

Global Wealth Chains: The Water Industry

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Background

- Financialization & temporality:
 1. All assets are congealed future income
 2. All liabilities are a claim on future income
 3. The rearrangement of claims and obligations around these two accounting identities are central to understanding financialized capitalism
- Strategy after financialization = *staggering the temporalities of asset-based income and the present cost of future liabilities to produce a spread in the present*

Conceptualising Relations in the Water Industry

- Trad focus = (global) organisation & governance of productive activities eg GVC = differential distribution of value within a global chain or network, and the governance of relations therein
- Problem: v little about mundane activities; activity-based frame obscures financialized relations;
- But water is an interesting case from a GVC perspective (Seabrooke & Wigan 2016):
 - Although activity is mundane, financial characteristics lend itself to financial innovation on the blind side of the regulator
 - Price not realised in a market, but underwritten (after industry consultation) by a regulator, Ofwat, using an oblique ROCE calculation to set prices.

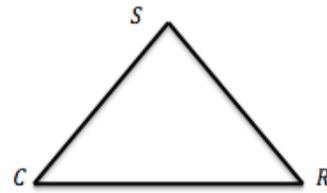
Regulatory context

- Regulation reflects specific history & activity characteristics: privatisation in 1989 to empower consumers and encourage efficiency; but demand for l/t cap inv proj = a 'natural monopoly'
- Regulator has a dual role (tension):
 - 'act as the market' by keeping prices low
 - ensure industry can finance their investments and operations
- Closeness to regulator during price setting phase; gaming during the remainder of AMP5; hybrid of captive and hierarchy; temporally specific.
- Gaming: cash extraction not value creation; working directly on the accounts to materialise value from which distributions are made – importance of (intercompany) debt and special dividends; but also increased use of derivatives (eg Thames Water) and securitisations (Yorkshire Water)
 - Common goal = evict the state as a claimant on the residual; immure as much income within the corporate network; bring income forward; assume substitutable present costs of future liabilities; materialise income in places which provide tax advantages

(a) Market



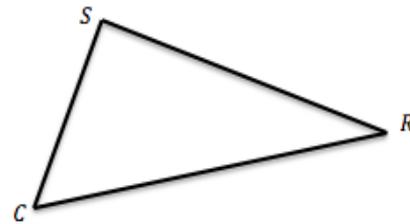
(b) Modular



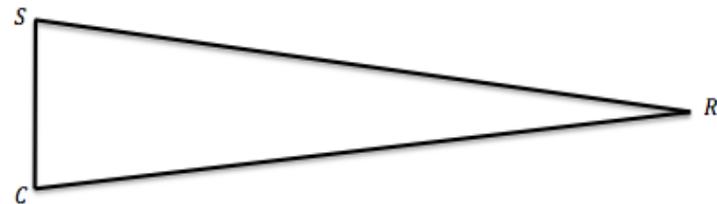
(c) Relational



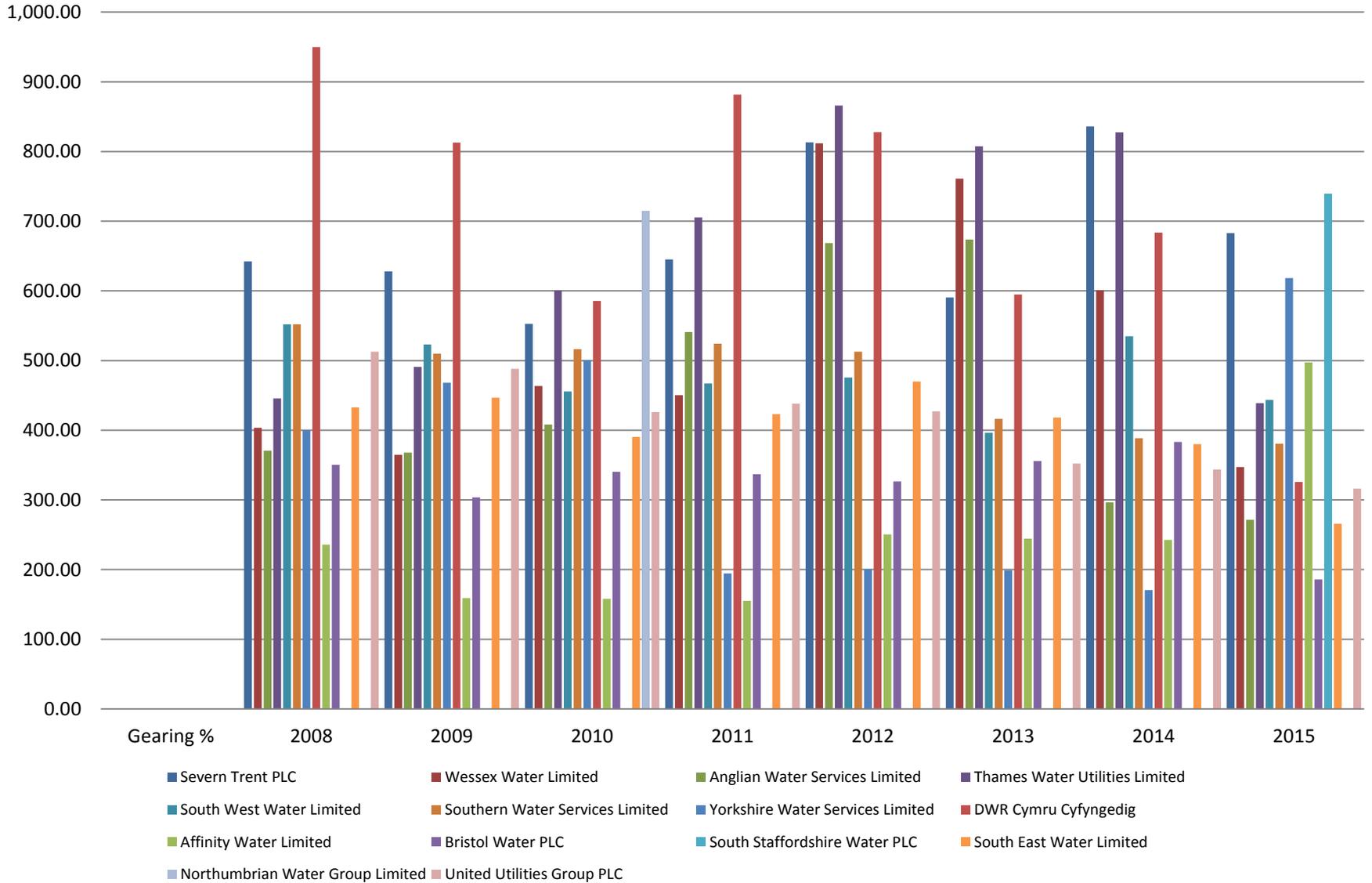
(d) Captive



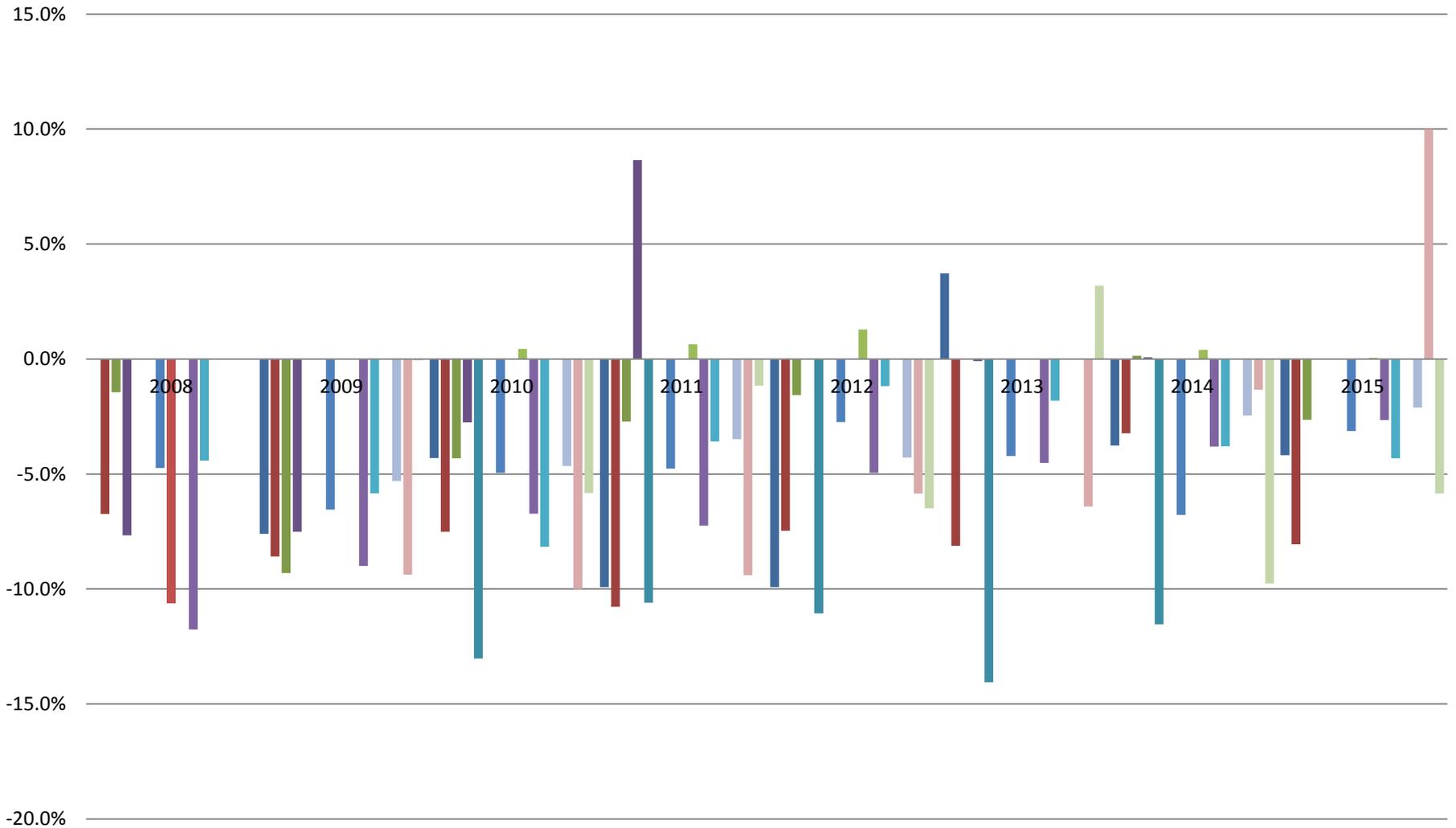
(e) Hierarchy



Water Company Gearing

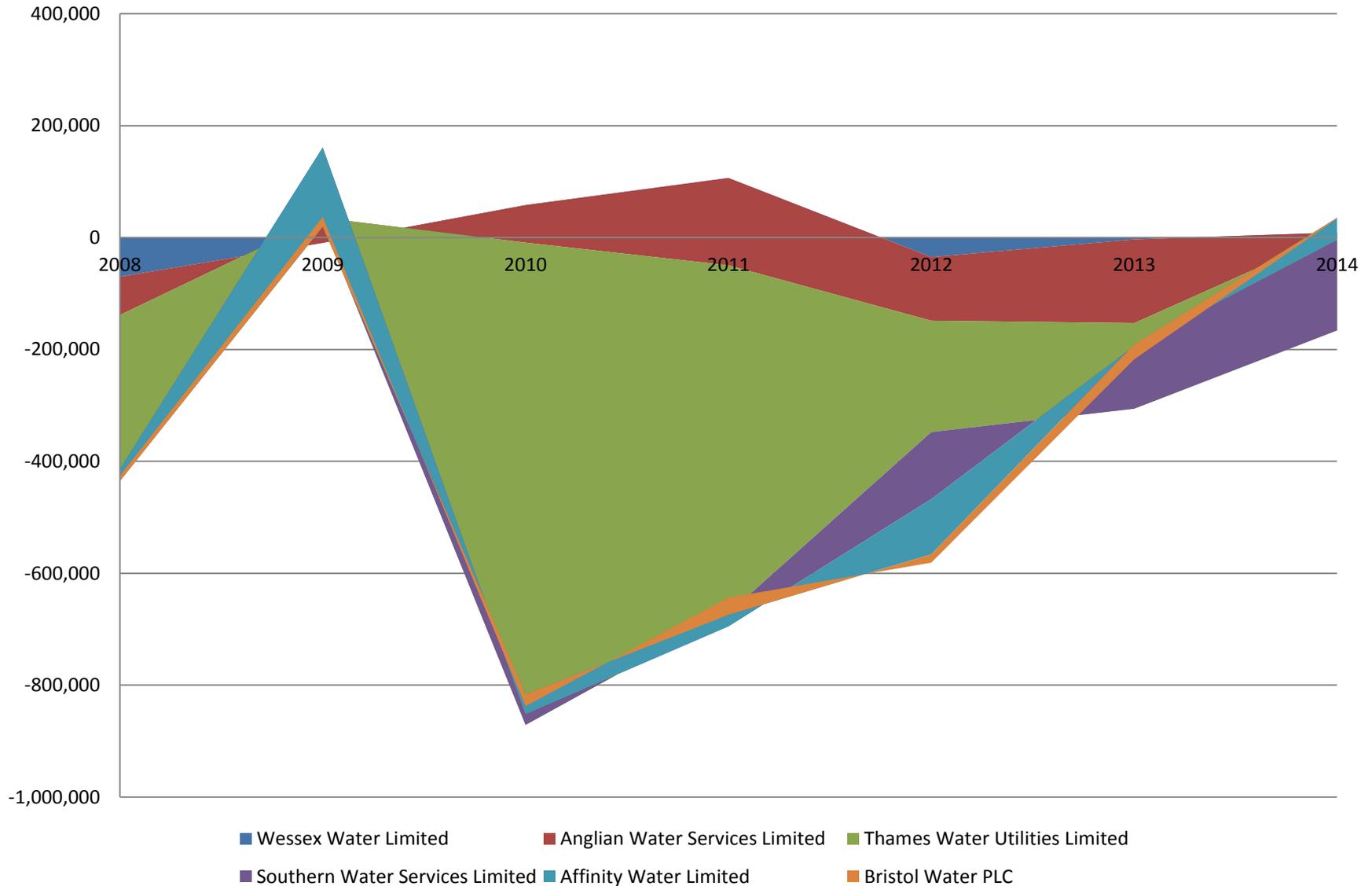


Taxation cashflow analysis (tax paid as % of c/f operating activities)



- Severn Trent PLC
- Wessex Water Limited
- Anglian Water Services Limited
- Thames Water Utilities Limited
- South West Water Limited
- Southern Water Services Limited
- Yorkshire Water Services Limited
- DWR Cymru Cyfyngedig
- Affinity Water Limited
- Bristol Water PLC
- South Staffordshire Water PLC
- South East Water Limited
- Northumbrian Water Group Limited
- United Utilities Group PLC

Cashflow Gap: (c/f operations - capex - dividends)



Conclusion

- Water is a GWC story: the organisation of financial flows of wealth; & the role of law and accounting expertise in facilitating that movement.
- The corporation as a 'portal', bending time and space
 - Income pulled forward from the future and 'materialised' in specific jurisdictions
 - Present cost of future liabilities offset (tax & interest) or isolated in thinly capitalised vehicles where blow-up costs can be outsourced, or scrimped on/sacrificed (pension funds).