Kate Bayliss Gwyn Bevan August 1st, 2025

Only public ownership of the water system will solve its crisis

*The water system in England and Wales is in crisis. The recent report by the Independent Water Commission led by Sir John Cunliffe recommends the abolition of Ofwat – the current regulator – to be replaced by deeper regulatory reforms. But **Kate Bayliss** and **Gwyn Bevan** argue that further regulation is unlikely to resolve the fundamental tension in the privatised water system between the interests of consumers and investors.*

Enjoyed this post? Sign up to our newsletter and receive a weekly roundup of all our articles.

The privatised water system in England and Wales is a wild exception and in crisis. Public trust in this privatised system is at all time low, following regular spills of raw sewage while at the same time billions of pounds paid out in dividends to private investors. The Government has attempted to address this with its 2025 Water Special Measures Act, which allows the banning of bonuses to water bosses, and threatens executives with criminal charges and imprisonment for those that violate regulation. A further 88 recommendations in the recent review led by Sir Jon Cunliffe advise further regulatory reform. But the fundamental conflict of interest embedded in the current system between investors and consumers remains unaddressed. Short of public ownership, these attempts at fixing the crisis of the water system are doomed to failure.

The UK water system is a global anomaly

In most of the world, water is publicly owned and provided, and private sector involvement is limited in scope and duration. No country has copied our model of full and permanent transfer of the entire system to shareholders to create private regional monopolies of a vital service that has been managed in the interests of shareholders. The results of these exceptional arrangements are:

- Spills of raw sewage are rising, due to underinvestment in maintenance and inadequate replacement of aging infrastructure.
- Thames Water is close to financial collapse with debts of £17bn.
- Ofwat is concerned about the finances of ten out of 16 water companies — the sector's net debt is nearly £70bn.
- Since privatisation, water companies have paid out over £83bn in dividends.
- Consumers are facing a 36 per cent price increase in water bills scheduled by 2030.

These failures mean that public trust in the privatised system is at an all-time low and drier weather will result in water shortages. The review of the sector by Independent Water Commission was intended to provide a "reset" and "deliver a system fit for the future". But, bizarrely, nationalisation was specifically excluded from their terms of reference.

The failures of privatisation

In How Did Britain Come to This? Gwyn Bevan, reviewed a catalogue of privatisation failures. Successive governments led by Margaret Thatcher introduced markets for services where these have many of the conditions that cause markets to fail; and -launched the financialisation of the British economy, which resulted in market failures on steroids — as in our privatised water and sewage industry. Financial extraction by Macquarie in Britain's financialised water and energy networks has been analysed by Kate Bayliss, Elisa Van Waeyenberge and Benjamin Bowles.

> *No country has copied our model of full and permanent transfer of the entire water system to shareholders to create private regional monopolies of a vital service that has been managed in the interests of shareholders.*

These failures were foreseen in 2002, in a report, submitted to the Competition Commission (now the Competition and Markets Authority) by Chris Goodall regarding the sale of Southern Water to a consortium of financial investors. With remarkable prescience, he advised that "Large external private equity shareholders would load the company with debt and Ofwat inevitably would lose any regulatory control. For example, it would prove extremely difficult to ensure that water companies invested enough in sewage control". This was reported by the Guardian, in 2022, when, under the 20-year rule, Goodall's report ought to have been made public; but it is still being kept secret. As Max Wilkinson pointed out in the Financial Times, takeovers by private equity and sovereign wealth funds "resulted in opaque and labyrinthine ownership structures, blurred lines of responsibility, subsidiaries in the Cayman Islands, a delisting of most companies and a sense that financial engineering had become more important than providing a service".

Regulation has evolved in two directions. First, a dense econometric-oriented architecture has developed. Second, from 2009 there has been a shift towards outcomes-based regulation as based on self-reporting of sewage spills, subject to audits by the regulator. When Liz Truss was Secretary of State for the Environment, she undermined the effectiveness of the threat of audits with savage cuts to the budget of the Environment Agency for environmental protection (reduced from £170m in 2009 to £80m in 2019). In 2022, Oliver Bullough described the similarity between environmental enforcement on the water companies and financial crime: 'On paper, the laws are perfectly acceptable and regularly updated. The problem is that they are rarely, if ever, enforced.' His article featured how volunteers working for Windrush Against Sewage Pollution had identified the scale of the sewage discharged by Thames Water. Gill Plimmer and Nic Fildes, in the Financial Times, described how Macquarie had "extracted supersized returns" from owning Thames Water from 2006 to 2017: taking out £2.7bn in dividends, increasing the pension deficit from £18mn to £380mn, and Thames Water's debt from £3.4bn to £10.8bn. "Just weeks after Macquarie sold its final stake in the business in 2017, Thames Water received a £20mn fine for river pollution". That record fine is only 0.07 per cent of the sum of dividends paid out and increase in debt (£13.5bn). As the Financial Times reported, Thames Water is currently struggling to avoid going bankrupt and temporary nationalisation by seeking loans from private equity at usurious rates of interest. Whatever the outcome Thames Water has to rescued by its exploited consumers, or taxpayers, or both.

More regulation isn't the solution, public ownership is

The 2025 Water Special Measures Act gives new regulatory powers to ban bonuses to water bosses, and the threat of criminal charges and imprisonment for executives. But the fundamental problem for any regulator of the privatised water industry is managing conflicting interests of investors and consumers. The seminal text on Responsive Regulation by Ian Ayres and John Braithwaite makes the argument for tightening regulation in response to failures by providers. But tighter regulation can be interpreted as weaker regulatory stability. More demanding regulatory targets contributed to a fall in the credit ratings of some water companies and increased difficulties in financing their operations.

> *The fundamental problem for any regulator of the privatised water industry is managing conflicting interests of investors and consumers.*

The Cunliffe review recommends abolition of Ofwat and the creation of an integrated regulatory role, but any regulator will be trapped on the horns of Ofwat's dilemma: managing the conflict between investors and consumers. Furthermore, no regulatory system can overcome the intractable problem of information asymmetry. Although more can be done to enforce disclosure about the past, the regulator cannot know what questions to ask about the future. Ofwat was in the dark on the scale of the failures of companies failed to invest in sewage infrastructure and raising debts to threaten the sector's financial sustainability. What regulatory structure can stop revenue from bills disappearing into payments of interest and dividends as in the past?

> *Public ownership is not a panacea, but it is a vital starting point from which to build a transparent, equitable, democratic water system.*

In June 2025, the Secretary of State said in parliament: "*We are not looking at nationalisation because it would cost over £100 billion of public money.*" That is the estimated "regulatory capital value" (RCV), based on asset value in 1989, plus capital spending, less depreciation (all adjusted by the RPI). The real value of assets that are over thirty years old is unknowable and these are not like normal business effects. They cannot be used for anything else and they are the property of the nation . It makes no sense to compensate *shareholders* for capital spending that was mostly paid for by *consumers*. Another method of valuation is based on future profits to shareholders by using share prices for the only two water companies listed on the stock exchange (Severn Trent and United Utilities). That would halve the estimate of £100bn. But what is paid in compensation ought to take into account inadequate investment in the sewage infrastructure, dividends paid, debts incurred, weak financial resilience, and massive investment now required. There is no moral, or economic case, for substantial -financial compensation.

Public ownership is not a panacea, but it is a vital starting point from which to build a transparent, equitable, democratic water system. In that system water utilities would continue to be self-financing, reinvest surplus funds and be able borrow more cheaply. The Cunliffe review is a missed opportunity to find evidence from other countries on the most effective mix of ownership and governance, and how England and Wales might be able to move in that direction.

Enjoyed this post? Sign up to our newsletter and receive a weekly roundup of all our articles.

All articles posted on this blog give the views of the author(s), and not the position of LSE British Politics and Policy, nor of the London School of Economics and Political Science.

Image credit: Yau Ming Low on Shutterstock

About the author

Kate Bayliss

Kate Bayliss is a Research Associate at SOAS University of London. She has been working on the political economy of essential service provision for over two decades, in the UK and the global South. She is part of the People's Commission on the Water Sector": https://www.thepeoplescommissiononthewatersector.co.uk/

Gwyn Bevan

Gwyn Bevan is Emeritus Professor of Policy Analysis in the Department of Management at LSE and author of How did Britain come to this? A century of systemic failures of governance. He was Director of the Office for Health Care Performance at the Commission for Health Improvement, which regulated quality of care in the NHS in England and Wales from 2000 to 2004.

Posted In: Governance | Government | LSE Comment | Public Services and the Welfare State

© LSE 2025