

Britain: Thames Water sell-off means higher prices and job losses

Socialist Equality Party (Britain)
21 October 2006

This article is available as a PDF leaflet to download and distribute

The recent sale of Britain's largest water utility, Thames Water, will mean higher prices for the company's customers, further job losses and increased exploitation for the workforce.

Kemble Water Ltd., a consortium led by Macquarie Bank, Australia's largest securities firm, agreed to buy Thames Water from the German utility RWE for £8 billion, a sum which includes the company's debt of £3.2 billion. Macquarie Bank will acquire 11 percent of the utility, with the rest held by the Macquarie European Infrastructure Fund, Macquarie European Infrastructure Fund II and other investors.

Thames Water was formed in 1974, along with nine other regional water companies, and subsequently privatised by Margaret Thatcher's Conservative Government in 1989. It was bought by RWE in 2001 for £5 billion (\$9.4 billion). As a result of the sale to Kemble Water Ltd., RWE stands to make a profit of about £3 billion, in addition to the £1 billion in dividends it extracted over the past five years whilst saddling the company with debt. The sums involved could have helped considerably in repairing and renewing London's aging infrastructure.

Macquarie was founded in 1970 and has risen to become one of the world's largest financial institutions involved in infrastructure projects and one of Australia's largest companies. The secret of its growth lies in the bonanza opened up by the privatisation of state-run assets in the 1980s and, in particular, the decision of the Australian government to bring in new pension rules in the mid-1990s, forcing workers to pay a large part of their salary into retirement funds.

Macquarie's first infrastructure venture came in 1996, when the New South Wales (Australia) Labor Party government led by Bob Carr privatised the operation of a new toll road. Over the years, the bank cultivated a close relationship with such politicians.

This year Carr joined former members of the Australian House of Representatives in a highly paid position at the bank. In Britain, the same strategy was pursued. Gus Macdonald, the former Scottish trade and industry minister and member of the House of Lords appointed by Tony Blair, became the company's senior advisor.

The company's growth continued as more privatisations and public-private partnerships were forced through in Australia and internationally. In 2004, an inquiry into the dealings surrounding the \$800 million Oasis sporting complex, a joint venture between

the Canterbury Bulldogs rugby league team, Liverpool Council in southwest Sydney, and Macquarie Bank, found the conduct of the bank to be "predatory" and "opportunistic"—a judgement rejected by Macquarie executives. The inquiry found that council ratepayers lost about £9 million (\$16.6 million) on the project.

Today, Macquarie operates around the world running Sydney's airport, London's buses, toll roads in France, a port in China, Hawaii's largest gas utility, retirement homes in Canada, and US electricity utilities. Last year, its funds were the single largest foreign investor in the US commercial real estate market. The group has worldwide assets estimated at more than £45 billion (\$85 billion), making it what one newspaper describes as "the largest non-government manager of infrastructure assets in the world."

Since its Australian stock exchange listing in 1996, Macquarie shares have risen almost tenfold and the company is currently attracting about £500 million (\$1 billion) in new investment every month. The bank's high profits—it has made an average return of 19 percent over 11 years—and generous pay-outs to its executives and shareholders have led to its being labelled "an incredible money-making machine" and "The Millionaire Factory." Allan Moss, the head of Macquarie Bank, earned £8.6 million (\$16 million) in the last financial year—a 14 percent rise—and top executives as a whole were paid more than £58 million (\$108 million).

One financial analyst says Macquarie Bank's approach "is based on a simple assumption: that there is money to be made not just at the end of a deal but at every step along the way." Typically, the bank buys an asset, sells it at a profit to one or more of nearly 30 funds which it also manages, and then extracts more fees when it sells the fund to the public. The result is that a typical deal is far more profitable than the usual ones transacted through the world's stock exchanges.

The *Sydney Morning Herald* has described how Macquarie Bank "has mesmerised the share market with financial origami, and investors have rejoiced in the apparently endless stream of money it generates. It is admired by analysts, investors and executives who praise its originality and its agility."

However, the Macquarie "business model" depends on acquiring more and more privatised assets that must show they are growing in value, an expanding global economy, and cheap debt. Over the recent period, US authorities have used financial measures such as the maintenance of liquidity and a low interest rate regime to

prevent the world from falling into recession, but the vast expansion of liquidity and the emergence of a global financial system, well beyond the regulation of any single authority, coupled with the ever more desperate search for profit, has created the conditions for a financial crisis.

Last year, International Monetary Fund chief economist Raghuram Rajan warned, “One plausible scenario is one where the economy experiences a period of extremely low risk aversion (e.g., a sustained period of low interest rates) where asset prices become misaligned, creating the potential for a realignment with adverse consequences that ripple through the economy.”

Such a realignment would be devastating for the many pension funds that see infrastructure as a long-term, relatively risk-free investment and workers in utilities such as Thames Water that have already experienced continuous cuts to jobs and conditions.

Even before the Macquarie buyout was confirmed, Thames Water CEO Jeremy Pelczer announced plans to cut a quarter of its 4,000 workforce within three years—claiming operating costs had jumped £110 million due largely to increased power and pension costs. Whole departments are being closed down, older workers pensioned off and contract workers made redundant.

This comes a year after Bill Alexander, who was chief executive when the costs soared, retired, receiving a total of £2.7 million for the year. Other directors saw their bonuses increase from £228,000 to £615,000, with the total remuneration of the four executive directors up 62 percent at £1.26 million. It is believed that they could make as much as £30 million from the sale.

And it comes in a year when the *Independent* newspaper labelled Thames Water “Britain’s most hated company.” Despite years of executive visions and mission statements, the company seems further than ever from its objective of being the UK’s number one water utility.

This summer, the company imposed restrictions on water use during the worst drought in southern England in 70 years. The firm is losing about a third of its water in leaks from its water mains—the worst in the country and a level much the same as before privatisation.

The industry regulator OFWAT has regularly criticised the company for missing its leakage targets and is investigating the information the company provides as part of the discussion over charges to its customers. Although OFWAT officials insisted that they had “secured a legally binding undertaking from Thames Water to replace additional leaking water mains at the expense of its shareholders”—i.e., RWE—it is now clear that workers are the ones making the sacrifices whilst RWE has walked away with a fortune.

Thames Water also received the biggest fines for pollution in England and Wales last year after prosecution by the Environment Agency. In November, the company is in court facing for the first time prosecution for allegedly providing water unfit for human consumption.

In the face of such events, it is little wonder that there has been a stampede for redundancy—a response that has been encouraged by the betrayal of the trade unions. Since privatisation, the unions have been pursuing a “partnership” agreement with the employers, claiming it is the best way to achieve job security and better wages

and conditions.

But even before the latest announcement, the record showed that there were constant reorganisations, job cuts, outsourcing and downgrading, and frequent “management initiatives” that reversed policy taken a few months earlier. Most of those workers who have survived the period since privatisation have seen their wages stagnate in real terms.

Thames Water workers must see the dilemma facing them as part of a wider international phenomenon. Over the same two decades that the company has been privatised, the world has seen a growing social and economic polarisation. At one end of society a wealthy elite has become even richer, whilst at the other end of the social scale there is growing impoverishment.

The trade unions oppose the industrial and political mobilisation that is needed to combat this because it threatens the privileges they accrue thanks to their defence of the interests of the employers. On the political front, the Labour Party works hand-in-glove with the major corporations, while squandering billions of pounds that could be used for social purposes to prosecute a colonial-style war in Iraq.

The Socialist Equality Party advocates a fundamental restructuring of the economy to place the needs of working people and society as a whole before corporate profit and the accumulation of private wealth. Socialism would bring the main pillars of economic life into public ownership, including the water utilities, under the democratic control of the working population, so that the wealth produced by workers’ labour could be used to meet social needs.

A socialist policy for water supply and sanitation would involve reorganising the water companies on the basis of rational international planning and cooperation, so that all the world’s inhabitants would receive the most basic necessity of life. It would also provide for job security and decent pay and pensions for water workers.

The fight for this programme must begin by organising opposition independently of the company flunkies in the trade union bureaucracy.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact