

# FACT SHEET

## Re-municipalisation of Water Utilities

### Background and what we did

- The Labour party has set out a vision to move the water sector, alongside a number of other utilities, back into public ownership<sup>1</sup>. Their proposals make specific reference to Paris Water as an example of a move to ‘public’ ownership or ‘re-municipalisation’ of a water utility.
- They claim that the re-municipalisation has promoted public participation, reduced prices and improved service levels. Other re-municipalisation examples have been cited including Berlin Water<sup>2</sup>.
- We have reviewed the literature to understand these and some other re-municipalisation examples, what really happened and what impact the changes had on price and service performance.
- Specifically we considered four case studies: Eau de Paris (Paris Water), Berliner Wasserbetriebe (Berlin Water Works), the Atlanta Department of Watershed Management, and Budapest Waterworks.
- These four cases were selected through a filtering process to identify re-municipalisation examples likely to be more comparable to the experience in England.

### What did we find?

#### 1. A lack of transparency is a key criticism of the ‘private’ model but evidence does not always support this

- The absence of a published contract in Berlin is cited as a criticism of the transparency of the private model- this is common for concessions but in England and Wales price and service levels are widely published. Some independent experts highlight the English model as being amongst the most transparent.

*“As the regulator of the English water industry, Ofwat has built up an impressive array of information on the industry, in order to compare the performance of the private companies and to monitor their service quality. In no other country can such comprehensive, publicly available, nationwide data on the performance of the water industry be found”<sup>3</sup>.*

- The Paris Observatory of Water (OPE) is often cited as an example of a positive participatory model increasing transparency. However, many similar aspects of the OPE framework appear to already be present under the private model in England and Wales. Companies already do substantial direct

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<sup>1</sup> See: ‘Clear Water’: [Link](#).

<sup>2</sup> See: For example F T Article from 2017 [link](#)

<sup>3</sup> Schiffler, M, 2015, Water, Politics and Money, A reality check on privatisation, pp.68.

engagement with customers<sup>4</sup>, have Customer Challenge Groups with a similar composition to the OPE<sup>5</sup> and have direct representation on their boards of independent Non-Executives that must promote the customer interest<sup>6</sup>.

## 2. In the case studies reviewed there is evidence that the private operators performed well in most instances

- In **Paris** water tariffs increased by more than 90% between 1991 and 1997 whereas they only increased by 52% in other French cities of more than 100,000 inhabitants over the same period.<sup>7</sup>
- These price rises ahead of the re-municipalisation occurred in the context of major network investment. During the period from 1985 to 2009 distribution network losses fell by more than 50m m<sup>3</sup>, network performance improved by more than 18% and virtually all of the lead connection pipes were replaced according to one source<sup>8</sup>. Another source suggests that water losses fell from 22% to 3.5%.
- Whilst tariff increases were experienced under the private model in **Berlin**, a key reason for those increases was due to the contractual agreement on annual profit entitled to the private investors which is very different from the model in England and Wales. If the 8% required return to RWE and Veolia was not met, the City of Berlin would be obliged to make up the difference by drawing from its budget or by raising water tariffs.<sup>9 10</sup>
- These tariff increases were accompanied by a significant reduction in consumption, which helped to ensure that overall bills to customers were stable and at their peak in 2006 accounted for 0.7% of median household income<sup>11</sup>.
- On other aspects of quality, the 2009 study<sup>12</sup> found that since 1999 there had been widespread improvements including, inter alia:
  - The efficiency of the company had significantly improved, including reducing personnel costs by 10% between 1999 and 2008 due to automation productivity improvement.
  - Investment levels had exceeded contractual requirements and were above the national average when considered on the basis of the volume of water abstracted.

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<sup>4</sup> Water UK, 2018, Manifesto for Water, [link](#)

<sup>5</sup> See for example the information on Thames Water's Customer Challenge Group: [link](#).

<sup>6</sup> See for example Anglian Water's appointed licence, condition P Part 1 (2), p169: [link](#).

<sup>7</sup> Pigeon, M., et al. (2012), 'Remunicipalisation: putting water back into public hands', page 27, [link](#).

<sup>8</sup> Suez Environment, Water Stories, Paris, Contrat d'Affermage distribution d'eau potable (2012).

<sup>9</sup> Beveridge, R., Hüesker, F., Naumann, M. (2014) 'From post-politics to a politics of possibility? Unravelling the privatization of the Berlin Water Company'. *Geo-forum* 51, 66-74, page 71.

<sup>10</sup> Powell, J. Yurchenko, Y. (2019) 'The Evolution of Private Provision in Urban Drinking Water: New Geographies, Institutional Ambiguity and the Need for Political Economy'. *New Political Economy*. 10 (1080), page 8.

<sup>11</sup> Schiffler, M, 2015, Water, Politics and Money, A reality check on privatisation, pp.111.

<sup>12</sup> Wik Consult (2009) '10 Years of Water Services Partnership in Berlin', [link](#).

- The company's performance also exceeded the German national averages for water supply and sanitation safety, quality and sustainability with significant falls in pollution levels from ammonium nitrogen and phosphorus between 1998 and 2003.
  - The performance on pollution events also improved after the partial-privatization.
  - Customer service levels and transparency had also improved, with customer satisfaction improving from 61% to 71.2% over the period, comparable to the national German average.
  - Levels of employee engagement and job satisfaction also improved over this period.
  - Returns made by private operators were not excessive when compared to suitable benchmarks.
  - Proceeds to the City state of Berlin from their ownership share were higher under the partnership than they were under public ownership, in 1999 the state of Berlin received 65 million euros whilst in 2008 it received 208 million.<sup>13</sup>
- In **Budapest** tariffs increased in the 1990s and 2000s under the private operators<sup>14</sup>. According to one study, the Municipality of Budapest over-valued the assets to maximize revenues, with the new PPP to recover the investment through the higher water tariffs.<sup>15</sup> Overall, between 1993 and 2010, municipalities in Hungary significantly reduced the level of subsidy (63% to 45%) to services, instead relying more on chargeable revenues (24% to 41%).<sup>16</sup>
  - These tariff increases were accompanied by efficiency and service improvements. Headcount significantly decreased (c.40%) under the PPP<sup>17</sup>. With some significant fluctuations, non-revenue water (including water losses) reduced from 22.5% to less than 17% under the PPP.<sup>18</sup>
  - In **Atlanta** the private contract only lasted for four years. In this time the private operator reduced costs by \$29.4m (although not as much as forecast) and significantly stepped up the number of repairs due to assets being in a worse condition than the city had disclosed. As per a National Association of Water Company's report, the water system United Water inherited in 1999 was in much greater disrepair than the city had disclosed. In the contract with United Water, the city estimated that 1,171 water meters per year would require repairs. By contrast, in the first year of the contract, 11,108

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<sup>13</sup> Wik Consult (2009) '10 Years of Water Services Partnership in Berlin', [link](#).

<sup>14</sup> Budapest Waterworks (2017) 'Is water affordable?...in Budapest', [link](#).

<sup>15</sup> Hegedüs, J., and Papp, M. (2007) 'Impact of decentralization on public service provision', [link](#).

<sup>16</sup> József, H., and Gábor, P. (2015) 'Közszolgáltatási reformok és a helyi önkormányzatiság', *Szociológiai Szemle* 25(2): 90–119.

<sup>17</sup> Bencze, T., and Mindak, E. (2016) 'Experiences of Budapest Waterworks with state, municipal ownership structures and with the involvement of private funding: case study of Budapest Waterworks', *Water Practice and Technology*, 11 (1): 58-65.

<sup>18</sup> Bencze, T., and Mindak, E. (2016) 'Experiences of Budapest Waterworks with state, municipal ownership structures and with the involvement of private funding: case study of Budapest Waterworks', *Water Practice and Technology*, 11 (1): 58-65.

meters broke. United repaired more than 36,000 meters between 1999 and 2002, 889 percent more meters than the city included in the contract.<sup>19</sup>

- Criticisms of United Water included the company issuing boil notices.<sup>20</sup> However, a 2002 letter from the Georgia Department of Natural Resources to the mayor of Atlanta confirmed that the alerts were caused by events completely beyond United's control.<sup>21</sup>

### **3. Price and service levels post-re-municipalisation vary according to the local context but there is no strong evidence of consistent price and service improvement**

- In **Paris** prices decreased following re-municipalisation and have remained broadly flat since <sup>22</sup> In the two years following re-municipalisation, headcount increased significantly, although there have been some reductions since.<sup>23</sup>
- A 2017 report by the Regional Audit Chamber examined the three largest water companies in Greater Paris: d'Île-de-France (SEDIF), Ville de Paris (Eau de Paris) and Gennevilliers (SEPG). Eau de Paris had the lowest potable water charges amongst the group. During the period 2010-17 there was a 2.6% reduction (compared to an 18.7-21% reduction in neighboring regions)<sup>24</sup>. The same study also identified that cost allocation issues made the tracking of financial data challenging.
- This report also suggests that the service performance of Eau de Paris was strong relative to these regional comparators over this period, it remains the best performer across the group on many of the metrics and there is no significant deterioration in these service metrics across the period. At the same time network replacement rates remained lower than these comparators and are on average 59% of the level of these comparators per annum at around 0.4% per annum or a replacement rate of c.250 years.
- The assessment also showed that out of a total of 38 performance indicators for drinking water quality 15, approximately 39%, did not reach the target objective levels. Of these, 5 had a value within less than 10% of the target and 10 showed a difference between the achievement and the value of the target greater than 10%. In addition, out of four indicators for information provision with a numerical target, two are not reached<sup>25</sup>.
- In **Berlin**, in 2012, the German Federal Cartel Office ("FCO") ordered BWB to lower its drinking water prices, which, according to the FCO, were excessive compared to water providers in Hamburg, Munich and Cologne. The order included a cut in the utility's revenue by 18% for 2012 and by 17% on average

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<sup>19</sup> Truth from the Tap (2015) 'The truth about private water in Atlanta, GA', [link](#)

<sup>20</sup> New York Times (2003) 'As Cities Move to Privatize Water, Atlanta Steps Back', [link](#).

<sup>21</sup> Truth from the Tap (2015) 'The truth about private water in Atlanta, GA', [link](#).

<sup>22</sup> Eau de Paris (2019) 'Water at the right price', [link](#).

<sup>23</sup> Eau de Paris (2016) 'Eau de Paris Rapport Social', page 9, [link](#).

<sup>24</sup> Regional Audit Chamber, 2017, RAPPORT D'OBSERVATIONS DÉFINITIVES ET SA RÉPONSE LA RÉGIE EAU DE PARIS (75) ENQUÊTE RÉGIONALE SUR L'ALIMENTATION EN EAU POTABLE DE LA MÉTROPOLE DU GRAND PARIS.

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<sup>25</sup> Regional Audit Chamber, 2017, RAPPORT D'OBSERVATIONS DÉFINITIVES ET SA RÉPONSE LA RÉGIE EAU DE PARIS (75) ENQUÊTE RÉGIONALE SUR L'ALIMENTATION EN EAU POTABLE DE LA MÉTROPOLE DU GRAND PARIS.

[link](#)

for the period of 2013-2015 compared to 2011, which equals a reduction in sales revenue totalling approximately €254 million.<sup>26</sup> In order to avoid legal action, BWB sought to reduce water tariffs by 6% in 2015. But because of the economic constraints created by the expensive buy-back, the Senate would finance this with job reductions of up to 10% and further reduction of infrastructure investment.<sup>27</sup>

- By combining separate datasets, it appears that there has been a significant decrease in investment levels post re-municipalisation. The average investment in the 2012-16 period was c.14% lower (in nominal terms) than the average investment over the 1999-2008 period.<sup>28 29</sup> However, this analysis combines two different datasets from alternative sources.
- As of 2018, quality and service remained high.<sup>30</sup> Leakage remains low at 3%, which is below the national average.<sup>31</sup>
- In **Budapest** following re-municipalisation, there was an initial decrease in tariffs, with prices being fixed for three years.<sup>32</sup>
- Headcount significantly decreased under the PPP, and started to increase following re-municipalisation (although the increase in costs may be due to an increase in the company's operating area).<sup>33</sup>
- Leakage has stayed broadly constant since re-municipalisation.<sup>34</sup>
- In **Atlanta**, prices have significantly increased following the re-municipalisation in the context of a need for substantial investment. The average monthly residential water and wastewater bill has grown by more than 200% between 2003 and 2012<sup>35</sup>. As of 2011, Atlanta had the highest water rates of any major U.S. city. Furthermore, inconsistent and incorrect billings have even led to a class-action lawsuit against the city.<sup>36 37</sup>
- A city audit found that the city loses as much as 30% of the water produced. Water losses had increased 17% from 6.9 billion gallons in 2013 to 8.1 billion gallons in 2015.

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<sup>26</sup> Bundeskartellamt (Germany's Federal Cartel Authority) (2012) 'Bundeskartellamt orders Berliner *Wasserbetriebe* to cut drinking water prices by a total of 254 million euros for the period 2012-2015', [link](#).

<sup>27</sup> Terhorst, P. (2014) 'Remunicipalisation in Berlin after the buy-back. "De-privatisation: buy-back"', [link](#).

<sup>28</sup> Wik Consult (2009) '10 Years of Water Services Partnership in Berlin', [link](#).

<sup>29</sup> Berliner Wasserbetriebe (2019) 'Overview of Key Performance Indicators', [link](#).

<sup>30</sup> CIRIEC International (2018) 'Water remunicipalisation in Berlin and Paris: Specific processes and common challenges', page 20, [link](#).

<sup>31</sup> Berliner Wasserbetriebe (2019) 'Stadt Land Fluss Zukunft', page 13, [link](#).

<sup>32</sup> Budapest Waterworks (2017) 'Is water affordable?...in Budapest', [link](#).

<sup>33</sup> Bencze, T., and Mindak, E. (2016) 'Experiences of Budapest Waterworks with state, municipal ownership structures and with the involvement of private funding: case study of Budapest Waterworks', *Water Practice and Technology*, 11 (1): 58-65.

<sup>34</sup> Budapest Waterworks (2016) 'Evolution of loss management in Budapest', [link](#).

<sup>35</sup> KPMG (2009) 'City of Atlanta – Department of Watershed Management: Performance review', [link](#).

<sup>36</sup> Truth from the Tap (2015) 'The truth about private water in Atlanta, GA', [link](#).

<sup>37</sup> AJC (2014) 'Suit alleges city illegally charged water customers', [link](#).

- Boil notices have continued to be used. For example, in December 2018, the City of Atlanta issued a large boil notice, there were also water outages in parts of the city, and low pressure for many other customers.<sup>38</sup> A smaller scale boil notice was issued in March 2019.<sup>39</sup>

### **3. In each case, the private sector continues to participate in the provision of water services to varying extents.**

- In Paris private sector partners continue to support through supply chain or outsourcing contracts. In Berlin the management team for the utility was retained after the re-municipalisation.

### **4. Differences between the case studies and England and Wales need to be recognized**

- It should be noted that each of these case studies have important differences to the water sector in England and Wales. None of the private companies owned the assets outright in these examples. Instead, each case was a variant on the concession model.
- With Berlin Water Works, the City of Berlin retained a 50.1% ownership share during the ‘privatised’ period. With Budapest Waterworks, the Budapest City Council retained around a 75% ownership share.
- The contracting models used vary significantly from the UK framework. For example, with Berlin, the private company was guaranteed a fixed level of return, as opposed to the UK model of incentive-based regulation which already allows for a reopening of the core price and service terms every five years under a periodic review or ‘price review’.
- Furthermore, in England and Wales, there is a specialised sectoral regulator that benchmarks companies’ costs, and performance levels, and sets an allowed level of return, as opposed to contracts being negotiated with the municipalities in question and often set according to very long-term frameworks.

## **Conclusions**

- The evidence on whether re-municipalisation has driven benefits in each of the four anecdotal case studies we reviewed is mixed. In three instances, there is evidence of price improvements, in the case of Paris, Berlin and Budapest prices fell or remained flat for a period after the re-municipalisation but in most cases these reductions do not appear to have been driven by the change in governance.
- There is also some evidence that at best service improvement has slowed following the re-municipalisation. In Atlanta, both performance and prices appear worse post-re-municipalisation.
- Given the particular circumstances of the cases considered, it cannot be determined with any certainty that significantly reducing the level of private sector participation in the English and Welsh water sector would result in benefits to water customers.

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<sup>38</sup> AJC (2018) ‘Atlanta lifts boil water advisory; schools to resume normal operations’, [link](#)

<sup>39</sup> City of Atlanta Department of Watershed Management (2019) ‘News Release: Boil Water Advisory Still in Effect for South Fulton County Residents and Businesses’, [link](#)