

Water Industry Finance and Investment Overview

1 Priorities and prices

Water and sewerage services are vital to our well-being; so vital that society must be fully involved in setting priorities for those who provide them. In England and Wales these essential public services are supplied by private sector companies.

Company priorities are decided through a process of price regulation based on consultation with the public, customers, and other groups with wide interests.

The process is known as the 'Price Review' and is led by the water regulator Ofwat and the companies themselves. Its most visible outputs are limits on the prices companies can charge for the 5 years following a review.

But the focus on prices is only half the story. The review is also a shared effort to research and agree major investment programmes designed to improve services and protect the environment.

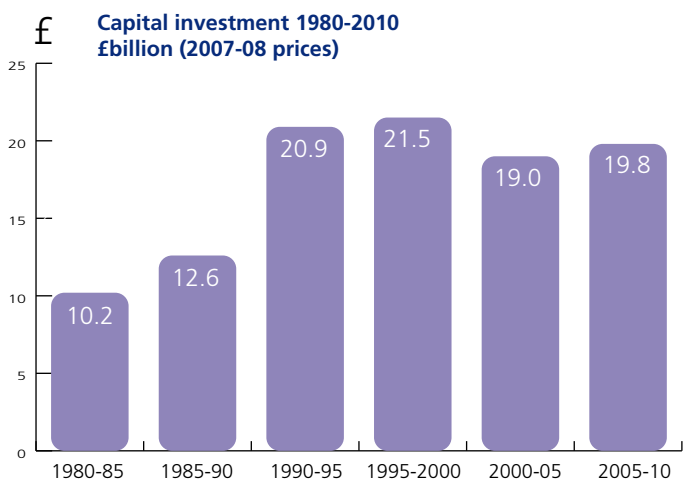
2 Why water services need so much investment

For much of the 20th century investment in water supply and sewerage, like other essential services, was the minimum necessary to avoid service failure. In the past 20 years changing priorities about health and the environment, reflected in European Union directives, have lead to urgent demands for improvement.

These priorities and the threat of prosecution by the European Commission led to major investment in the quality of drinking water

and wastewater treatment. There was also investment in maintaining plant and pipe networks and ensuring a reliable supply, but these were given a lower priority.

Since 2005 the upgrading of old assets has become the top priority, but investment in all aspects is likely to be needed for the foreseeable future. Managing the impact of climate change will be an important consideration.



Note: 2005-10 figures at 2004 Price Review

Source: Ofwat and Water UK

3 Customers and markets investing in improvement

As a result of high investment the water and sewerage service has improved a lot in a comparatively short time. Water bills have risen to pay for the investment - without it bills would have fallen as the cost of providing the service has been reduced by gains in efficiency.

Price regulation allows companies (if they are efficient) enough revenue from sales to provide the service, to pay directly for a proportion of the investment they are required to carry out,

to pay interest on long term loans raised to finance investment and to cover dividends to investors.

Today's customers see the benefits as soon as the projects are complete, but future customers share the cost because they will also benefit from long-lasting improvements. This 'mortgage' system makes sense for society, for the environment, and for investors who manage the savings of millions of people.

Turnover and capital expenditure

2008	Turnover (billions)	Capital expenditure (billions)	Capital expenditure as % of turnover
BP	US\$366	US\$30.7	8.4
GlaxoSmithKline	£24.4	£2.1	8.6
Tesco	£51.8	£3.9	7.5
National Grid Transco	£11.4	£3.1	27
Water industry in England and Wales	£9.0	£4.9	53

Source: Company reports and Ofwat

[Download the briefing notes in full at www.water.org.uk/finance-and-investment](http://www.water.org.uk/finance-and-investment)

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