

Paul Whitehouse:

Now, the water industry in England and Wales is unusual. In that it's not the Government that operates our water, private companies do. And to truly understand this, we've got to go back to 1989.

High on the agenda for the government of the 80's was privatisation. They'd sold off oil, gas. Next up was water.

News presenter 1:

Britain's water supply is to go private and it'll be the biggest sale yet of nationally owned assets.

News presenter 2:

The ten authorities in England and Wales would become ten private companies. A new system of regulation will be introduced to safeguard the environment, and there will be controls to prevent companies overcharging consumers.

Dieter Helm:

The industry was privatised for a couple of reasons. One was essentially ideological. The belief that private, good. Public, bad.

Emma Gatten:

The hope was that private industry would be able to provide a level of investment that just wasn't happening from the government and we would have a much more efficiently run water industry.

Margaret Thatcher:

Under privatisation, the consumer will have much better protection and so will the environment.

Dieter:

The EU directives would require a substantive cleaning up of water and Sewage Services and the government at the time were squeezing public expenditure and came up with selling the existing companies. And then the government wouldn't have to pay the costs of that investment.

Paul:

Whatever your views on it, privatisation changed the water industry almost overnight.

Member of public 1:

Well, I just think it might be a good investment.

Member of public 2:

I'm late for work and everything now, but you've got to make your money, haven't you?

Emma:

The water companies were listed, so anyone could buy parts of them. It was open to the public under a government campaign.

News presenter 3:

The water minister Michael Howard said tonight the sell-off had been the success that government had always known it would be.

Michael Howard:

I'm delighted. It's obviously a very enthusiastic response and a great success.

Dieter:

They started off with quite a wide diffuse, effectively public ownership in the sense that the public bought their shares. But, quite quickly, the investment flows came from abroad.

News presenter 2:

The French water company Lyonnaise des Eaux has bought large stakes in three of Britain's newly privatised water companies.

News presenter 4:

Those sorts of prices are rather low and the gross of English companies is rather good.

Emma:

This system opened up our water companies to investment from just about anyone, whether that was pension funds, private equity funds or foreign governments.

Paul:

As we move through the 90's, more and more foreign investors saw the benefits on offer of owning part of our water industry. Big dividends.

Dieter:

The whole point of privatisation is to excite the profit incentives and there's absolutely nothing wrong with profit. But what actually happened was that the profitable opportunities turned out to be less in efficiency terms and much more in terms of extracting money.

Stuart Colville:

We hear a lot of criticism about profits and dividends and other issues with the water industry, but it's an efficient model which has mobilised huge amounts of private capital, while making sure that bills are kept under control. Now, there's still plenty more to do, there are clearly still problems there. But in terms of where we were in the 1980's, the transformation has been profound.

Emma:

You might say that it doesn't matter who owns our water companies, what matters is how they are running them and how they are regulated.

Dieter:

So the water industry is regulated by two main bodies.

The Environment Agency, which is supposed to set the environmental requirements.

And we've got OFWAT, the economic regulator, which is basically meant to make sure that the water companies were efficient and didn't make excess returns.

Think about them as a monopoly regulator basically.

A lot of criticism of the companies, but the overall problem is how do we have an investment programme which can actually be paid for and people are willing to pay for it.

And that has never been resolved.