

Sorting out water

There are 3 ways forward for a company like Thames Water. There can be a deal between Regulator and the current shareholders and management agreeing an affordable investment programme and realistic customer charges for the task. There could be a move to force a sale to new shareholders by undermining the current company, with a possible period of management by a government Administrator. There could be nationalisation.

Nationalisation is a particularly bad idea. Existing shareholders would need to be compensated for the enforced sale of their shares. The state cannot confiscate the assets of the UK Universities Pension Scheme and the Ontario Municipal Pension Scheme. To do so would put off the many investors and supporters of private finance activities that the UK relies on. University teachers in the UK would demand compensation for their pension scheme.

The state would have to honour the £14 bn of company debts. It would then need to find additional money to increase the investment spend. It would all add up to a very large bill for taxpayers. In the past nationalised industries have also been good at running up large losses taxpayers have to pay. Current state enterprises, the PostOffice and HS 2 have shown just how huge the losses and cost overruns can be.

Tipping a water company into Administration also comes with considerable costs as well as reputational damage to the UK as a good place to invest. The special Administration would need to honour the loans, would impose substantial charges for its management and would doubtless wish to provide for all manner of inherited liabilities up front. Before selling on the company to new owners the Administrator and the Regulator would need to reach an agreement on customer charges and on how large an investment programme needed financing.

To those who think the company should be bankrupted and the debts written off and not met, I remind you that the government and Labour rely heavily in their forward plans on harnessing large sums of private capital to provide the extra homes, energy capacity, broadband and the rest we need. If the country got a reputation for stealing assets off investors and undermining businesses by unrealistic price controls and regulations that would get a lot dearer and more difficult to pull off.

The best way forward is a negotiated settlement between the company and the Regulator. As most want faster progress with expanding capacity of our dirty water pipes there needs to be an increase in spend and in customer contribution. If we want more and better sewers then either customers or taxpayers have to pay more. As it is the same people paying VAT, Income tax and water bills I prefer it to be on water bills. There needs to be a clear link and financial discipline on water companies between revenue and renewal expenditure.