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The public control debate in water

Ownership, control and the trade-offs between them: Project Introduction

Contents

01	Introduction: why are we having this debate?	3
02	What is meant by public control?	3
03	The case being made for greater public control	4
04	The downsides and trade-offs	5
05	What remains to be answered	8

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Author(s):

Paul Johnson, **Advisor, SHGH**

Co-author(s):

Scott Corfe, **Director, Public First**
Bertie Wnek, **Director, Public First**

Introduction: why are we having this debate?

There is an ongoing discussion in Britain about ownership of our water industry. Visible failure in the sector has fuelled public and political anger and ignited this debate; Thames Water moving from one refinancing crisis to the next, sewage discharges becoming a totemic issue, and bills rising sharply through the current price review period at precisely the moment household budgets are least forgiving. Public trust in the privatised model is at an all-time low.[1]

As a result, Defra have proposed a regulatory overhaul, implementing a supervisory regime akin to the model used by the Financial Conduct Authority. This was recommended in 2025 by the Independent Water Commission led by Sir Jon Cunliffe. The government immediately accepted the review's headline recommendation to abolish Ofwat,[2] and in its January 2026 White Paper, confirmed a single integrated regulator for England, and the implementation of the supervisory model via a Clean Water Bill later in this Parliament.[3]

Against this backdrop, incoming Prime Minister, Andy Burnham, has made the argument for greater public control of the water industry. He has found a receptive audience well beyond Greater Manchester. But crucially, the debate is being had at a level of abstraction which avoids the question of exactly what greater public control could mean, who pays, how much, and for what.

What is meant by public control?

The chief difficulty is that "public control" is an indefinite term which might mean several different things with profoundly different fiscal, legal and operational consequences. In theory, the state can control an industry it does not own through regulation, it can have limited day-to-day control over the operations of assets it does own, or it can, of course, both have ownership and day-to-day control. Each of these models might be implied by greater public control. A definition for each one is offered below:

A. **Full renationalisation.** The state acquires the licensed water companies outright and assumes responsibility for their assets, their debts, their investment programmes and importantly their operational performance.

B. **Public ownership with delegated control.** This model is proposed in the recent Mainstream policy paper, *The Productive State: A Framework for Manchesterism.*[4] Its authors argue for public ownership with delegated day-to-day control. In theory, it would involve the establishment of public corporations, which would issue their own bonds backed by their own revenue streams, with the implicit support of the state standing behind them. They would differ from other public corporations such as the Post Office or NHS Trusts since their commercial revenue stream of customer bills would be used to cover their costs, with debt raised against that predicted revenue, rather than from

[1] **CCW**, *Water Matters 2026*
[2] **Defra**, *Government initial response to the Independent Water Commission's final report* (2025)
[3] **Defra**, *A new vision for water* (January 2026)
[4] **Mainstream**, *The Productive State: A Framework for Manchesterism*

departmental budgets. The paper argues this implicit backing is what makes cheaper borrowing possible. It acknowledges that the borrowing does contribute to headline measures such as public sector net financial debt but argues it does not enter general government debt. European System of Accounts (ESA 2010) classification rules, the ONS and ultimately the bond markets will all have views about whether such borrowing genuinely sits outside the public finances. If borrowing is materially cheaper because there is a state guarantee, the ONS will likely classify it to the public sector. This is the case with Northern Ireland Water for example, which operates under company legislation and sees its borrowing scored against departmental budgets. Its investment is therefore determined by departmental budget rounds. The paper proposes that these public corporations would be overseen by an arm's-length board with a clear public interest mandate. It suggests board membership decisions would be independent, with operational and investment decisions insulated from political interference. They would be answerable to city regions and insulated from the Treasury. Whether these corporations can be designed to be truly independent from the Treasury and Ministerial direction is up for debate.

C. **Greater public control without ownership.** This may involve tighter regulation, tougher licence conditions, public interest duties, or new public delivery bodies for specific investment programmes. This is, broadly, the direction of travel the sector is already on with the implementation of Defra's proposed supervisory reforms. Still greater public control could involve public interest duties being ranked above commercial interests; stricter limits on gearing, and or mandated or incentivised conversion to non-profit models like Welsh Water. The latter would require compensation for the owners.[5]

All three options carry quite different fiscal implications, and it's important to distinguish between them when discussing "public control" in the abstract.

The case being made for greater public control

It is argued that greater public control would improve accountability and that the sector is beyond the meaningful oversight of the British public or its representatives.

Proponents argue greater control would align investment with public priorities and limit financial engineering, financial extraction, and excessive dividends from businesses that are regional monopolies operating an essential utility. And they argue, with some justification, that only a decisive change of model can restore public confidence in a sector where trust has collapsed.

Given the structure of the system, with no effective competition, the benefits of private ownership are likely to be limited, and intrusive regulation necessary. And there are some costs. One such cost is that the private cost of capital exceeds the state's borrowing cost, so consumers can pay more than they need to for the same infrastructure upgrades. In *The Productive State,* Lawrence and Williams cite nominal equity return requirements of 8-12% against the 3-5% available to a public corporation.

While there is a premium for private capital over gilts, and that matters in a sector as investment intensive as water, this substantially overestimates the difference. Much private investment has been

[5] Welsh Water was acquired for £1.9bn. **Saïd Business School**, *Case Study: Welsh Water* (2021)

debt financed rather than equity financed. Ofwat's allowed returns on equity for PR24 were 5.1% in real terms (7.5% nominal) while the weighted average cost of capital was set at 4.2% or lower for 2025-30.[6] Ofwat also reported that achieved returns on equity averaged 1.7% from 2020-25 in real terms.[7]

The downsides and trade-offs

On the other side there are clear costs to public ownership.

To start with, full renationalisation would mean acquiring the companies directly. It is difficult to say today precisely what that would cost, although Defra's 2025 technical paper suggests £100bn based on a sector Regulatory Capital Value of £106.7bn.[8] For those companies that are publicly quoted, the starting point would presumably be determined by the share price at a particular date. For other companies one would need to calculate a "fair market value". That might not be straightforward. Any effort to purchase at below fair market value would no doubt invite legal challenge and be undermined by bilateral investment treaties. More significantly, it could undermine confidence in property rights, with severe consequences across the economy. Any compulsory purchase would of course require primary legislation. With Public First's team of economists, I will over the summer, oversee an independent analysis to estimate the plausible cost of full acquisition, and review existing cost estimates in the public domain.

The argument that public ownership with delegated control would remain outside general government debt and the fiscal rules also deserves some scrutiny. The UK targets public sector aggregates, and the ONS has a long record of reclassifying entities whose commercial independence turns out to be unrealistic. More importantly, bond markets are under no obligation to respect legislative boundaries or classification. If investors treat a public water corporation's debt as carrying implicit sovereign support, and they most likely will, then it will be priced into perceptions of the UK's contingent liabilities irrespective of the classification.

Any plausible model of public ownership scores on the public balance sheet in some form. We do not conduct fiscal policy under a net worth rule, and for good reason. Financial liabilities need to be funded, regardless of how much physical infrastructure the state might own. The notional value of the nation's highways, hospitals or water pipes will have little to no effect on our capacity to borrow. No Chancellor has yet been willing to contemplate going down this route, and a government that changed its fiscal rule at the precise moment the old one became inconvenient for its nationalisation programme would struggle to convince the gilt market.

Moreover, the Thames Water example demonstrates the material equity risk in the sector, risk which would simply transfer to the taxpayer under public ownership. Where the state does provide implicit backing to the debt, as suggested in *The Productive State,*[9] the cost of failure is borne by the taxpayer. The potential cost of Thames Water's high-profile failure is good evidence that this debate is not just one of national accounting.

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[6] **Ofwat,** *PR24 final determinations* (2025)
[7] **Ofwat,** *Monitoring financial resilience* (2025)
[8] **Defra**, *Nationalising the water sector: how we assessed the cost* (2025)
[9] **Mainstream**, *The Productive State: A Framework for Manchesterism*, p.52

Similarly, even short of full ownership, regulatory changes arising from greater public control could affect the cost of capital, investment incentives, and incentives for efficiency. Credit rating downgrades during the past two price review periods have already added to customer bills; further downgrades would do the same if greater control were to increase the perceived regulatory risk of the sector. A series of credit rating downgrades imposed on water companies during the past two price review periods has added up to £27 to annual consumer bills.[10] Moody's cited the reduced predictability of the regulatory environment as a chief reason for the downgrades.[11]

Public First economists will over the summer estimate the extent to which these incentives would be affected under greater control, and the extent to which this would affect consumers and other Government priorities.

Britain's privatised utilities have failed in some respects to deliver good outcomes for consumers, yet the years immediately following privatisation saw notable productivity gains. According to Frontier Economics, the water industry achieved 30 percentage points more cumulative productivity improvement than comparable industries in the 25 years after privatisation[12]. Similarly, leakage is down by 43% since privatisation.[13] The equity model creates a pressure to find efficiencies that a public corporation answering to the public sector (whether regional city Governments or the Treasury) does not obviously replicate.

In a sector without competition, and water is the best example of this, the structure of ownership is not what really matters. What matters most is the quality and shape of regulation. A changing regulatory settlement can fundamentally alter outcomes. To illustrate this, changes in Ofwat's approach to the balance between investment, bills and other objectives over time, fuelled in part by public pressure, have resulted in measured returns on equity falling from 13% in the early 1990s to around 3% in 2020-24.[14]

The fundamental trade-offs between investment and bills still exist despite any change of ownership. Today, the tension between investment and bills is mediated by Ofwat. Under public ownership it would be mediated by the Treasury, and Ministers would be faced with the choice to either raise bills, increase public borrowing, delay investment, cut spending elsewhere, or just accept worse performance against environmental goals. We know from long and dispiriting experience that this pressure tends to resolve itself in the form of lower investment to avoid the short-term pain of higher bills.

The history of nationalised industries in this country is substantially a history of investment programmes deferred because the politics of raising bills, or of borrowing, made deferral easier. The capital programme the sector now requires (£104bn is required in the 2025-2030 period alone)[15] is a vast ongoing commitment that bill increases alone will have to sustain unless government increases borrowing or taxes or makes further changes to the fiscal rules.

Fiscal “headroom” is typically measured in the low tens of billions on a good day. There is limited headroom against the target that overall debt (PSNFL) should be falling. Capital expenditure in water

[10] **Oxera**, *A sustainable and investable regulatory framework for the England and Wales water sector* (June 2025)
[11] **Moody's Ratings**, *Reduced predictability of regulatory environment pressures credit quality* (November 2024)
[12] **Frontier Economics**, *Productivity improvement in the water and sewerage industry in England since privatisation* (September 2017)
[13] **Ofwat**, *Leakage*
[14] **Ofwat**, *PR24 final determinations: Aligning risk and return, allowed return appendix* (December 2024)
[15] **Defra**, *A new vision for water* (January 2026)

would, in other words, be competing directly for that headroom, and for ministerial attention, civil service capacity and political capital, with military rearmament, the railways, the NHS estate and everything else in the queue. The opportunity cost is substantial. The demands on ministerial attention become more severe when you acknowledge that, under public ownership, the government becomes wholly and visibly responsible for operational performance and any failures that may occur. Bills will rise under any ownership model, because the investment need is so high. Things will go wrong operationally, because that is the nature of a network of ageing infrastructure, and this will substantially diminish already scarce ministerial capacity.

The tables below summarise which trade-offs and benefits apply to each proposed model:

Trade-off	Risk under Model A: full nationalisation	Risk under Model B: public ownership with delegated control	Risk under Model C: greater control without ownership
Acquisition and compensation cost	High	High	Low, if no change to ownership structure; high if ownership changes result in compensation to previous owners (as in the case of Welsh Water)
Interest cost and risk transfer to the state	High	High	Low
Sector debt comes onto the public balance sheet	High: all debt comes onside	High-medium: classification test is hard to pass given the implicit guarantee. Would likely be classified as general government debt.	Low
Blunted efficiency incentives	High: no equity pressure, Treasury oversight	Medium: commercial mandate is meant to preserve incentives	Medium-low: incentives remain but are limited by regulatory design
Investment vs bills trade-off migrates to the Treasury	High	Medium: arm's-length status is designed to prevent it but would migrate to regional city Governments ultimately overseen by HMT	Medium-low: stays with the regulator but Ministers are ultimately responsible
Ministerial accountability for operational failure	High: the minister owns visible failures	Medium: the board takes first blame, but local gov, and ministers ultimately take blame	Medium-low: remains with companies, although ministers and regulators still blamed
Spillover to investor confidence in other regulated markets	High: turns on the manner of transition	High: same transition risk	Medium: rises with measures seen as expropriation in substance
Transition and state-capacity burden	High: acquiring and operating 16 companies	High-medium: new institutions plus acquisition and regulatory regime. Medium once operation is at arm's length from Central Government	Medium: depends on scope builds on the existing reform programme

Table 1: Trade-offs by model

Argument in favour	Under Model A: full renationalisation	Under Model B: public ownership with delegated control	Under Model C: control without ownership
Democratic accountability and oversight	High: direct ministerial accountability to Parliament	High-medium: arm's-length status deliberately limits political direction	Medium: runs through the regulator's mandate, licence duties and transparency requirements
Investment aligned with public priorities	Medium-high: in practice priorities are set by the Treasury, but the postwar record shows the politics of bills and borrowing crowd investment out	High-medium: corporate plans sit within government-set mandates but outside day-to-day direction and are subject to same constraints as private sector	Medium: statutory duties, the price review and public planning bodies already direct where investment goes
Ending financial extraction	High	High-medium: creditors remain	Medium-low: achieved returns already around 3%
Cheaper access to capital	High-medium: though the taxpayer would absorb equity risk	Medium: cost of capital is already nearly within nominal 3-5% bracket; public corporations have access to cheaper capital in some circumstances but not all.	Low: a stable and predictable regime can narrow the spread, the cheapest saving on offer
System coordination and long-term planning	High-medium: full system coordination under one owner, long-term planning at discretion of Ministers	Medium: coordination across corporations still likely needs public planning bodies and catchment regulators	Medium: single regulator, catchment planning and public planning bodies required to deliver it

Table 2: Arguments in favour by model

What remains to be answered

The current model has failed in important respects and the status quo carries costs. However, moving to public ownership would imply a different set of costs. We will be conducting a programme of work over the summer to estimate the scale of this different set of costs. Whilst the Cunliffe review found no difference in outcomes under different ownership models, the Commission was not asked to look at nationalisation or greater public control as part of its programme of analysis. This programme of work will examine the ownership question explicitly, with the same evidence-led discipline, it will involve independent analysis to:

- Estimate the direct cost of acquiring the companies, alongside a review of the cost analyses already in the public domain, including the accuracy of assumptions underpinning the privatisation premium;
- Assess what different points on the spectrum of public ownership and control would imply for the fiscal rules, PSNFL, available headroom and the management of competing spending pressures, including a hard look at the classification and market-perception questions raised by the public corporation model;

- Analyse how nationalisation, or moves toward greater public control, would affect investor confidence and appetite across the UK's other regulated markets. This would include a proper accounting of the fiscal, political and administrative opportunity cost of acquiring and operating the water sector in preference to doing other things.

As well as answering the question of cost, the work will aim to answer the central questions over the value and viability of greater public control. Namely, whether it adds to investment or displaces it, whether it improves efficiency, who carries the risk when things go wrong, and what happens to the cost of capital across regulated infrastructure.

There are fundamental costs and trade-offs that we need to come to terms with in managing the water sector. They will exist whether that sector is publicly or privately owned. The key is going to be clear objectives, strong and effective regulation and some consensus over the way forward in terms of ownership and control. We hope to provide evidence to support an appropriate way forward.

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