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THE PRICE OF A LEAK

Even if you are reading this in one of Britain's rain soaked regions it is worth thinking carefully about the hosepipe ban and water crisis in the South of England. The implications are far reaching.

Those eventually required to queue at standpipes for panfulls of water should conduct a little experiment of their own. Before switching the tap on, listen carefully at the nozzle. There will be a sound of distant guzzling. It has nothing to do with childhood memories of hearing the waves in the conch of a sea shell. The sound they will hear is that of water executives guzzling pay increases; and doing so at a rate matched only by the one at which their companies leak water.

Since 2001, Thames Water's daily rate of water leakage has risen from 181 million gallons to 241 million gallons. This is more than the entire daily water consumption of Leeds (covering around 800,000 people). It is an increase of 32% in their rate of water leaks. Last year the pay of water company executives rose by 31%. It will be a matter of some interest in conversations around the standpipes of Southern England.

In the privatised parts of the public utilities sector, New Labour has created a perverse version of the free market economy. Executives get bumper pay rises, Directors get bonuses and shareholders get dividends, even when their companies fail to deliver acceptable public services.

When the trains don't turn up, dividends still arrive on time. When gas supplies cannot be guaranteed, you can bet that executive pay rises will be. Britain now rewards failure at a rate that used to be reserved for success. It was all the inevitable consequence of privatisation, and the World Trade Organisation's General Agreement on Trade in Services. (GATS).

Under the guise of trade liberalisation, GATS was really only about guaranteeing profits, in the industrial world, for companies looking for an easy ride at the taxpayers' expense. Having turned its back on manufacturing, finance capital looked hungrily at the public sector. What better than profits guaranteed by an everlasting stream of taxpayers' money. All they needed was a government willing to turn public services into private fiefdoms.

Britain was sold this little scam on the back of a propaganda campaign proclaiming that the public sector was inherently useless and incompetent: only the private sector could deliver professionalism and efficiency. As the propaganda machines turned out this daily mantra, even workers in public services came to believe it.

The early years of privatised services made money essentially by cutting back on maintenance investment and skill training. Any fool can make money in the short term by doing so. But before long it all catches up with you, and Britain's water industry is a classic example of where you end up.

Today, the water industry haemorrhages 3.6 billion litres of leaks per year. In old money this is about 800 million gallons, but in anyone's money it is a quarter of Britain's water supply. Nor is this a one off. For the fifth successive year Thames Water has failed to meet its leakage reduction target. Elsewhere, companies like Severn Trent resorted to cooking the books to make the figures look respectable.

Not all the news is bad though. Profit levels in Britain's water industry have risen to three or four times the comparative level of water industries in continental Europe. Who says light touch regulation doesn't work…for those who milk the system? In fact, the regulatory framework of the water industry is far more about guaranteeing profit than guaranteeing water supply.

Last year Cambridge Water lost 3.7 million gallons a day, but its pre-tax profits rose to over £4 million. South Staffordshire lost 19 million gallons a day whilst pre-tax profits rose 21% to £18 million. In Essex and Hertfordshire water leaks rose by 2 million gallons a day (to 39 million gallons a day) and profits rose by 32% to £43 million. And in the North West, United Utilities saw profits rise from £238 million to £244 million while 132 million gallons of water a day poured out of leaks in their system.

The 12 million people currently facing a hosepipe ban must wonder what on earth we are doing with a water industry that can deliver profits when it cannot deliver water. But for the Regulator, the priorities are different.

Companies are only required to reduce leaks when the Regulator regards the cost of doing so are reasonable. So, if it's cheaper to commandeer land, flood a valley, build a dam and bugger up the environment, that's the option to go for; because lots of companies make lots of money out of building dams.

None of this needs to be our starting point. We could just say that profits can start when the leaks stop. If that is too severe then set a more modest requirement. Only when leakage rates are below 5% can the taps be turned back on for executive pay rises, Directors 'productivity' bonuses and shareholder dividends.

The stock reply of the Regulator is that this would dry up the supply of equity finance that companies need for investment purposes. This argument too leaks like a sieve. Companies can get long term loans far cheaper than the rates at which they pay out unrealistic dividends. They could re-invest profits rather than distribute them. But it would pull the plug on the myth of equity markets that deliver everlasting growth in the productivity of public services.

People in the South of England may not realise it, but they are in the middle of a global struggle. In Latin America, Southern Africa and South East Asia countries that had water privatisation forced on them by the World Bank, the IMF and the WTO, are in open revolt against companies that now impose a form of water imperialism on their lives.

Price increases that have pushed water out of the affordability reach of the poor have spawned domestic revolutions. These, in turn, have re-opened the case for bringing water back into public ownership.

None of this avoids recognition that climate change will force us all into a long overdue debate about sustainable use of limited water resources. What it does not assume is that the public (and the poor) should take all the hits of water rationing, whilst the spring of company self-rewards flows on undisturbed.

Today's water crisis could blow a hole in the entire scam of privatisation. There would be screams of outrage from the water profiteers if we were to do so. But find the courage to make this stand and one thing is certain; the slurping sound at the end of the standpipe would be replaced by the gentle splashing of water from the tap.

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