

U.K. Water Authority Expert Provides 10-Year Review of Sector Under P3's

Based on eleven years' experience as Director General of the U.K.'s regulatory authority for water services under the government's privatization initiatives, Sir Ian Byatt has come to the conclusion that "Only companies can deliver the quality of water services required today. They must be regulated properly, but otherwise, they should be left to do the job in their own way."

Sir Ian spoke at a breakfast event organized by The Canadian Council for Public-Private Partnerships on October 4, 2001. His remarks on the benefits of public-private partnerships in the water sector are timely as the Walkerton Water Inquiry concludes its hearings on the factors contributing to the tragic events in Walkerton in the summer of 2000.

In 1989, when the U.K. government began looking at privatization of water service and assets, there was "a significant backlog of investment" in the sector, and Byatt referenced one newspaper article that depicted a double-decker bus heeled over in a gaping sewer at the side of the road. At the same time, the European Union was instituting higher drinking water quality standards and polluted wastewater had closed beaches around the country. On the fiscal side, the International Monetary Fund, lending institutions and Minister of Finance were applying pressure on the government to reduce spending. The political thinking of the day also raised doubts about the efficiency of the public sector.

Fast forwarding to 2000 under a privatized water system, Byatt cites "a doubling of investment from £1.5 billion to £3 billion in ten years, a substantial improvement in drinking water quality, a reversal in 200 years of environmental damage, and a substantial

improvement in customer service levels." He also pointed to an improved decision making process, with greater transparency, and "greatly enhanced efficiency." While he admits that efficiency has not been as dramatic as in the U.K.'s electricity sector, where the same level of service is delivered under P3's with half the staff, there has been a modest price increase of only 20 percent during the 1990's. An important consideration often overlooked, he noted, is that the water and wastewater sector is now a significant portion of the market economy, where none existed before.

Byatt points to five keys to success in the U.K. water/wastewater sector:

1. Clarity of responsibility and accountability
2. Regulation of performance
3. Pressure for efficiency
4. Entry into the market economy
5. Good appeal mechanisms

In a system "that does not exactly thrive on clarity," Sir Ian says that competitive performance is an excellent catalyst for greater accountability. The structure developed in 1989 started with ministerial and EU democratic accountability at the top, which dictated standards and guidelines to the quality regulators, who "must have separate accountability with legal duties and powers." These standards are then applied to the water companies in their contractual obligations.

The Secretary of State at the time set up the arms-length National Regulatory Authority, to avoid the conflict inherent in self-regulation. Private companies can be subject to judicial review and hearings with the competition board. Corporate water managers can even be held criminally responsible for severe water

quality oversights, although such as case has not occurred to date. Customer service audits are conducted randomly on service providers and evaluated whether or not the issue was addressed. The U.K. Office of Water Services (Ofwat) is further responsible for price control (which must be reviewed every five years), performance monitoring and promoting efficiency. Several regulations have also been developed to address “vulnerable groups” that require special consideration for health or economic reasons. Sir Ian emphasized, “everything is published” that concerns the water system management, from the regulator’s system methodology and determinations to the corporate business plans.

As the sector moved into the market economy, there was a gradual shift from charging for water through property taxes to charging based on usage through water meters. This system for business customers is now effectively complete, with differential progress on the residential side throughout the U.K.

With the entry of international suppliers into the U.K. market, there were political questions raised about foreign ownership of domestic water assets. These were addressed by ensuring that despite profits or losses from projects outside the country, companies charged rates based on local costs. Sir Ian also stated that there is no loss of control for governments if the assets

are no longer publicly-owned. The government has the ability to remove a company’s license, which in fact occurred in Wales, and another company stepped in to provide the service. He contends, “free trade in fact opens the possibility of fulfilling national objectives more fully and efficiently.” (For more information on this topic, see *The Council’s legal position on free trade and public-private partnerships on their website at: www.pppcouncil.ca/watering.htm.)*

When asked about how price levels are determined, Byatt said that he communicated regularly with the water companies. The issue of whether quality improvements automatically result in higher prices, he said, has yet to be resolved. He stressed that the government is in the position of being able to compare prices among several companies, and armed with good quality information, can balance the need for high water quality with competitive pricing.

To conclude, Sir Ian said that competition in the gas and electricity sector has resulted in increased choice and better prices. He notes that the difference in the water sector are the quality standards applied to what he describes as a “heavy commodity.” As a result, he believes that competition is a bit more difficult to attain. However, he stressed that all of the immediate objectives for water privatization have been achieved, and the longer-term objectives are progressing quite well.