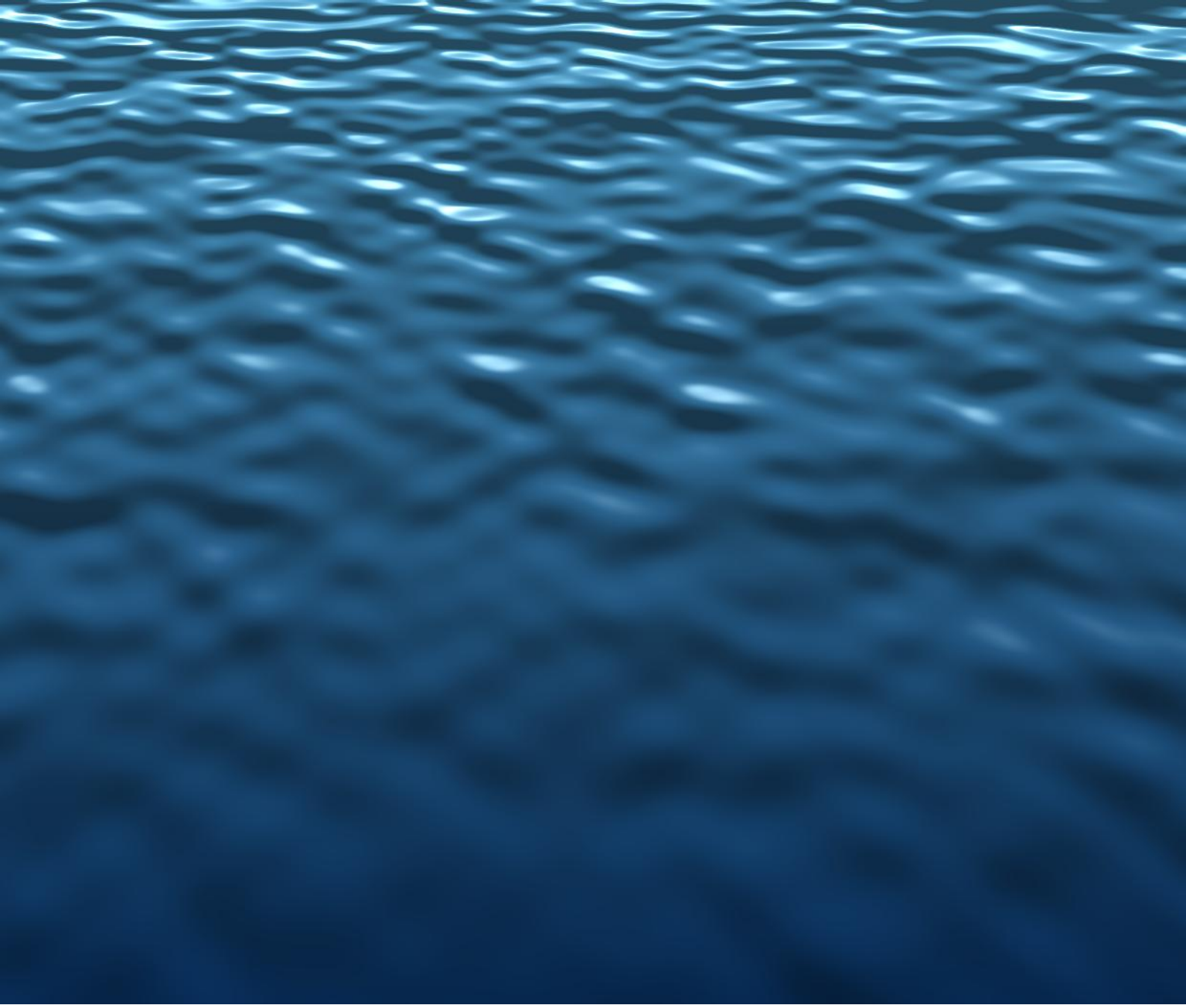


Public Control, Private Costs?

THE TRADE-OFFS BEHIND REFORM OF ENGLAND'S WATER SECTOR

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01 Foreword

Calls for the nationalisation of the water industry have become more insistent in recent years. The new prime minister has talked, in somewhat vague terms, about increasing public control.

The reasons are not hard to fathom. Sewage leaks, investment backlogs and other high profile failures are contrasted with payments of dividends to shareholders and generous executive remuneration. This is an industry which operates through a series of local monopolies and which was once, not so long ago, publicly owned.

One can argue the toss over the merits of privatisation. There is plenty of evidence that the early years at least saw increased levels of investment and growing efficiency relative to what went before. It is harder to know the current counterfactual. What decades of work, though, have demonstrated is that ownership tends to be less important than market structures, effectiveness of regulation and how incentives work. The question that confronts us now is whether the benefits of renationalisation, or some other form of public control, would outweigh the costs.

The key point made in this report is that the costs to government and the public finances of bringing the water industry back into the public sector would be very substantial. The equity or shareholder value of the companies is around £25 billion. They also hold around £80 billion of debt. There can be some dispute about these precise figures not least because a number of the companies are privately held. But a number in the region of £100 billion is in the right ballpark as a cost to the public finances of bringing all the companies into public ownership.

Why is that the right number to consider? Both holders of equity and of debt would need to be compensated. Government would need to purchase the equity and take on the debt. If done at market value that would add around £100 billion to measured government debt.

One objection is that government has the power to pay less than that if it so wishes. That is true. It could legislate to pay less, though it may well be in breach of some international obligations, and even human rights law, if it were to do so. But the wider costs could be very considerable indeed. Effective expropriation of private property rights on this scale would risk having much wider, negative consequences for investment, confidence in the UK, and hence economic growth and living standards.

It may be that a small percentage "haircut" would be feasible, but the idea that one could expropriate owners of either equity or debt on a significant scale is dangerous. It is worth saying here that the particular circumstances of Thames Water – effectively a distressed asset where debt holders may take a loss – is not relevant to the wider sector.

A second, more reasonable, objection is that this is all accounting nonsense. If government buys an asset for what it is worth, then it cannot be worse off as a result. Its net worth has not changed. That is true but, for very good reasons, net worth is not what matters for fiscal management. There is no fiscal regime which could ignore actual debt and borrowing requirements. The government has to sell its gilts, and taking on additional debt would make that job harder.

What is more, from the point of view of fiscal management, public ownership would not involve only a one-off effect on the public finances. For one thing the interest on the additional debt would need to be serviced. Our current fiscal situation – with debt interest payments at very high levels by both international and historical standards – provides ample evidence of why that might be a problem. More importantly it is likely that the industry will need to borrow something like an additional £12 billion a year into the foreseeable future. That would add directly to annual government borrowing. There is a risk either that this required investment would be squeezed out by other priorities, creating a bigger problem of underinvestment – and there is evidence that that is exactly what happened prior to privatisation – or that it would itself lead to a reduction in investment elsewhere.

These are not deep, principled reasons for sticking with something like the current dispensation. They are practical and contingent, but they are no less important for that. The costs of moving ownership would be hard for the government to manage at any time, and in the current fiscal environment they would be doubly so.

Failures of the current model of ownership and regulation are well known. The failings of the pre privatisation era are perhaps fading from the collective memory. New models of regulation for the water sector are under consideration and there is no doubt that improvements can and should be made. Proposals from the Cunliffe Review to introduce regional systems planning could improve accountability and coordination across the sector. What we should not do is anything which achieves "greater control" by undermining stable, independent economic regulation. That would risk making the sector look less investable - that is to say it would risk increasing its cost of capital. The costs of a change of ownership would be substantial. There is little to suggest that the benefits would be great enough to justify those costs.

Paul Johnson CBE, *Senior Adviser SHGH*

02 Executive summary

Public First was asked by Water UK to explore the critical policy debates surrounding "public control" of the English water sector. As demands for structural reform increase this report examines the potential costs and balance-sheet consequences of different public control models, showing that while changing ownership moves where risks and trade-offs are resolved, it does not eliminate the fundamental constraints facing the sector.

Water Nationalisation at a Glance

- **Full Nationalisation acquisition cost:** Our company-by-company estimate suggests an enterprise value (EV) of **£105bn** for England. EV is the sum of the sector's market equity value and net debt.
- **The Transferred Debt Burden:** An outright nationalisation does not make debt disappear; it would bring over **£80bn** of existing financial liabilities into the public sector. This is a cost that needs to be considered alongside acquiring the equity in the privatised businesses.
  The full enterprise value of the English water industry, not just the equity acquisition costs, hits the public sector debt book upon nationalisation. The reclassification of Network Rail into the public sector is a case in point, with the move adding tens of billions of pounds to public sector debt (PSNFL)[1].
- **The Long-Term Investment Challenge:** In addition to maintenance, the English water sector requires over **£290bn** of enhancement investment over the next 25 years - broadly **£12bn a year (close to £500 per household)** in 2026 prices. £12bn per year is equivalent to 4.6% of public health spending, 9.5% of education spending and close to a fifth of UK defence spending in 2025/26.
- **The Risks to the Fiscal Rules:** While a one-off reclassification of water debt to the public balance sheet does not on its own break the government's fiscal rule that debt should be declining as a share of GDP at the end of its target period, sustained annual costs of **£12bn** for future investment represents a direct, recurring risk to this rule, depending on the extent to which these are covered by

[1] *ONS decision on the classification of Network Rail - GOV.UK*

revenue from increasing consumer bills each year. Higher borrowing to fund investment risks driving up annual interest payments and reducing the Government's fiscal envelope further.

- **Ultimately, though, the fiscal risks here will depend on the choices the government would make:** A key question for the government under a nationalised water sector will be the extent to which investment is financed through bills, borrowing or general tax revenues. Pressure to keep bills low risks higher public borrowing or lower investment in the sector as its needs are balanced against high priorities such as health and education.
- **Different Models of Public Control Carry Different Risks:**
  - Regional systems planning could improve coordination while retaining private finance, provided responsibilities, funding rules and independent economic regulation remain clear.
  - The cost risk arises where plans are unfunded, decisions become discretionary or independent regulation is removed. Oxera estimates that **a one-notch deterioration in sector credit quality could add as much as £39.30 a year to household bills in the long run.** Contagion risks to other regulated sectors could lead to further household bill increases: **a one-notch deterioration in energy sector credit quality would add a further £10.70 to household bills, taking the total to £50.**[2] These are illustrations of specified credit deterioration, not a single forecast cost of greater public control.

"On the cheap" nationalisation cost estimates are not credible

There is no single, commonly agreed value for nationalising the water industry because different figures answer different questions. Some measure the value attributed to regulated assets; some measure what shareholders own; and others measure the value of the whole business, including its borrowing.

The **Regulatory Capital Value (RCV)** is the value Ofwat assigns to the assets used to provide regulated water services. It is mainly an accounting tool for regulation: Ofwat uses it when deciding how much revenue companies may recover from customers and what return investors may earn. RCV is therefore useful as a common measure of the sector's regulated asset base, but it is emphatically not the same as the price of a company. A buyer may pay more or less than RCV depending on the company's debt, expected future income, performance and risk.

For an outright acquisition, our preferred starting point is **Enterprise Value (EV)**. In simple terms, EV estimates the value of the whole operating business to both its shareholders and its lenders. It combines the

[2] *Oxera Analysis of credit rating downgrades on customer bills, September 2026*

market value of the shareholders' stake with net debt. This matters because nationalisation would transfer control of companies that have used substantial borrowing to finance their networks. Government might leave that debt in place, refinance it or restructure it, but it could not make the underlying creditor claims disappear simply by paying shareholders a low price. EV therefore gives the clearest indication of the overall scale of the business and financial claims that would pass under public control. It is not necessarily the cash cheque paid on day one, nor does it prescribe the legal compensation due to shareholders.

A number of points are worth emphasising here:

- **The Reality of Sector Debt:** Proponents of "cheap" nationalisation argue that costs can be kept low by compensating only historical shareholder equity or book equity - in some extreme arguments, reducing upfront compensation to zero. However, this ignores the sector's significant debt burden, which cannot simply be cancelled or ignored. Further, as we discuss in this report, book equity is not the same as the market value of equity, which is a reflection of expected future financial performance.
- **Creditor and Legal Risks:** Debt liabilities are legally binding contracts. Attempting to write down or bypass debts owed to solvent lenders would require extraordinary statutory powers. Doing so would trigger costly litigation, breach international investment treaties, and damage the UK's reputation as a secure destination for infrastructure investment. There would also almost certainly be contagion risks to other regulated sectors, which would see a decline in private investment and an increase in borrowing costs - something which ultimately ends up translating into higher consumer bills. The same argument applies to equity.

Therefore, any cost estimates for nationalisation that ignore these should be treated cautiously. Our company-by-company estimate suggests that the EV is £105bn which equates to the full acquisition cost. **This represents the sum of c.£80bn net debt and £25bn in equity.**

The Recurring Fiscal Challenge: Financing the Next £290bn

The upfront acquisition price is only the first fiscal hurdle; the much larger challenge is financing the sector's long-term capital requirements. An England-adjusted and uprated version of the NAO-reported requirement shows over **£290bn in enhancement spend over 25 years** is needed, driven by legal requirements and water supply needs in the face of a changing climate, population growth and environmental targets.

- **Stock vs. Trajectory in Fiscal Rules:** Bringing existing water company debt onto the public balance sheet would instantly add over **£80bn** to Public Sector Net Financial Liabilities (PSNFL) and Public Sector Net Debt (PSND). Crucially, taking over the entire business means the full enterprise value - net debt plus equity - lands squarely on the public sector debt books, as demonstrated by the

Network Rail precedent. Because the government's investment rule assesses whether PSNFL is falling as a share of GDP in a target year (currently set at 2029/30), a one-off historical reclassification does not automatically reduce fiscal headroom.

- **Investment Borrowing as a Direct Fiscal Risk:** However, the recurring £12bn annual investment requirement is a different kind of risk. If a nationalised operator funds a large portion of this via public borrowing, it alters the trajectory of PSNFL in the target year and increases the likelihood of debt failing to fall as a share of GDP.
- **The Ownership vs. Financing Debate:** Ultimately, nationalisation merely moves the investment-versus-bills trade-off. If government constrains borrowing to protect fiscal headroom, it must either allow bills to rise for customers or delay critical environmental infrastructure.

The Middle Ground: Tighter Control Without Ownership

Greater public control without nationalisation can take very different forms. The most plausible near-term model is regional systems planning: public bodies would set integrated priorities for water resources, wastewater, drainage, environmental outcomes and growth, while privately owned companies would continue to finance and deliver much of the investment. If regional plans have clear statutory roles, funding rules and links to an independent price-review process, they could improve coordination and investor confidence. The risk arises not from public planning itself, but where authorities can require or redirect investment without clarity over who pays, how costs are recovered or which institution has final responsibility.

- **Regional planning can be compatible with successful private finance:** Transparent regional target-setting could provide legitimate local decision-making and a clearer long-term investment pipeline without changing ownership.
- **Unclear funding or discretionary override would raise costs:** However, if regional bodies or ministers can alter priorities after capital has been committed, while companies lack certainty about cost recovery, investors are likely to demand a higher return. **A one-notch deterioration in water sector credit quality, with regulatory contagion risks seeing a similar deterioration in the energy sector, could add £50 a year to household bills in the long run.** These are illustrations of defined credit downgrades, not a single forecast cost of "public control".
- **Removing independent economic regulation is the severe stress case:** Centralising price, investment and financing decisions in government while still relying on private capital could create much larger risks. Although the sector could still receive nominally independent economic advice under a

government framework, the loss of independent economic regulation could imply a very substantial deterioration in business-risk assessment.

03 Introduction

In our July briefing paper[3], we set out the basic problem with the debate over public control of water: the phrase itself is too vague. Full renationalisation, public ownership with delegated control, and greater public control without public ownership are all described as versions of the same idea, despite having different consequences.

Since then, we have examined some of the questions we originally posed: what acquisition might cost, what happens to debt and fiscal headroom, how much investment the sector will require, and what tighter public control could do to financing costs and consumer bills.

The first conclusion is that there is no single "cost of public control". Different models move different risks between investors, customers and taxpayers. Full renationalisation would require government to acquire the companies, but there is no single uncontested measure of what that means financially. Our preferred measure, based on enterprise value, suggests a cost of over £100bn.

Much lower estimates also exist, especially where only shareholder equity is compensated, creditors are restructured through special administration, or mutualisation is achieved gradually rather than through a sector-wide purchase. However, as we discuss in this report, care needs to be taken to how these figures are interpreted and how feasible some of the options put forward to "cut price acquisition" are.

Any attempts to do "nationalisation on the cheap" through paying significantly less than market value come with significant economic risk attached - including contagion risks where investors become reluctant to invest in regulated industries in the round.

In many respects, the more important long-term number is not the acquisition cost associated with nationalisation but the long-term investment needs of the water sector. An England-adjusted and uprated version of the National Audit Office (NAO)-reported requirement is around £294bn over 25 years, or roughly £12bn a year in 2026 prices.

Public ownership also matters for the fiscal framework. Depending on the year in which nationalisation occurs, and the extent to which future investment needs are funded through bills or increased public

[3] *The Public Control Debate in Water - Public First*

borrowing, there is scope for water nationalisation to have a bearing on the government's ability to meet its fiscal rules.

Greater public control without ownership has a different possible cost. Investors may perceive increased discretionary decision-making or regulatory unpredictability as a higher risk to their capital and future returns, requiring a higher return to compensate for that uncertainty. Consequently, this shift can impact risk premia and credit ratings. Oxera estimates that a one-notch deterioration in water sector credit quality could add around £40 a year to household bills in the long run.

The central point is therefore much the same as in our introductory paper. The trade-offs do not disappear when ownership changes they merely transfer. The relevant questions are who pays, who carries the risk, who decides how much to invest, and what happens when political priorities collide with the financing needs of an essential network.

04 What is meant by "public control"?

Our starting point remains that "public control" is an indefinite term. The state can own an industry without directing it day to day; it can direct an industry it does not own through regulation; or it can both own and control it. These distinctions matter because the fiscal and financing consequences are not remotely the same.

Financing consequences of different models of control

Model	What changes	Principal financial question
A. Full nationalisation	State acquires licensed companies and assumes assets, debt, investment and operational responsibility.	Acquisition value, debt assumption, fiscal classification and future capital funding.
B. Public ownership with delegated control	Public corporations retain commercial revenues and issue debt, with explicit or implicit state backing.	Whether debt is genuinely insulated from public-sector classification and/or Treasury constraints. Whether Treasury support or bill rises are needed if investment programmes exceed the public corporation's debt capacity.
C. Greater control without ownership	Private ownership remains, but government/regulator imposes stronger duties, supervisory powers or financing constraints.	Whether greater discretion or uncertainty increases risk premia, Weighted Average Cost of Capital (WACC) and customer bills.
D. Cunliffe Review reforms, including regional systems planning	This model introduces regional oversight and structural coordination.	How to effectively align incentives for cross-regional infrastructure investment and reconcile conflicting regional priorities without necessarily centralising all asset ownership.

There is a serious case being made for change. Public confidence in the current privatised model has wavered, the sector has faced questions over financial resilience and environmental performance, and government is already committed to a supervisory regulatory regime. The status quo, in other words, is not a credible counterfactual. But nor does it follow that changing ownership removes the basic constraints facing the sector.

05 What might full renationalisation cost?

There is no single number that reflects the true “cost of water nationalisation”. Different valuation methods answer different questions. Some measure the regulatory asset base; some the market value of the operating business; some only the value attributable to shareholders; and some capture the recovery value of a distressed company. Before choosing an estimate, it is therefore necessary to be clear about what is being valued and why.

Different quantifications answer different questions

Approach	What it measures	Why it is useful	Main limitation
Regulatory Capital Value (RCV)	The regulatory value of the assets on which Ofwat allows returns and regulatory depreciation.	A consistent sector-wide benchmark; closely linked to the regulated business.	A regulatory construct, not a market price or compensation rule. Individual companies can trade above or below it depending on expectations of future financial performance.
Enterprise value (EV)	The value of the operating business to debt and equity capital providers: broadly equity value plus net debt.	Captures the economic value and financing claims transferred with control; comparable across capital structures.	Not the same as day-one cash compensation and can be difficult to observe for private companies.
Market equity value	The market value of shareholders' stake in a listed company.	Observable and current for listed companies; relevant to shareholder compensation.	Ignores debt and therefore understates the scale of acquiring a leveraged business.
Book equity	Accounting net assets attributable to shareholders.	Available from accounts and sometimes used as a lower-cost compensation benchmark.	Highly sensitive to leverage, dividends and accounting choices; not a market valuation. Further, book equity does not fully reflect the funding provided by investors - it is an accounting residual rather than a record of the capital supplied.
Transaction value	The value implied by an actual sale of a company or stake.	Strong direct evidence of what investors will pay for a particular business.	Sparse, company-specific and sensitive to transaction date, control rights and market conditions. Also sensitive to the policy environment - including perceived likelihood of nationalisation.
Distressed / SAR value	Recovery or transfer value when a company is insolvent or in special administration.	Relevant where investors and creditors are already facing losses.	Not a general valuation basis for solvent companies; depends on insolvency priorities and statutory powers.

For this report, we have chosen enterprise value as the preferred measure of the cost of outright acquisition.

Why enterprise value is our preferred starting point

For estimating the economic scale of an outright nationalisation, enterprise value (EV) is the most useful starting point. EV measures the value of the operating business to all providers of capital, combining the value attributable to shareholders with net debt and other financing claims. That matters because water companies are funded by both equity and substantial amounts of borrowing. Nationalisation transfers control of the business, but it does not make the debt disappear. Under re-nationalisation, government would have to leave that debt outstanding, assume or refinance it, compensate creditors, or deliberately restructure it. Many debt agreements require refinancing under a material change of ownership, leaving government with limited choice here.

This makes EV a better cross-company measure than shareholder market value or book equity. Two otherwise similar regulated businesses can report very different equity values because one has been financed with more debt. Enterprise value puts debt and equity back together and asks a more relevant question: what is the value of the business, including the financing claims that accompany control? Defra makes essentially the same conceptual choice when it uses RCV as a proxy for EV, because a nationalisation estimate should recognise both equity and existing debt liabilities.

The point that RCV is merely a proxy for EV is worth emphasising. The market value of the listed water companies, and data from recent transactions in the non-listed part of the sector, show that investors often value companies above or below RCV depending on expected performance and risk. If future financial performance is expected to be solid and low-risk, EV could be significantly higher than RCV. If there are substantial risks - e.g. associated with investment costs, debt obligations or an uncertain regulatory regime - EV could be significantly below RCV.

Where possible then, efforts should be made to quantify EV rather than just using the RCV.

There is an important qualification. EV is not the same thing as the cheque government would write on completion, and it is not a statutory compensation formula. Bonds could remain outstanding; compensation could be paid in government securities or over time (though this would be unlikely to be accepted on a voluntary basis); and liabilities could be restructured.

EV is therefore best understood as the gross acquisition cost or scale of financial claims being taken on. Another way of looking at it is that EV is the cash payment that would need to be made to acquire companies, assuming all debt needs to be refinanced. As noted above, debt agreements might make such refinancing likely in many instances. But even if a portion of the debt is not refinanced, it would still become a new liability for the government - with the same implications for metrics like public sector net financial liabilities.

What is our estimate of enterprise value?

One challenge with estimating the EV for the entire English water sector is the lack of complete information for the non-listed companies.

While we have market capitalisation numbers for the listed companies to calculate equity value, for unlisted companies we only have a small number of estimates that can be gleaned from recent transactions, summarised in the table below.

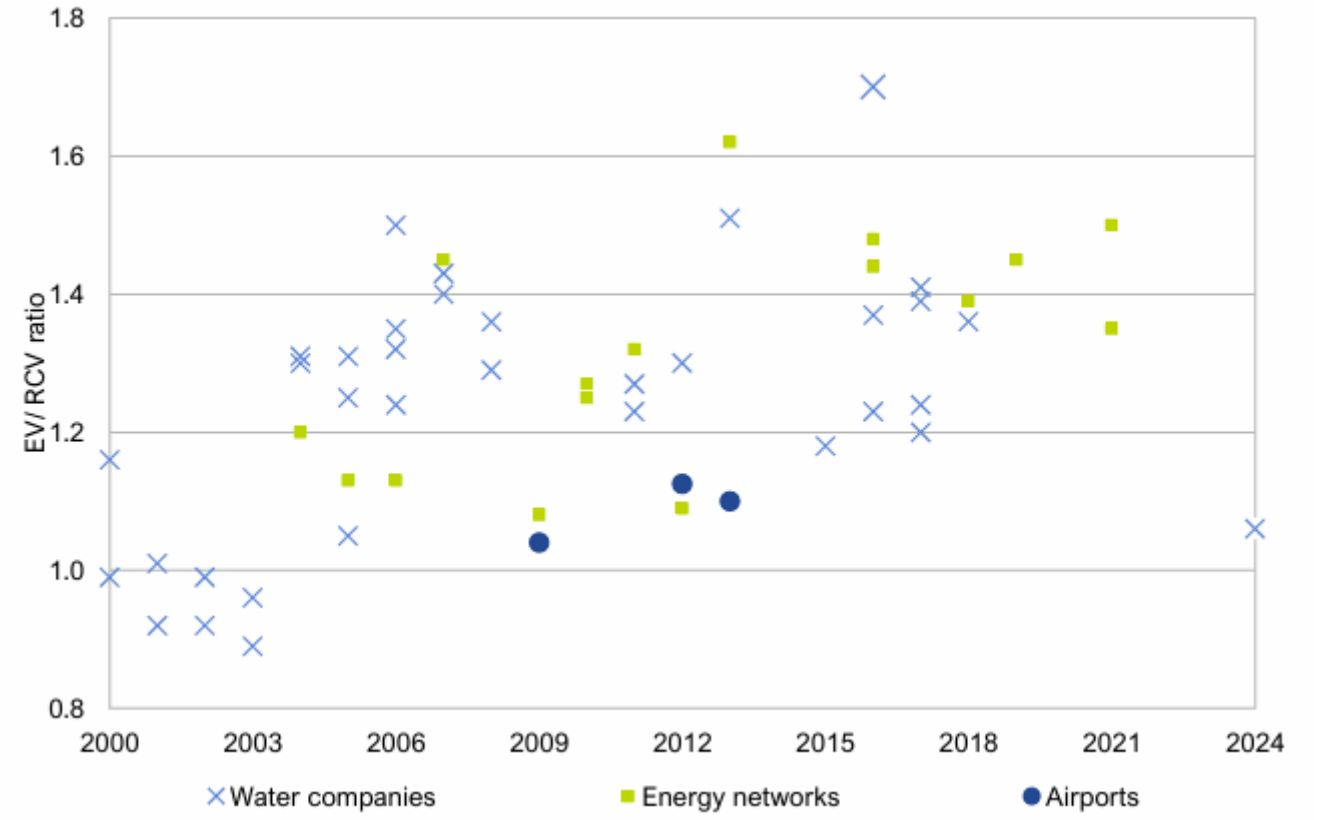
Evidence from recent water sector transactions

Evidence	Year	Type	EV / RCV
Yorkshire Water / Kelda - EQT 42% stake	2026	Recent private-market transaction	0.90x
Thames Water - court-documented EV	2025	Stressed discounted cash flow analysis	0.72x[4]
SES Water - Pennon acquisition	2024	100% private-company transaction	1.06x
Northumbrian Water - KKR 25% stake	2022	Historical private transaction	1.53x
Acquisition of Bristol Water Group	2021	Historical private transaction	1.44x

Notably, for some recent transactions, implied EV has been at a discount to RCV, though pre-2025 transactions that we have identified have traded at a significant premium. Further, published analyses of transactions across regulated industries since the turn of the century show that in general enterprise value has been significantly above RCV:

[4] *Mid-range estimate developed by Eraj Weerasinghe, Managing Director of the Valuation Advisory Services practice at Kroll, Re Thames Water Utilities Holdings Ltd CR 2024 007540 (Sanction) (Approved Judgment) (18.2.25)*

Transaction premia using headline EV/RCV multiples, 2000-2024



Source: CEPA analysis for Ofwat

It is conceivable that some of the recent discounts to RCV seen in the water sector, though certainly not all of them, can be attributed to concerns about future regulatory changes or indeed the prospect of nationalisation.

A weighted average of the recent unlisted transactions in the table above (weighted by RCV) shows on average enterprise value stood at circa 90% of the RCV.

Our analysis of the listed companies suggests an EV *premium* of circa 25% on RCV as at March 2026. This is higher than the 10% long-term premium reported by Ofwat for the time period 1993-2024[5].

The table below presents a range of estimates of the enterprise value associated with England's water sector, drawing on a range of approaches: assuming RCV is a good proxy for EV; drawing on Ofwat's long-term premium of 10%; a "company-by-company" approach.

Our preferred approach is the company-by-company approach, with a mid-range cost estimate of £105bn for England.

[5] *PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix.pdf*

Estimates of enterprise value

Estimate	£bn	Interpretation
"RCV is the EV"	£108.9	In line with recent Defra/government approaches to costing nationalisation - though RCV should only be seen as a proxy. Value cited here is RCV as of end of March 2026.
Long-run market EV proxy	£119.8	Uses Ofwat analysis which suggests a long-run 10% premium to RCV for enterprise value.
Current listed EV proxy	£129.3	An extrapolation based on market values seen for the listed water companies, though unlikely to be reflective of the wider sector.
Company-by-company estimate	£104.9	Based on estimated individual company EVs where recent transaction data available - otherwise assumes remaining water companies have an EV/RCV of 90% (the RCV-weighted average of recent transactions)

Source: Public First company-by-company valuation model; Defra, Nationalising the water sector: how we assessed the cost (2025); Ofwat company RCV and financial-resilience data; Thames Water restructuring valuation evidence; Pennon/SES transaction disclosures; Financial Times reporting on the July 2026 Yorkshire Water transaction.

What if government chose to pay materially less than enterprise value?

Government could, in principle, produce an upfront compensation figure below enterprise value. That is clearest where a company is already financially distressed: a special administration or consensual restructuring can crystallise losses that private investors and creditors already face. Thames Water is the obvious example. In 2025 the company said almost all quantified recapitalisation proposals implied material impairment of its Class A debt, while the court-supported current enterprise valuation was materially below RCV. A low transfer value in that situation is evidence about the market value of a distressed business, not necessarily an act of confiscation.

The position is more difficult if Government seeks to acquire a solvent or financeable company at a price materially below a defensible market value simply by setting a statutory compensation formula.

Such a course of action would risk undermining confidence in property rights more broadly, and that could have significant economic consequences. A below-market acquisition may save money on the transaction but would raise the cost of capital elsewhere across the economy. Investors in water, energy and other regulated infrastructure will price the precedent into expectations about how the state treats sunk capital. That does not mean government can never impose losses: investors should expect to bear genuine

commercial and insolvency risk. It does mean there is a difference between recognising losses that already exist and creating a new political risk that otherwise solvent capital can be expropriated at a discretionary discount. The latter would undoubtedly feed directly into the higher risk premia and financing costs discussed later in this report.

There are separate creditor risks. Bonds and loans are contractual claims. Paying shareholders less does not reduce those liabilities. Reducing creditor recoveries requires a restructuring, insolvency process or new statutory mechanism, with consequences for creditor ranking and legal rights. Defra explicitly notes the risk that creditors could demand compensation immediately. Some foreign investors may also have rights under applicable investment treaties: for example, modern UK investment treaties can require compensation at fair market value for covered investments that are nationalised[6], although the applicability of any treaty depends on the investor and instrument concerned.

There are also practical, legal difficulties to acquisition below a defensible market value. Parliament has wide latitude to legislate for economic reform, and European human-rights law does not invariably require full market-value compensation. However, Article 1 of Protocol No. 1 to the European Convention on Human Rights generally requires a fair balance, with compensation reasonably related to the value of the property. Although a total absence of compensation may be justified in exceptional circumstances - such as cases involving the restriction or prohibition of harmful activities - these are not closely analogous to the compulsory acquisition of an operating water company whose essential services and income-generating assets will continue under public ownership. Foreign investors may also have separate rights under applicable bilateral investment treaties, including protections against expropriation and, in some cases, an entitlement to compensation assessed by reference to fair market value. Accordingly, the further compensation falls below a credible value without a genuine distress or insolvency rationale, the greater the risk of substantial litigation, compensation awards and implementation delay.

Contagion risks

Attempting to use special administration mechanisms or statutory shortcuts to wipe out equity and restructure debt across otherwise solvent firms carries severe contagion risks. While a Special Administration Regime (SAR) can legitimately crystallise losses for a specific failing company, expanding such measures or routinely wiping out equity creates a chilling effect on broader infrastructure investment. Investors and lenders will perceive a heightened threat of regulatory and sovereign risk, leading to higher risk premia across all regulated utilities and infrastructure projects in the UK. This second-order effect risks driving up the cost of capital sector-wide, ultimately increasing borrowing costs and raising bills for consumers in the long run.

[6] *Clifford Chance, Nationalisation: The Law and the Cost, 2019*

The People's Commission: should RCV be reduced to reflect who actually financed it?

The People's Commission on Water is a campaign and research initiative advocating for the complete public ownership and democratic control of the English water sector. It makes a radical argument. It says that additions to RCV have been funded overwhelmingly by borrowing ultimately repaid by customers, rather than by fresh shareholder capital, and argues that if compensation were linked only to shareholder investment in the RCV the nationalisation cost could fall to zero[7]. It also points to the gap between listed-company market capitalisations and RCV, and to the much lower value placed on distressed Thames Water.

There is an important insight here: RCV should not be confused with the amount of cash shareholders have injected. The sector has become highly leveraged, and a large share of the financing claim against the regulated asset base is debt rather than equity.

The step from that observation to a zero cost for nationalisation is much harder to sustain. RCV is not a source-of-funds account in which customers acquire an ownership share each time bills contribute to investment. It is the regulatory value on which allowed returns and regulatory depreciation are calculated.

Customers paying bills does not extinguish either creditors' claims or shareholders' residual ownership. A government can choose a compensation rule that pays shareholders less than market value, but it still has to decide what happens to tens of billions of pounds of debt and other financial liabilities. The economic and fiscal exposure therefore does not fall to zero merely because historic equity injections were small.

"Compensate book equity, not enterprise value"

The University of Greenwich's Public Services International Research Unit developed an academic version of the low-compensation case in 2017[8]. Its legal starting point is that Parliament has wide discretion to set compensation in nationalisation legislation, and European human-rights case law does not establish a general right to full market-value compensation.

One argument building on this is that compensation should return the money shareholders have actually invested, using book shareholder equity - the value of all of the company's assets after its liabilities are deducted - as the starting point. Using such an approach the cost of nationalisation has been described as less than £15bn[9].

However, there are reasons not to treat book equity as an objective measure of "fair" compensation. Accounting equity is highly sensitive to leverage, dividend policy, historic accounting choices and corporate restructuring. A highly geared company can have very little book equity while still owning a regulated

[7] *Letter to Steve Reed SOS — The People's Commission on the Water Sector*
[8] *Bringing Water into Public Ownership: The Costs and the Benefits*
[9] *e.g. England's water can be renationalised without compensation, activists say | Water | The Guardian*

monopoly with substantial future cash flows. In isolation, book equity does not give us the full picture of a company's future profitability and in turn market value, nor the debt obligations of such a business.

Using book equity alone would therefore embed past financing decisions directly into compensation. That may be a policy choice Parliament could make, but it is not a neutral valuation principle - indeed, it would be understood as an appropriation of property. Nor does it remove the transferred debt from the public balance sheet if the companies are nationalised - this is a very real cost that needs to be considered alongside compensation to shareholders.

Special administration: genuinely lower values for failing companies, but not a sector-wide shortcut

The strongest case for very low acquisition values is company-specific distress. Under the water Special Administration Regime, shareholders can be wiped out and creditors can suffer losses. The 2024 regulations use an "appropriate value" concept for certain secured assets rather than simply requiring full market value. For a company such as Thames Water - where shareholders have already written down their stakes and debt has traded at discounts - the value transferred to a successor could be far below RCV.

But the present SAR does not contain a general power to cancel debt, and it is a court-supervised resolution process triggered by statutory conditions. It is not currently a mechanism by which government can place every solvent water company into public ownership at a discount. Any sector-wide strategy that relies on creditor bail-ins[10] would therefore require either the relevant statutory triggers to be met company by company or new primary legislation changing the resolution regime.

Introducing primary legislation to extend SAR to solvent water companies involves significant trade-offs, as it departs from the current framework where insolvency measures are triggered by objective distress. The downsides identified include undermining property rights and increasing cost of capital, substantial litigation and implementation delay, and ECHR and international investment treaty risks as previously highlighted. Similarly, contagion risks to other regulated industries and associated increases in borrowing costs (and in turn consumer bills) are likely to be substantial.

Good Growth Foundation: a "low upfront taxpayer cost" route, but not a free transfer

The Good Growth Foundation's (GGF's) August 2026 proposal is important because it is not really an alternative estimate of the price of nationalisation. It is a different transition model. It proposes customer-owned, not-for-profit cooperatives: failing companies would move through a SAR with a new bank-style bail-in power, while better performing companies would be offered a gradual voluntary route through share

[10] *A statutory recovery process that forces an institution's bondholders, unsecured creditors, and large depositors to absorb losses by writing down debt or converting it into equity.*

exchanges, retained profits, equity-for-debt swaps and, if necessary, National Wealth Fund borrowing or guarantees.

That makes it the most developed low-upfront-cost mutualisation proposal currently in the debate. It identifies that a gradual share exchange can avoid government purchasing the whole enterprise in cash at once, and that a genuine private-sector mutual can remain outside the public balance sheet. Welsh Water demonstrates that such a structure is possible, albeit under very specific conditions[11].

However, three claims need testing. First, "no taxpayer cost" depends on reforms that do not yet exist. GGF itself notes that the current SAR does not include a debt-cancellation power and therefore proposes new primary legislation to impose losses on creditors. A creditor haircut is a real economic loss even if it does not immediately fall on taxpayers and has risks as noted above.

Second, a National Wealth Fund loan or guarantee is not equivalent to no public exposure: depending on its design it can create a financial asset, contingent liability or classification issue. Third, the off-balance-sheet claim depends on the ONS view of who controls general corporate policy. GGF simultaneously proposes abolishing Ofwat, restoring ministerial decision-making and giving Defra a national coordinating role. Those governance provisions would have to be designed carefully if the intention is for the mutuals to remain classified to the private sector. The reclassification of Network Rail into the public sector highlights the challenge here[12].

Summary of "cheap" nationalisation estimates

In summary, estimates claiming nationalisation can be delivered "on the cheap" rely on fundamental misunderstandings of corporate finance, asset valuation, and legal frameworks. By focusing exclusively on historical book equity or attempting to bypass creditor claims, these approaches ignore over £80bn of existing debt liabilities that cannot simply be erased or written down without catastrophic economic fallout.

Attempting to enforce sub-market acquisition values or force debt cancellations across solvent companies would trigger immediate, prolonged litigation and breach international investment treaties. Crucially, it would generate severe contagion risks - substantially raising the cost of capital and borrowing across all UK infrastructure sectors, ultimately resulting in higher bills for consumers and severe long-term damage to the public balance sheet.

[11] In May 2001, Welsh Water became a not-for-profit company, sometimes referred to as a mutual, when it was acquired by a specially created company limited by guarantee called Glas Cymru for a nominal purchase price of £1, while taking on its substantial existing corporate debt.

[12] What reclassification means for investors - Network Rail

Assessment of "cheap" nationalisation estimates

Approach	Headline figure / claim	What it measures	Public First assessment
Hall / book equity	£14.7bn (2019)	Book shareholder equity; debt transfers with companies	Highly sensitive to leverage/accounting and does not consider debt exposure.
People's Commission	Potentially £0	Compensation linked to very limited shareholder financing / fair-value arguments	Highlights difference between RCV and shareholder cash invested; zero requires much stronger legal and creditor-treatment assumptions, with significant risks associated with international investment treaties and contagion effects to other regulated sectors.
SAR / distressed company	Potentially very low	Resolution value for individual failing companies	Credible for distressed firms; not available across a solvent sector.
Good Growth mutualisation	Gradual transition with costs spread over time	Avoids a single state purchase through mutualisation, bail-in and share exchange	Credible low-upfront-cost architecture, but depends on new bail-in law, creditor losses, financing and ONS classification. If combined with SAR, creditor haircuts would come with real economic costs and may have implications in terms of international investment treaties.

Welsh Water and the implications of mutualisation

Welsh Water is the obvious real-world comparator for mutualisation. Glas Cymru acquired the business in 2001 for roughly £1.9bn, close to its then regulatory asset value, financed through private-sector bonds. The previous owners sold the equity for a nominal £1 since its liabilities had consumed its value and the purchase was made alongside an assumption of £1.85bn worth of debt. New borrowing (a £1.9bn bond issue) was used principally to refinance the existing debt rather than to buy out a large equity stake. Gearing was 93% in May 2001, the month of acquisition, and subsequently fell to around 61% by 2024 as the company retained surpluses and built reserves[13].

There is nevertheless a real financing trade-off in a debt-only model. Without shareholder equity to absorb losses or fund investment, Welsh Water has had to build reserves and reduce gearing over time. In April

[13] *Welsh Water, Investor Report September 2024*

2025 it began its largest investment programme while also reducing its cost base: in September 2025 the company announced plans to cut around 12% of its workforce, up to 500 roles, over 18-24 months, while investing more than £4bn over 2025-30. Ultimately, mutualisation does not eliminate the tension between bills, investment, financial resilience and operating efficiency.

Nor is ownership structure a guarantee of operational performance. Parliamentary scrutiny has noted that Welsh Water has faced poor pollution and asset-renewal outcomes despite its not-for-profit model. The relevant lesson is therefore more modest: mutualisation can remove shareholder dividends and support long-term deleveraging if investment needs are low, but it does not remove the need for effective regulation, sufficient revenue, strong management or difficult efficiency decisions.

06 How to finance the next £290bn

We have argued that the acquisition cost of nationalisation is large, as measured by enterprise value, but it is not obviously the most important number in this debate.

The acquisition price is only the first fiscal question. A nationalised water sector would also bring existing company balance sheets inside the public sector and, more importantly, leave government responsible for financing a very large programme of future investment. The NAO reported that companies expect almost £290bn of enhancement investment across the England-and-Wales sector over the next 25 years in 2023/24 prices - close to £320bn if uprated to 2026 prices.

Using the same England share as elsewhere in our analysis gives a figure of £294bn in 2026 prices - about £12bn per year. This is a non-trivial sum of money.

To put £12bn per year of investment into context, this is broadly equivalent to:

- 4.6% of UK-wide government health spending in 2025/26.[14]
- 9.5% of UK-wide government education spending in 2025/26.[15]
- Close to a fifth (19%) of UK defence spending in 2025/26.[16]
- Close to £500 per year per household in England.

[14] *Government healthcare spend stood at £258bn in 2025/26: Public spending: a brief introduction - House of Commons Library*
[15] *Government education spend stood at £126bn in 2025/26: Public spending: a brief introduction - House of Commons Library*
[16] *UK defence spend stood at £62bn in 2025/26: UK defence spending - House of Commons Library*

A large one-off PSNFL effect does not mean fiscal headroom disappears overnight

Public sector net financial liabilities (PSNFL) is a stock measure: broadly, financial liabilities less financial assets across the public sector. Our bottom-up estimate suggests that bringing the English water companies into the public sector could add at least £82bn to PSNFL, depending on the eventual ONS classification and transaction structure. Crucially, as the precedent of Network Rail demonstrated when it was reclassified to the public sector, it is the full enterprise value - the total operating liabilities and net debt, not merely shareholder equity - that lands on the public sector debt books. That is a large balance-sheet change, but it is not the same as an £82bn reduction in fiscal headroom under the Government's fiscal rules.

The Government's investment rule is currently framed around the direction of PSNFL: the OBR assesses whether PSNFL is falling as a share of GDP in the target year (2029/30), compared with the previous year. Beyond this target year, the framework transitions to a rolling three-year forecast horizon in which the rule must be met in the final year. The rule therefore depends on the change in PSNFL around the target year, not simply on how high the stock of liabilities happens to be.

The OBR's own stress tests illustrate the distinction. In July 2025, it modelled shocks that pushed the level of PSNFL materially higher throughout the forecast but did not necessarily reduce headroom, because the biggest balance-sheet effect happened several years before the target year and then persisted. In its November 2025 equity-market scenario, PSNFL was still around £120bn above the central forecast in 2029/30, yet the rule had more headroom because the largest deterioration had happened earlier and PSNFL was falling again by the target year. The lesson is counter-intuitive but important: a one-off reclassification can make the public balance sheet much larger without automatically breaking a rule based on the subsequent trajectory.

That does not make the acquisition fiscally irrelevant. The level of PSNFL would be higher, financing costs could change (e.g. gilt yields/government borrowing costs would be expected to go up in response to higher PSNFL levels), and the OBR and ONS could treat different elements of the transaction in ways that affect the path. It simply means that comparing an £82bn balance-sheet effect directly with fiscal headroom that could now be as low as £10bn[17] is the wrong arithmetic.

Having said that, acquisition costs of over £100bn, as estimated by enterprise value, imply a significant increase in government debt interest costs each year. Even if the government *were* to refinance all industry debt at lower rates of interest,[18] debt interest costs at the outset could be as high as £5-6bn per annum

[17] *New Chancellor faces £10 billion headroom headache as public sector finances remain on a knife-edge • Resolution Foundation*
[18] *Given government borrowing rates are usually lower than corporate borrowing rates.*

based on current gilt yields (though revenues from billpayers in the nationalised sector would act as a counterbalance).

In July 2025, the OBR estimated that water companies had £91 billion in debt and other financial liabilities, £12 billion in financial assets, and £94 billion in non-financial assets in 2023-24. It suggested that were companies to be brought into public ownership, PSNFL could increase by around £78 billion (2.8% of GDP)[19].

Some commentators have argued for a shift towards focusing on public sector net worth when evaluating the fiscal impact of nationalisation - i.e. better reflecting the asset side of the balance sheet. This makes a considerable degree of sense - if the state buys something for what it is worth it is odd to think that that creates a fiscal problem. But the actual financial liabilities of the public sector still matter: its capacity to borrow and the size of its debt are relevant metrics. And whatever one's view on the inherent logic of current public sector accounting rules, they are the framework we are working with for now. Consequently, it is appropriate to focus on the metrics these rules actually use - such as PSNFL - rather than shifting the debate towards measures like net worth, which do not govern the government's current fiscal-rule compliance.

The investment programme is a different kind of fiscal risk

England's water enhancement investments over the next 25 years are set to be equivalent to roughly £12bn a year in 2026 prices - close to £500 per household. Unlike a one-off acquisition or reclassification, this is a recurring financing requirement. While some investment could conceivably be postponed or even cancelled, current investments underway cannot be. The majority of investments are required by law to meet environmental standards and/or water supply needs.

If a nationalised operator financed a significant share of that investment through additional public borrowing, the effect would tend to accumulate in PSNFL year after year. The borrowing creates a financial liability; the pipes, reservoirs and treatment works it pays for are non-financial assets and therefore do not offset that liability within PSNFL. The OBR notes that, historically, annual public borrowing has been the main driver of year-to-year changes in PSNFL.

This creates a more direct risk to the investment rule and with recent estimates suggesting headroom of as little as £10bn, there is a real chance of the government breaking its fiscal rule. If new water borrowing is still being added in the fiscal-rule target year, it can make it harder for PSNFL to be falling as a share of GDP:

[19] *CP 1343 – Office for Budget Responsibility – Fiscal risks and sustainability*

£12bn of annual water investment is equivalent to 6% of annual public sector net borrowing over the next 25 years, based on the latest OBR forecasts.

The precise effect of this on the fiscal rules would depend on nominal GDP growth, customer revenues, operating cash flow, debt repayment, interest costs and the rest of the public finances. But unlike the one-off acquisition effect, sustained investment borrowing is not simply a higher starting stock: it can alter the slope of PSNFL in the very year the rule is tested.

Illustrative financing sensitivity

The cumulative investment figure of over £290bn over the next 25 years does not necessarily imply this amount of extra public borrowing. A public water company would still receive customer revenues and could finance investment from retained cash flow (assuming there is any).

The table below simply shows the scale of incremental borrowing if different shares of the long-run programme required debt finance.

Share financed by incremental public borrowing	25-year borrowing (£bn)	Average per year (£bn)
25%	£74	£3
50%	£147	£6
75%	£221	£9
100%	£294	£12

These figures should not be read as a direct subtraction from fiscal headroom. Headroom is a forecast margin against a rule expressed as a change in PSNFL relative to GDP, not an annual borrowing allowance. But they show why the financing mix matters. An additional £5bn-£10bn of borrowing each year near the target year would be material relative to recent fiscal margins and could require offsetting changes elsewhere if it prevented PSNFL from falling.

There is also a current-budget channel. Capital investment itself is not current spending, but interest costs, operating subsidies and any persistent gap between customer revenues and operating costs would affect borrowing and could put pressure on the separate current-budget rule - requiring day-to-day government spending to be funded by revenues rather than borrowing. A highly self-financing public corporation, funded substantially from bills, would therefore have a very different fiscal profile from one reliant on repeated Treasury borrowing or subsidy.

The question of ownership is also a question of financing

This is why the long-run investment requirement may matter more for fiscal policy than the acquisition price. Nationalisation does not remove the investment-versus-bills trade-off. It changes where that trade-off is resolved. Under the current model, much of the capital requirement is raised on private balance sheets and recovered through regulated bills over time.

Under public ownership, any portion not funded from customer revenues or retained cash would compete with hospitals, schools, transport, defence and other calls on public borrowing capacity. Given there is likely to be significant pressure on government to contain water bills, there is a strong likelihood that investment is ultimately funded through more public borrowing and in turn taxpayers over time. Alternatively, the investment just does not happen - with implications for environmental standards and being able to meet future demand for water.

There are therefore at least three broad choices for a nationalised sector. Government could allow bills to rise sufficiently for the operator to self-finance more of its investment (though as noted above political pressure to keep bills low is likely to be significant); it could accept additional public borrowing and potentially less fiscal headroom; or it could constrain or delay investment. In practice the outcome would probably be a combination of all three. The important point is that public ownership changes whose balance sheet carries the costs, but it does not eliminate the underlying cost.

07 What happens if control increases but ownership does not change?

“Greater public control” of the water sector is ill-defined, though likely to be less dramatic than nationalisation. It could be argued that the recommendations of the Independent Water Commission review of the water sector (“the Cunliffe Review”), which include the introduction of regional systems planning bodies imply greater public control. Under this scenario, public bodies would set integrated, place-based priorities across water resources, wastewater, drainage, environmental outcomes and growth, while privately owned companies would continue to finance and deliver much of the investment.

The consequences of public control depend very much on the details. A stable, transparent planning framework could improve coordination and reduce risk. However, financing concerns arise where plans are unfunded, responsibilities are unclear, or regulatory decision-making is unpredictable after capital has been committed.

The concept of greater public control is too broad to support a single clean cost estimate. Different models have radically different implications. This chapter therefore does not attach one headline price to public control. Instead, it uses bounded scenarios to identify where risks could fall on bill-payers, taxpayers and the wider economy.

Regional systems planning: one route to greater public control

The Independent Water Commission recommended eight regional water system planning authorities in England, alongside a national authority in Wales. The regional bodies would bring together planning responsibilities now spread across companies and regulators, develop integrated investment plans reflecting local priorities, direct funding and hold the sectors affecting water outcomes to account. This is a form of public control even though ownership and operational delivery remain largely private: the public sector would exercise stronger control over what outcomes the system must deliver, which projects should take priority and how plans fit together across company and administrative boundaries.

The case for this model is strongest where fragmented planning currently produces gaps, duplication or projects optimised for a single water company rather than the wider catchment or region, including enabling action by a wide range of actors. Regional planning could align water-resource, wastewater, drainage, nature-recovery, housing and economic-growth decisions; identify cross-sector solutions; and provide a clearer long-term pipeline. If responsibilities, statutory objectives, evidence standards and cost-allocation rules are settled in advance, stronger public planning could therefore improve both delivery and investor confidence rather than weaken it.

However, regional systems planning does not remove the underlying financing trade-offs. Companies and their investors will still need clarity about which schemes enter regulated business plans, who pays for shared or cross-sector projects, how costs are recovered from customers, and who bears the risk of delay or changed priorities. Regional authorities could also add a further decision-making layer unless their relationship with government, the integrated regulator, local authorities and companies is clearly defined. The principal risk is therefore not public planning itself, but a mismatch between planning power and funding responsibility: authorities may be empowered to require investment without controlling the revenues, borrowing or delivery capacity needed to implement it.

A Three-Tier Scenario for Investor Confidence and Credit Quality

To understand how different designs of regional planning and public control could translate into financial costs, one could consider three different scenarios:

– Scenario 1: Integrated, predictable regional systems planning - Regional authorities set transparent long-term outcomes and integrated investment plans, with clear statutory roles, cost-allocation rules and links to the price-review process. Companies retain operational responsibility and access to private finance. Better coordination and a more credible project pipeline could leave financing costs unchanged or improve investor confidence.

- Scenario 2: Regional plans with unclear funding or discretionary override - Regional bodies can alter priorities or require additional investment, but companies lack certainty about cost recovery, sequencing or the respective powers of government and the regulator. Investors still expect to be paid and continue to provide capital, but demand a higher risk premium because planning decisions and the regulatory settlement are less predictable. This is closest to a scenario modelled by Oxera for Water UK, where increased policy uncertainty leads to credit-rating downgrades. Oxera estimates that a one-notch deterioration in water sector credit quality could add £39.30 a year to household bills in the long run. Contagion risks to other regulated sectors could lead to further household bill increases: a one-notch deterioration in energy sector credit quality would add a further £10.70 to household bills, taking the total to £50.
- Scenario 3: Independent economic regulation is removed - A severe non-ownership-change scenario would be to abolish arm's-length economic regulation and centralise price, investment and financing decisions within Defra or another ministerial structure. This is not the central case, but proposals for substantially greater political control over essential utilities make it a relevant stress test. The key assumption is that investors no longer rely on an independent process to set recoverable revenues and returns. Removing independent economic regulation could imply a very large deterioration in the sector's business-risk assessment.

The downside scenarios are risks, not predictions. The Oxera estimates illustrate the consequences of a defined deterioration in credit quality under continued independent regulation.

The policy conclusion is serious: retaining private finance while making revenue and investment decisions materially less predictable could impose large costs on bill-payers, weaken investment and create contingent pressure on taxpayers if government ultimately has to stabilise the system. Conversely, regional planning with clear powers, funding rules and an independent economic settlement could increase legitimate public control without producing those effects.

Efficiency Risks, Bureaucratic Costs, and State Capacity Under Greater Public Control

Beyond financial risk premia, greater public control and potential moves towards nationalisation risk constraining operational flexibility, which can suppress efficiency incentives, increase administrative overhead, and lead to weaker sector performance.

The Productivity Track Record of Privatisation

When evaluating the efficiency of the sector, it is important to ground the analysis in historical productivity data:

- **A long-run trend of productivity growth:** Empirical evidence indicates that the privatisation of UK utilities delivered significant productivity and efficiency gains for over two decades following structural reform. These gains were driven by commercial discipline, equity incentives, and freedom from state-directed procurement and capital constraints.
  Productivity growth in the water sector averaged more than 3% per annum during the first two decades after privatisation, more than double the productivity growth achieved in comparable sectors of the UK economy during the same period[20]. The differential with the public sector, which has seen almost no productivity growth since the mid 1990s[21], is even starker.

- **Acknowledging the recent downturn:** More recent data has been less favourable, with productivity growth slowing as the regulatory framework has grown more complex, environmental requirements have expanded, and capital structures have faced increasing stress. However, moving away from commercial autonomy towards direct public oversight risks exacerbating these headwinds rather than resolving them.

A central question in the debate over public control is whether capital allocation is executed more efficiently under public or private ownership. Under private ownership, equity incentives and commercial discipline should create direct financial pressures to optimise capital allocation, minimise delivery costs, and maximise asset performance. As highlighted by historical productivity data following privatisation, commercial autonomy initially enabled substantial efficiency gains. By contrast, public ownership risks subjecting long-term capital allocation to political cycles, bureaucratic friction, and competing Treasury priorities. Without commercial equity incentives, public operators may face reduced pressure to maintain rigorous cost discipline, potentially leading to lower capital efficiency and misallocated infrastructure spending over time.

Headcount Inflation, State Capacity, and Lifetime Employment Costs

A shift towards greater public control or ownership also carries substantial long-term fiscal and administrative overhead risks:

- **Displacing managers into the civil service:** Moving water industry managers and operational leaders into formal civil service roles changes the employment dynamic. Civil service contracts typically feature higher job security, lower performance-related turnover, and generous defined benefit pension

[20] *Earwaker, Private vs. Public Ownership of Water and Sewerage Companies*
[21] *Public service productivity, quarterly, UK - Office for National Statistics*

schemes. Consequently, displacing private sector managers into public sector roles would significantly increase the lifetime employment cost of the sector's administrative and management headcount to the taxpayer.

– **Regulatory headcount inflation:** We can already observe a tendency towards bureaucratic expansion within the sector's regulatory apparatus. For example, Ofwat's headcount increased from 160 employees at the end of 2015[22] to close to 500 employees by 2026[23], demonstrating how state-backed oversight naturally tends to expand its administrative footprint over time.

[22] *Public sector employment, UK - Office for National Statistics*
[23] *Ofwat, Workforce Management Information July 2026*

08 Conclusions

Changing ownership or levels of control in the water sector in England does not make risk disappear. It changes who bears it:

- A large acquisition figure is not the same thing as an economic loss to the state, because government acquires assets and revenues; but the financing liabilities and investment needs of the sector still matter for fiscal policy.
- Headline public borrowing may be cheaper than private equity, but equity risk does not disappear. Under public ownership, taxpayers or customers become the residual risk-bearers. Further, public ownership could introduce higher costs through inefficiencies, as discussed in the previous chapter.
- The potentially awkward middle ground is private finance combined with greater discretionary public control or regional system planners. Depending on the type and predictability of such regimes, investors may not be able to predict how future decisions will affect returns, and in turn demand a larger risk premium.

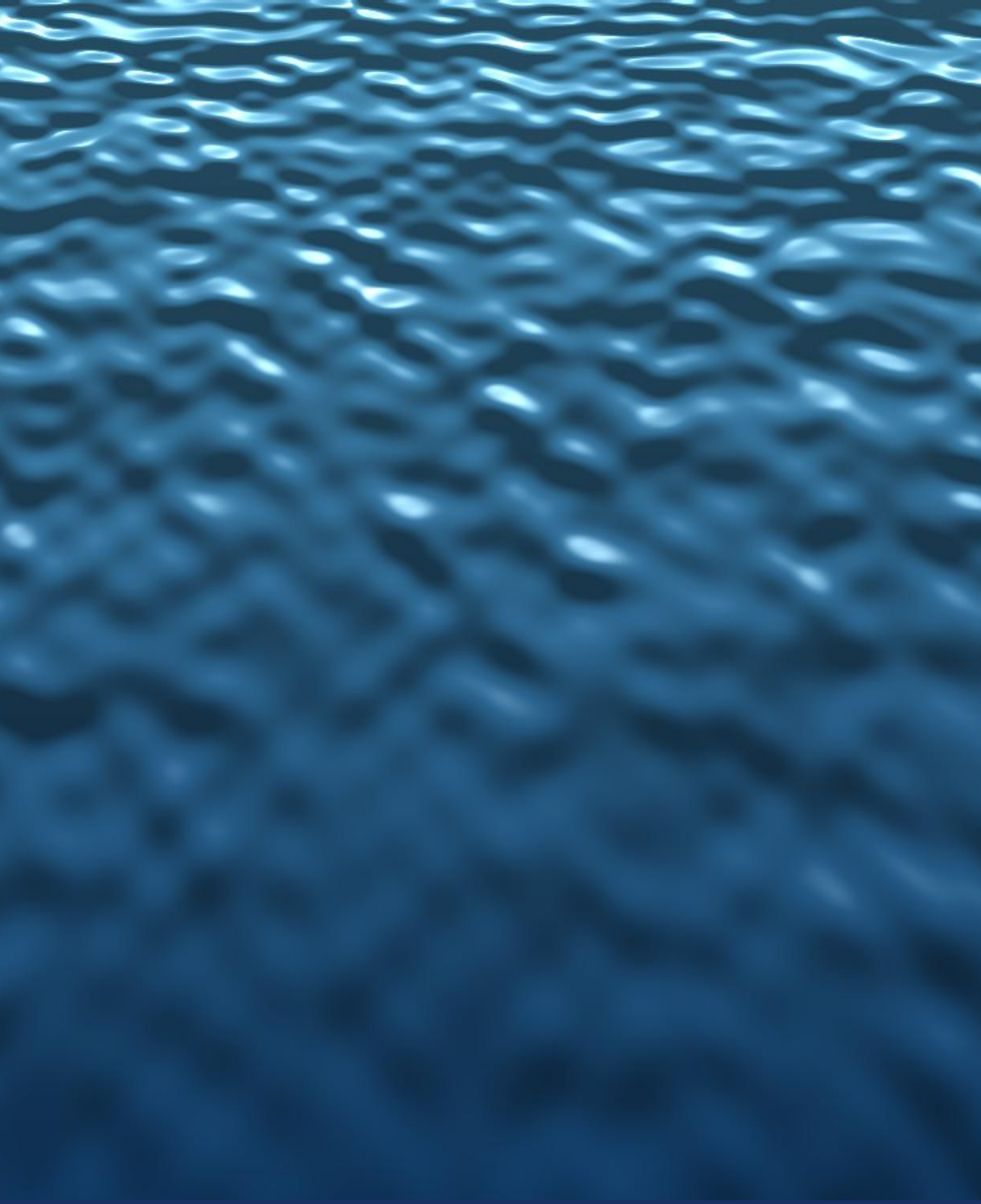
The durable objective should therefore be a stable institutional architecture: clear public outcomes, credible long-term rules, and competition or contractual discipline where it can improve delivery.

The current model has failed in important respects and the status quo carries costs. That was our starting point in July and remains our starting point now. But moving towards public ownership or greater public control introduces a different set of costs and risks, some of them large.

Under conventional going-concern valuation approaches, full nationalisation implies an acquisition value around £100bn or more, although the cash compensation paid to shareholders could be much lower under some legal and restructuring routes. It would also bring substantial financial liabilities into the public sector. The investment requirement is larger still, at over £290bn over 25 years for England on our proxy.

A delegated public-corporation model may reduce some financing costs, but only if its promised independence from the Treasury and the public balance sheet survives contact with ONS classification and market perception. Greater control without ownership avoids the acquisition cost, but could become more expensive if it undermines regulatory predictability or efficiency. The fundamental trade-offs between

investment, bills, borrowing and risk remain under every model. The task for government is not to find a model in which those trade-offs disappear, but to choose the one in which they are managed most effectively and transparently.



Stonehaven, Fourth Floor, 40 Villiers Street,
London WC2N 6NJ

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