

A photograph of rain falling on green grass. The rain is captured as vertical streaks against a blurred background of more grass and a blue sky. The grass in the foreground is sharp and has water droplets on it.

Ideas Wales

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Developing different business and public service models –
are there lessons from the 'Glas Cymru' experience?

Ground to cover

1. Background to Dŵr Cymru Welsh Water
2. The Glas Cymru 'model'
3. Performance to date
4. Wider application of social enterprise and bond finance in Wales? – some personal reflections

Welsh Water – an essential, public service



What's different about Welsh Water?

Since 2001, Welsh Water has been owned by Glas Cymru:

- ▶ Private company with no shareholders
- ▶ Financed in private capital markets – no Government support
- ▶ Financial surpluses used for the benefit of its customers
- ▶ No diversification
- ▶ Service provision through competitively outsourced contracts

The UK Water Industry



Northern Ireland -

Part of Government Department

Scotland -

Scottish Water – Government owned corporation

England -

Privatised in 1989, 9 large companies + 13 others

Wales -

Privatised in 1989, Not for Profit since 2001

Recent history of Welsh Water

- 1995** Hyder plc owns Welsh Water and South Wales Electricity
- 2000** Tough price reviews for water and electricity
- Sept 2000** Western Power Distribution (WPD) acquires Hyder
- Nov 2000** WPD agree sale of Welsh Water to Glas Cymru
- Jan 2001** Welsh Assembly support, Ofwat approval
- May 2001** £1,910 million bond issue by Welsh Water
Glas acquires Welsh Water
- April 2003** First 'customer dividend' to Welsh Water customers (£12 million)
- April 2007** 'Customer dividend' of £20 per person (£25 million)

Reaction to Glas Cymru's purchase of Welsh Water

 THE INDEPENDENT

Pantomime Horse!

The Sunday Telegraph

Japanese ready to outbid local consortium

The Guardian

'People' bid for Welsh Water

FINANCIAL TIMES

Welsh pleasure tempered with fears for jobs

 THE INDEPENDENT

Welsh Wizardry!

The Glas strategy for Welsh Water

- ▶ Glas has no equity capital - it exists only to provide a better value water and sewerage service to Welsh Water's customers
- ▶ Reducing financing costs are the key to lower bills - already account for around one third of customers' bills
- ▶ Securing long-term finance is the key to environmental investment – nearly £3,000 million over this decade
- ▶ Glas's strategy is to deliver a secure, long-term credit quality to investors
- ▶ Use competitive outsourcing to maximise operating and capital investment efficiency (i.e. separate financing from delivery)

Glas Cymru: Corporate structure

- ▶ Private sector company - with no shareholders
- ▶ Majority of independent non-executive directors
- ▶ Single purpose company – cannot diversify into unrelated activities
- ▶ ‘Company limited by guarantee’ under Companies Act 1985
- ▶ 50 members carry out normal corporate governance duties of shareholders but do not receive dividends
- ▶ Independent Membership Panel
- ▶ Compliance with ‘combined code’ of London Stock Exchange

Four pillars of credit quality



Performance to date

- ▶ £2,000 million capital investment (at no cost to tax payer)
- ▶ Nearly £2,000 million raised initially from bond markets –some 70% oversubscribed
- ▶ Since 2001, over £1,000 million raised from bond and bank markets at highly competitive rates
- ▶ Gearing reduced from 93% to 73% (net debt/RCV) – credit rating upgrade
- ▶ Some £100 million returned to customers



Welsh Water Investment Programme: Highlights

Full renewal of all water treatment works (AMP1)



4,500km of water mains replacement (AMP3&4)



First time coastal wastewater treatment (AMP2&3)



River improvements tackling some 1,000 sewer overflows (AMP3&4)



Welsh Water investment programme:

Cardiff wastewater treatment works



- ▶ £190 million investment scheme
- ▶ Serves c. 750,000 people
- ▶ No sewage treatment at all prior to 2001

Applicability of social enterprise in Wales?

- ▶ Strong co-operative tradition
- ▶ Current dominance of the public sector in Wales
- ▶ Successful role models – housing associations, building societies, community enterprises etc.
- ▶ WAG social enterprise strategy (2005)
- ▶ Benefits flow back to customers and communities

Applicability of bond financing in Wales?

- ▶ Tight government spending limits (c.1.8% pa real growth)
- ▶ Social housing – over £3 billion to meet Welsh Housing Quality Standard by 2010
- ▶ Need for public sector investment:
 - education?
 - health?
 - transport?
- ▶ European Investment Bank (EIB) Support
- ▶ Well known weaknesses of the original PFI model