUC believe that we can save Scotland's water from privatisation by turning away from the market model and moving towards democratisation. We set out a number of ways this might be achieved and would welcome views from those who share our vision.

Introduction

Water and sewerage services in Scotland are delivered by Scottish Water, a public corporation. Its main functions are to provide clean water to 2.2 million households and 133,000 non-domestic (i.e. mainly business) properties; and to treat wastewater across an area one third of the size of Britain. Scottish Water is a public utility run like a private company with a turnover of £1,019 million.

In 2006 the water industry unions through the STUC commissioned a report from the Public Interest Research Network (PIRN) at the University of Strathclyde, Scottish Water: The drift to privatisation and how democratisation could improve efficiency and lower costs. The full report can be viewed at www.stuc.org.uk.

That report concluded that those siren voices proposing privatisation or mutualisation as the solution to the problems of the Scottish water industry are largely mistaken in their analysis. The evidence quoted shows how the system of governance in which the Scottish water industry operates is a marketised system. The operation of the system tend will inevitably increase the political and economic pressures for privatisation of the industry. They showed however that neither privatisation - nor its near cousin mutualisation - will prove an efficient or sustainable future for the industry. On the contrary the most efficient, cheapest and sustainable future for the industry is to keep it in public hands in the context of a serious democratisation.

This discussion paper takes the analysis in that report as the basis for discussion on how we can develop and improve the Scottish public sector model.

The International Context

Globally water is a resource that is in crisis. The UN Economic and Social Council observe that this crisis is due to 'increased demand for finite water resources, contamination of water supplies and degradation of eco-systems', not to mention climate change. Furthermore, underlying these factors are 'continuing population growth, urbanization, industrialization and intensification of agriculture'. It is unsurprising therefore that in 1995 Ismail Serageldin, vice president of the World Bank, should make his now famous prediction, that *"if the wars of this century were fought over oil, the wars of the next century will be fought over water".*

Today 1.1billion people, or 18% of the world's population, lack access to clean water. About 2.6 billion people lack access to basic sanitation. More than 2.2million people, mostly in developing countries, die each year from diseases associated with poor water and sanitary conditions, while every week an estimated 42,000 people die from diseases related to low quality drinking water and lack of sanitation. Over 90 per cent of them occur to children under the age of five.

These issues are relevant to all parts of the world, rich and poor, north and south, first and third. Therefore, it is reasonable to state that how water is governed is of vital importance everywhere. Yet how to govern water so as to ensure the fulfilment of the Millennium Development Goals (MDG's) and in a fair, equitable, affordable and sustainable way in both wealthy and poor countries has sparked much dispute and disagreement. The scarcity of water and the issues around governance have encouraged the commodification of water and pressure to deal with issues of supply and governance by market mechanisms.

The dominant attitude amongst the major countries and international institutions, like the International Monetary Fund (IMF), World Bank, EU, World Trade Organisation (WTO) and the European Union (EU) is to solve the water crisis through market mechanisms. Typically through the conditions such as water deregulation imposed on loans or aid and international trade arrangements. However, many of the main private operators have collapsed through their realisation that they could not fulfil their obligations and public protest due to ineffectual service and escalating cost. This has led to the cancellation of contracts in places like Cochabamba in Bolivia, Buenos Aires in Argentina, Grenoble in France, Jakarta in Indonesia and many more.

The effect of this has seen a calculated retreat by the private water companies. The concern being that their expansion plans are now focusing on the potentially most profitable markets in Europe, the US, Canada and Japan. Clearly Scottish Water, with its plentiful supply, markedly smaller workforce, existing market organisation and the huge investment currently being made to improve its infrastructure may be an attractive acquisition for the private firms currently beating a tactical retreat from the third world.

Water Policy in Scotland

Legislation

The restructuring of the Scottish water industry has meant an incremental increase in private involvement in Scottish Water. Devolution has had a significant impact on the governance of water in Scotland. There have been three Acts of the Scottish Parliament passed since the start of Devolution. The 2002 and 2005 Acts, in particular, have encouraged and facilitated both private sector involvement and practices into the publicly owned Scottish Water Industry.

International legislation also has affected the governance structures of Scottish Water. It was claimed that the opening up to competition of the non-domestic sector of Scottish Water's business was intended to protect Scottish Water as a public utility. The rationale being that it would fend off those who might use the Competition Act to open up the domestic sector to competition; or, in other words privatise Scottish Water. There may well be a potential impact of other directives that originated from the EU: namely, the procurement and utility directives.

Regulation

The current regulatory structure is a complex balancing act between advancing the interests of consumers, competitors and investors, while promoting a wider, ‘public interest’ agenda. Regulation needs to balance accountability, transparency and consistency. The question of openness and transparency within the Scottish Water Industry is a concern. Donald Dewar in 1999 was keen to ensure that all stakeholders were represented on the boards of the three water authorities. This saw each water authority with between 12 and 14 members each. Today Scottish Water has eight board members. When Scottish Water was formed a broad representation of various stakeholders was seriously curtailed.

The regulatory framework within the Scottish water industry that was borne from the 2002 act, and enhanced in the 2005 act, is a replica of the English and Welsh regulatory framework, designed for their private industry.

The Water Industry Commission

The WIC is made up of a Chief Executive, Alan Sutherland, a Chairman, Sir Ian Byatt and four other members. The WIC’s view that private competition is more effective and delivers better results for customers is no secret. The belief in competition and the use of market principles in delivering water in Scotland is a thread running right throughout the Commission's annual report. Alan Sutherland states that 'Competition should bring lower prices and better services'. The report favourably reviews the water industry in England in contrast to Scotland and applauds the Scottish Executive for allowing incentives ‘to encourage good performance by Scottish Water…by linking managerial bonuses to (economic) outperformance of the regulatory contract’.

The members of the WIC are men with similar backgrounds. There are concerns that the absence of stakeholders and the predominance of experts, namely economic experts with a neo-liberal ideological training, may well make the regulator unresponsive to the needs of customers. It is also worth asking if having a tight coterie of experts with a similar background simply entrenches homogeneity within the process and in effect is just the same as having only one commissioner. Further, there is genuine concern that the WIC may use their powerful position in the regulatory framework to shape an industry ripe for private takeover. Whilst the WIC may say that it is independent of the Executive, their backgrounds suggest that they are instinctively sympathetic to a marketised water industry. Further, it could be argued that since the chairman is appointed by the Executive the WIC is acting as a buffer for the Executive on politically controversial matters.

One of the key planks of the arguments for private sector involvement in water in Scotland is to suggest that privatisation has been an almost unqualified success in England and Wales. Indeed the English and Welsh models are often cited by the WIC as models Scotland should strive to emulate. The reasoning behind these assertions and comparisons, are deeply problematic. As Jeanette Findlay (2004) stated, the comparators and methodology used by the WIC in contrasting England and Wales to Scotland is ‘almost foolhardy’. She based her analysis on this on different factors like the debt write off when water in England and Wales was privatised; government grants totalled £6.6billion, increased investment as a consequence of them being able to borrow on the open market; England and Wales having over 20 years headstart in terms of investment and differences in topography, geography and population density.

Quality and Standards 2006 – 2014

Scottish Water has been charged with meeting objectives under the third capital and investment programme, Quality and Standards III. Under the process of determining charges relating to the capital investment programme, Scottish Water devised a Strategic Business Plan, with contains costs to fulfil objectives. During this period the WIC also develops a determination of charges, which goes out to consultation for stakeholders’ comments.

Tensions emerged within this structure between the Scottish Executive, the WIC and Scottish Water over the proposed business plan for Scottish Water 2006-2010. The WIC insisted that all the necessary investment in the water industry in Scotland could be accomplished for £2.15 billion. Scottish Water believed that it needed £3.3 billion to meet its objectives. This massive disparity calls into question the competence of the policy process, and why it was so. It also illustrated how the actions of the WIC could result in a situation that calls for further change to its governance structure. It also raises the question of whether the Final Determination of Charges, put forward by the WIC, and the one that is to go ahead, will provide enough resources to ensure that Scottish Water meets all its objectives.

Many organisations doubt if Scottish Water have been allocated enough resources to ensure Ministerial Objectives are delivered. Scottish Water itself stated, 'improvements will be achieved through a combination of capital investment, capital maintenance and operational practices. There is insufficient capital funding to achieve the required investment through capital investment alone'. This is a detail that has not been openly declared by anyone in the process. Should Scottish Water not meet the Ministerial Objectives it may create a clamour for further changes to the ownership and governance structures of Scottish Water.

The Drift to Privatisation

This paper and the PIRN report argues that the system is moving towards increasing involvement of the private sector in Scottish Water, most notably through Scottish Water Solutions, PFI and the consequent familiarising by the private sector of the vagaries and complexities of the Scottish Water Industry.

The promotion of alternatives to the public service model under which Scottish Water currently operates, especially mutualisation and privatisation, has been a feature of recent debate about the water sector in Scotland. Those promoting privatisation include predictable suspects such as;

- The Scotsman, Daily Mail and Sunday Times newspapers
- The market fundamentalist think tank, the Policy Institute
- The economist, Jo Armstrong in a paper co-published by the Fraser of Allander Institute and Scottish Council Foundation
- The CBI
- Corporate Financier, Frank Malcolm

It is clear that the business lobby is circling around the guaranteed profits of the Scottish water industry. Perhaps the most concerning person and organisation advocating changes to the governance structures of Scottish Water is Sir Ian Byatt and the WIC. Byatt said he believes that Scottish Water should be turned into a mutual model, thus freeing it from state ownership. Moreover, he and Alan Sutherland have put in place a detailed blueprint for doing so. This intervention by Sir Ian Byatt was clearly way out of his remit. The WIC has retained commercial lobbying firms and it is legitimate to question if this is a worthy use of public money.

The public agenda has tended to be dominated by those pressing for change to the governance structures of Scottish Water, due to either its perceived ineffectiveness or/and its inability to address developmental constraints. The framing of the debate in this way places water as a purely economic resource, rather than as a social resource, public good, or even a natural resource that needs to be sustained for future generations. In addition, there is little mention of successful community run and publicly owned models for the management of water resources. Throughout this debate there is little mention of the decrease in manpower within Scottish Water itself and the simultaneous increased involvement of the private sector in the provision of water services in Scotland today. The tenor of public debate about water in Scotland stands in marked contrast to experiences elsewhere: much of the evidence from other countries points to the failure of private models of water ownership and delivery. One is left to conclude that much of the public debate in Scotland relating to Scottish Water is based more on ideology and dogmatism than comparative evidence.

The English Experience and the RCV method

As highlighted above the Scottish Water regulatory framework is akin to the English model. OFWAT uses a fairly complex formula to calculate the value of each privatised water company. The result of this formula is called Regulatory Capital Value (RCV). RCV is the starting point to work out the return (or profit) for each water company. There can be few examples of other private companies throughout the world which have a regulator to ensure that they receive a set rate of return on their investment. This is essentially a form of corporate welfare.

Clearly the regulation of privatised monopolies is difficult (not least because of the technicalities of valuing them in the first place). But, how successful has regulation been in England? Research suggests that regulation and legislation have failed to address concerns about the behaviour of the privatised water companies, particularly the pursuit of profit at the expense of customers, aggressive pricing, lack of reinvestment and higher dividends awarded to shareholders and owners.

It could be argued that regulation is a 'good thing', because the regulator ensures that water companies do not hike their prices to unreasonable levels (which as monopoly suppliers of an essential service they could easily do). However, what the regulator does in effect is to ensure that the Regulatory Capital Value (a proxy for the market value of the company) is used to ensure that a 'fair' return is given to the investors in water companies. While the regulatory model could be said to 'encourage' much needed investment in the water industry, in practice, it contains serious flaws. These flaws mean that expenditure on repairs is disincentivised while companies which invest in capital projects (new fixed assets) can earn excess profits. Moreover, there is no transparency or public debate about what should be invested in from a broader social perspective. This is an accountability issue. The hidden costs of privatisation are simply not captured by regulatory accounts. Some of the "hidden" costs of privatisation are discussed next.

Policy Options: The Hidden Costs of Privatisation

It is clear that in England and Wales, and in Scotland, regulatory accounts cannot capture the social costs and social values of a water system. In the context of increasing private sector participation in the water industry there are many unseen or hidden costs of privatisation which should be considered.

1 Accountability

Water companies are legally accountable to their shareholders and not to the general public. This means that the general public have no say in where or what water companies invest in or whether private companies should invest at all. Arguably, some accountability issues could be dealt with by setting up regulatory bodies to oversee the activities of private companies. However, this can remove another important layer of accountability – the accountability of elected representatives. Again, developments in Scotland suggest this is a real concern with the drift in water policy since devolution. Recent changes to the regulatory powers in Scotland under which executive statutory powers to determine charges were handed over to the WIC and the London based Competition Commission. This significant change takes accountability for charging away from elected representatives and ministers.

2 Private Financing (or loans) cost more than Government Financing

There is a perception that although Victorian water systems are in desperate need of replacement that the government is unable to borrow the large sums of money to replace them. The solution is to shift the burden from the public to the private sector. However, since governments are very low risk when it comes to borrowing, banks will loan money to governments at lower rates of interest than to companies. This means that if the task of replacing outdated water systems is transferred to the private sector then it is likely that banks will receive additional interest. Of course in the long run, this increased expense is met by water consumers. If additional costs of dividends and executive salaries are added to the higher rates of interest, it is difficult to see how water consumers will benefit from this. Comparing the Swedish publicly owned water system with the privatised system in England and Wales found that both the operating costs and customer rates were more than double those in Sweden.

3 Consultants, Reports and Legal Fees

Privatisation programmes have been organised and directed by an influential technocracy of economists and accountants. Privatisation consultants and advisors, drawn predominately from the ranks of Big Four accountancy firms and investment banks, became central figures in the 'neo-liberal alliance' that implemented privatisation ideology.

4 The Costs of the Regulator

The office of the Water Industry Commission for Scotland had total expenditures of over £3.8 million in the year to April 2006. In a public sector setting incentives to (ab)use transfer pricing could be entirely removed therefore making the costs of regulation much cheaper.

5 Other potential human costs

In other industries, privatisation has produced human problems including routinely under-staffing facilities, boosting profits by paying inferior wages leading to less-qualified staff and lower employee retention rates and eroding living standards in the local community.

6 Privatisation leads to loss of flexibility

Under privatisation expertise in running the water industry is passed to the private sector. When consumers complain about a contracted service, the government becomes a 'middleman' who can often do little more than complain in turn to the contractor or enter into costly contract renegotiations or termination proceedings. After a few years, government will only have to option of offering the contract to another private company: 'in-house' public sector expertise will have been lost.

7 The Burden of Risk

Private companies seek to minimise risk. This partially explains the popularity of Public Private partnerships (PPPs) and models of mutualisation. Experiences across the world have demonstrated the ability of private companies to negotiate tight contacts with guaranteed revenue but with the ultimate risk lying with the owners, usually either the state or members/customers. The risk bearer of last resort in a key sector like water will always be the government, given the inelasticity of demand for water and associated essential services.

Policy Options: Mutualisation

The concept of a mutual water company has attracted much attention and some support in Scotland in recent years. There appears to be a notion that mutualisation is a modern panacea to the issues facing the Scottish water sector, and that mutualisation offers a policy compromise between the alleged inefficiency of the public sector and the worst aspects of unfettered privatisation.

Most of the debate on the merits of mutualisation for the water industry in Scotland has been characterised by a conspicuous lack of detail on what such a policy would mean in practice. The key questions are who has the resources and capacity to invest in mutual assets, how would this investment be subscribed, and how would the governance and management of a mutual organisation deliver high quality water services at reasonable prices to Scottish water users? Attached to this are critical questions about the governance and accountability of a mutual water company in Scotland.

A core issue is that of investment. The only obvious sources of funding for investment in a mutual water company in Scotland are from the private sector. Essentially mutualisation for the capital intensive Scottish water and sewage industry is simply a smokescreen for privatisation. The mutual body would in effect be owned by the financial institutions that provided (the more expensive) capital funds. To minimise financial risk they would insist that all services be provided by private contractors. Therefore the so-called mutual option is in reality a token representation for customers on a board overseeing a wholly privatised Scottish Water.

Welsh Water is the mutual model cited in discussion of water policy options in Scotland. The company was established through securitisation, where debt finance is secured against the assets to ensure ownership and control of Welsh Water in 'the best interests of Welsh Water, its customers and the environment'. Welsh Water only employs 152 people directly, whilst being 'at the heart of an 'Asset Management Alliance' with approximately 3,000 people from 15 different organisations. Membership of Glas Cymru extends beyond the Directors of the company. Presently there are 57 members. Rather than being democratically elected, as recommended by the theory of mutualisation, members are selected according to process overseen by an Independent Membership Selection Panel that is required to maintain a balanced and diverse membership.

The experience in Wales suggests models of 'mutualisation' do not simply translate into common ownership by customers and employees. A recent review of the policy options surrounding 'mutualisation' emphasises the importance of stakeholder representation and democratic accountability. Mutual membership could be offered to customers, given they represent a relatively stable and homogeneous group. Such a scheme would most likely be implemented by issuing shares to existing customers. However, the weighting of such an offer could favour business customers' over domestic customers, given the formers greater use of the business. Shareholders could then vote representatives on to the board and participation costs would be low since information-distribution and voting could be linked to billing.

The key problems associated with this model arise from the need to develop a continuing strategy for the board and management that would involve members and avoid capture by a particular interest group. All interests would not be represented if only customers, as a single stakeholder group, were to form the body of members. For instance, how would workers and environmental interests be represented? Also, any financial surpluses could be divided among customers possibly leading to conflicts between different types of users.

With a mutual option the issue of financing the investment required in the industry remains. Debt financing is more attractive for 'mutualised' companies. However financing from government bonds is still cheaper. Given that water and wastewater services are crucial for public health and socio-economic development, is it better to develop an organisation which can fund investment through the cheapest means possible and where multiple interests are represented? To ensure democratic accountability the organisation should remain in the public sector where other interests can be represented through Parliament. Water is not simply about customers seeking the cheapest possible water services. Water users are also citizens who may be concerned with social equity and environmental justice. Mutualisation can make such objectives more difficult to achieve in practice.

Policy Options: Democratising Scottish Water

There appears to be a general erosion of the public sector ethos of common ownership across key sections of Scottish public life. Pundits, experts and other assorted commentators repeat the mantra of 'public bad, private good' in many different spheres of policy. In the water sector this can be seen as leading to a gradual acceptance of the commodification of water. The encroachment of the private sector on Scottish Water can be seen at many different levels. For example the skills base within the public arm of the water industry is being downsized and out-sourced. This loss of expertise inevitably makes Scottish Water increasingly dependent on private companies. This also begs the question as to whether a public service should be run by managers incentivised to produce efficiency savings, which is often a euphemism for redundancies. Whether customers of Scottish Water would see the reduced workforce, and persistent problems with leaks, repairs and service, as evidence of a more 'efficient' industry is not something that Scottish Water or the WIC have much to say about.

Financing is a key challenge for every community wanting to ensure water for all. The day-to-day running of a water utility comes at a cost and expanding access to water requires investment. There are principally two ways to pay for public water delivery: taxes or user fees; charges for operations and taxes for capital investment. Overcoming financial obstacles to the expansion of water delivery can be done by reducing operational costs and increasing efficiency. By ambitiously taking on leakages and improving billing, lower shares of non-revenue water can be achieved and financial viability of the utility can be improved.

Citizen participation can help the financial health of the water utility. They are not only empowered by the government to prioritise the allocation of public funds, but are also involved in monitoring implementation of decisions and projects. Close and continuous scrutiny of water utilities and of external contractors has helped to reduce costs of new construction projects. It is clear that Scotland has much to learn from other parts of the world on how water services can be made more accountable and efficient. We would argue strongly that real accountability and efficiency are intimately linked.

Case Study: Stockholm Vatten

Public water and sanitation utilities have traditionally been managed by the 290 municipalities in Sweden. Municipal water supply and sewerage works (MWSW) are separate accounting administrations, which are not allowed under law to be operated by a profit margin and are solely funded by connection fees and operation charges. MWSWs are seen to be a societal concern, under the municipality's responsibility for health protection.

The city council sets requirements for water and wastewater services, these objectives relate to operations alongside financial and economic objectives. Stockholm City Council approves the companies' articles of associations, appoints their board members, and issues directives for the company. The City Council also determines the bases of the fees to be levied by the company for such services as water supply and wastewater treatment. The parent company is responsibly for the Group's overall development and strategic planning as well as the management of the Group's economic and financial resources. The Board is composed of the ordinary members and trade union representatives, whose professions and memberships to political parties, trade unions and of other boards is outlined.

Despite having a monopoly position SWC and no competition the company states it 'must operate in a rational and customer-orientated manner and maintain high quality standards so that our services provide good value for money'. The company states it is making every effort to reduce resource utilization and increase cost-effectiveness, for example, by increasing the percentage of operations put out to public tender. Such activities, gives some indication of the commercialisation of activities within the public sector model. To evaluate performance and give an indication of where improvements can be made, SWC uses key indicators for prices, quality and quantity with other companies in Sweden and the Nordic countries.

The Swedish municipal service seems competitive with reference to statistics from IWSA (International Service Water Association). The average price or 200 cubic metres drinking water was less that half the price of most other European cities. The low water charges are available despite Sweden lacking scale advantages, given its small population sparsely populated around the country.

There is further evidence of the advantages of the Swedish model (based on a study by consultancy firm ITT in 1995). The study surveyed the economic performance indicators in three public works in Sweden and six private water supply works in England and Wales. Some of the key measures are reproduced below:

City	Cost to customer	Cost of operation	Capital Maintenance	Return on Capital
Stockholm	0.28	0.17	0.03	0.09
Manchester	0.91	0.40	0.20	0.31
Bristol	0.83	0.48	0.19	0.15
Gothenburg	0.38	0.11	0.05	0.21
Kirklees	0.99	0.52	0.31	0.15
Hartlepool	0.73	0.35	0.08	0.29
Helsingborg	0.42	0.42	0.05	-0.05
Waverly	0.82	0.48	0.22	0.12
Wrexham	1.25	0.57	0.35	0.32
Average – Sweden	0.36	0.23	0.04	0.08
Average – UK	0.93	0.48	0.20	0.23

Table 1: Comparison of economic performance indicators of public and private water supply works/companies in some Swedish and English cities. Cost per cubic meter of water delivered in USD.

Scotland & Ireland

When considering alternatives to the present governance structure of Scottish Water it is easy to slip into comparators with the most obvious comparison, which is of course England and Wales, but why do the WIC and the Scottish Executive not even attempt to look elsewhere for new models? Why do we look to England and Wales almost exclusively? Perhaps it is to do with proximity, both culturally and geographically, but a more persuasive view might be that the model of privatisation in England, or Wales, is the model that is the ultimate goal for the WIC and the Scottish Executive.

Another model that is geographically close is that of Ireland's water supply. Politically and organisationally, however, it seems very far away indeed. In Ireland, like in Scotland, there are European directives to be adhered to, but unlike in Scotland the managing of the water supply is accomplished by local authorities. The Irish are devolving this responsibility to locales themselves with local knowledge being utilised in the process. Moreover, it is funded through general taxation, albeit with major assistance from EU structural funds. This seems to be placing water very much as a fundamental human right. It is also anathema to current political thinking in Scotland, whereby the investment and operation of water is funded predominately from the water user and to a lesser extent from Scottish Executive loans.

Conclusions

The Scottish Water industry has been set up in a governance context and regulatory framework, which inevitably tends towards privatisation. This is predominantly because of the following factors:

- The international financial and governance context creates pressures for market based solutions.
- The limits in the devolution settlement that constrain the Scottish Executive raising revenue to invest in infrastructure.
- The governance model for the industry treats Scottish Water as if it was a private company
- The financial accounting methods used by the WIC (the RCV method) lock Scottish Water into a model which enables returns to private investors

The trend towards privatisation is supported by campaigns from political parties, think tanks and other pro business lobbyists. The Scottish water industry is part of a global water industry. It is the governance and regulation system which inevitably pushes the water industry in a direction which makes privatisation seem a rational, least worst (or profitable) policy option.

But in fact on every major index, privatisation of water across the world has been a failure in terms of its value for money, the accountability of the service, sustainability and water quality and efficiency. There is every reason to suppose that the same would be the case in Scotland.

The major potential alternative to privatisation is mutualisation. This is privatisation by the back door. This is predominantly because there is currently only one likely source for investment finance in a mutual model: the private sector. In practice financial institutions would have the whip hand in the governance system and in practical decision making in the Scottish water sector. Private water companies would run the service with token customer representation as at Welsh Water.

The only way to ensure that Scottish Water is saved from privatisation is by turning away from the current market model towards a democratisation of the industry. This is also the only way to ensure an efficient, sustainable and equitable water system in Scotland. While local communities should have the right to choose how their water is delivered, the reality is that the range of choices continues to be narrowed by factors outside local control.

The need is to establish an innovative, participatory, democratic system of public water management that is efficient, transparent and regulated and that respects the objectives of sustainable development in order to meet the population's needs.

Scottish Water could be democratised. This requires that it is put firmly into public ownership, meaning that Scottish Water operates not as if it was a private corporation, but as a public service. It would not be required to prioritise market efficiency over social or environmental efficiency. The investment needed could be most efficiently achieved by cutting out the profit guaranteed to the financial markets and the other hidden costs of a market or privatised model. Most importantly the control over decisions in the delivery of safe, sustainable water would rest not at the whim of the market but with the people of Scotland.

The Next Steps

The STUC welcomes views on the ideas set out in this paper. In particular we are seeking to develop Scottish Water into the democratic model set out above. This includes acceptance of the political nature of water discussions and that public support is necessary for the public sector model to develop and flourish.

We believe the main elements of the model should include:

- accountability through information and openness to public participation regarding financing, safe water (public health) and environmental protection
- public involvement throughout operation and investment
- enabling cross-subsidy of public services
- a fair and equitable approach to charging

A key issue will be how the democratic model will be constituted. Options include:

- Direct elections to a Scotland-wide body.
- Direct elections to regional boards with a federal structure to a Scottish wide body.
- A hybrid body made up of direct elections, appointed members with particular expertise, consumer and staff representatives.
- Local authority Joint Board, similar to Fire and Police.
- A combination of the above.

Irrespective of the democratic structures real public involvement has to be much deeper with a range of determinative mechanisms for community participation. The new body should have a statutory duty to prepare a public involvement structure that would have to be approved by the Scottish Parliament.

If you have views on these issues or would like to discuss them with the STUC Water Group, please contact Stephen Boyd at the STUC. 0141 331 8100, email sboyd@stuc.org.uk.